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With one of the more interesting years in recent memory behind us, fears of stagflation have been replaced by inflation expectations. Monetary based stimulus will most likely be replaced by a fiscal based policy. After decades of sequentially lower interest rates, it appears that interest rates are finally on their way back up. The hope is that these changes will be able to drive the economy forward after years of sluggish recovery.

We know that markets are valued upon expectations. We also know that predicting the future is a fool's game; expectations are often overstated or flat out wrong. Our philosophy is built around the idea that we don't need to predict the future to meet your goals. Historically-proven, repeatable strategy employed with discipline is the key to long-term success. Your financial security is our utmost concern; in fact, it is the very basis of everything that we do.

We wish you all a happy, healthy and prosperous 2017.

David M. Richter, CFA
Managing Director

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Will vs. Trust: Is One Better Than the Other?



When it comes to planning your estate, you might be wondering whether you should use a will or a trust (or both). Understanding the similarities and the differences between these two important documents

may help you decide which strategy is better for you.

What is a will?

A will is a legal document that lets you direct how your property will be dispersed (among other things) when you die. It becomes effective only after your death. It also allows you to name an estate executor as the legal representative who will carry out your wishes.

In many states, your will is the only legal way you can name a guardian for your minor children. Without a will, your property will be distributed according to the intestacy laws of your state. Keep in mind that wills and trusts are legal documents generally governed by state law, which may differ from one state to the next.

What is a trust?

A trust document establishes a legal relationship in which you, the grantor or trustor, set up the trust, which holds property managed by a trustee for the benefit of another, the beneficiary. A revocable living trust is the type of trust most often used as part of a basic estate plan. "Revocable" means that you can make changes to the trust or even end (revoke) it at any time. For example, you may want to remove certain property from the trust or change the beneficiaries. Or you may decide not to use the trust anymore because it no longer meets your needs.

A living trust is created while you're living and takes effect immediately. You may transfer title or "ownership" of assets, such as a house, boat, automobile, jewelry, or investments, to the trust. You can add assets to the trust and remove assets thereafter.

How do they compare?

While both a will and a revocable living trust

enable you to direct the distribution of your assets and property to your beneficiaries at your death, there are several differences between these documents. Here are a few important ones.

- A will generally requires probate, which is a public process that may be time-consuming and expensive. A trust may avoid the probate process.
- In order to exclude assets from probate, you must transfer them to your revocable trust while you're living, which may be a costly, complicated, and tedious process.
- Unlike a will, a trust may be used to manage your financial affairs if you become incapacitated.
- If you own real estate or hold property in more than one state, your will would have to be filed for probate in each state where you own property or assets. Generally, this is not necessary with a revocable living trust.
- A trust can be used to manage and administer assets you leave to minor children or dependents after your death.
- In a will, you can name a guardian for minor children or dependents, which you cannot do with a trust.

Which is appropriate for you?

The decision isn't necessarily an "either/or" situation. Even if you decide to use a living trust, you should also create a will to name an executor, name guardians for minor children, and provide for the distribution of any property that doesn't end up in your trust. There are costs and expenses associated with the creation and ongoing maintenance of these legal instruments.

Whether you incorporate a trust as part of your estate plan depends on a number of factors. Does your state offer an informal probate, which may be an expedited, less expensive process available for smaller estates? Generally, if you want your estate to pass privately, with little delay or oversight from a probate court, including a revocable living trust as part of your estate plan may be the answer.

Top Financial Concerns of Baby Boomers, Generation Xers, and Millennials



In its survey, PricewaterhouseCoopers defined the generations as having these birth years: baby boomers: 1943-1960; Generation X: 1961-1981; millennials: 1982-1997. The U.S. Census Bureau and other groups often define these generational ranges differently.

Source:

"Employee Financial Wellness Survey," PricewaterhouseCoopers LLP, April 2016

Many differences exist among baby boomers, Generation Xers, and millennials. But one thing that brings all three generations together is a concern about their financial situations.

According to an April 2016 employee financial wellness survey, 38% of boomers, 46% of Gen Xers, and 51% of millennials said that financial matters are the top cause of stress in their lives. In fact, baby boomers (50%), Gen Xers (56%), and millennials (60%) share the same top financial concern about not having enough emergency savings for unexpected expenses. Following are additional financial concerns for each group and some tips on how to address them.

Baby boomers

Baby boomers cite retirement as a top concern, with 45% of the group saying they worry about not being able to retire when they want to. Although 79% of the baby boomers said they are currently saving for retirement, 52% of the same group believe they will have to delay retirement. Health issues (30%) and health-care costs (38%) are some of the biggest retirement concerns cited by baby boomers. As a result, many baby boomers (23%) are delaying retirement in order to retain their current health-care benefits.

Other reasons reported by baby boomers for delaying retirement include not having enough money saved to retire (48%), not wanting to retire (27%), and having too much debt (23%).

Generation X

While baby boomers are concerned about retiring when they want to, Gen Xers are more specifically worried about running out of money in retirement, with 50% of the surveyed group citing this as a top concern. More Gen Xers (26%) than baby boomers (25%) or millennials (21%) have already withdrawn money held in their retirement plans to pay for expenses other than retirement.

Besides worrying about retirement, 25% of Gen Xers are concerned about meeting monthly expenses. Forty-four percent find it difficult to meet household expenses on time each month, and 53% consistently carry balances on their credit cards.

Being laid off from work is another financial worry among Gen Xers, cited by 22% of those surveyed--more than cited by baby boomers or millennials.

Gen Xers (26%) report that better job security would help them achieve future financial goals, which may help explain their worry about both future (retirement) and current (living) expenses.

Millennials

Unlike baby boomers and Gen Xers who worry about future financial needs, millennials seem to be more concerned about meeting current expenses. This concern has grown substantially for millennials, from 23% in the same survey conducted in 2015 to 35% in 2016. Millennials are also finding it increasingly difficult to pay their household expenses on time each month, with the number jumping from 35% in 2015 to 46% in 2016.

Considering the amount of debt that millennials owe, it's probably not surprising that they worry about making ends meet. Specifically, 42% of the millennials surveyed have a student loan(s), with 79% saying their student loans have a moderate or significant impact on their ability to meet other financial goals.

In an attempt to make ends meet, 30% of millennials say they use credit cards to pay for monthly necessities because they can't afford them otherwise. But 40% of those who consistently carry balances find it difficult to make their minimum credit-card payments on time each month.

How each generation can address their concerns

Focusing on some basics may help baby boomers, Gen Xers, and millennials address their financial concerns. Creating and sticking to a budget can make it easier to understand exactly how much money is needed for fixed/discretionary expenses as well as help keep track of debt. A budget may also be a useful tool for learning how to prioritize and save for financial goals, including adding to an emergency savings account and retirement.

At any age, trying to meet the competing demands of both short- and long-term financial goals can be frustrating. Fortunately, there is still time for all three generations to develop healthy money management habits and improve their finances.



Be Prepared to Retire in a Volatile Market



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In an ideal world, your retirement would be timed perfectly. You would be ready to leave the workforce, your debt would be paid off, and your nest egg would be large enough to provide a comfortable retirement--with some left over to leave a legacy for your heirs.

Unfortunately, this is not a perfect world, and events can take you by surprise. In a survey conducted by the Employee Benefit Research Institute, only 44% of current retirees said they retired when they had planned; 46% retired earlier, many for reasons beyond their control.¹ But even if you retire on schedule and have other pieces of the retirement puzzle in place, you cannot predict the stock market. What if you retire during a market downturn?

Sequencing risk

The risk of experiencing poor investment performance at the wrong time is called sequencing risk or sequence of returns risk. All investments are subject to market fluctuation, risk, and loss of principal--and you can expect the market to rise and fall throughout your retirement. However, market losses on the front end of your retirement could have an outsized effect on the income you might receive from your portfolio.

If the market drops sharply before your planned retirement date, you may have to decide between retiring with a smaller portfolio or working longer to rebuild your assets. If a big drop comes early in retirement, you may have to sell investments during the downswing, depleting assets more quickly than if you had waited and reducing your portfolio's potential to benefit when the market turns upward.

Dividing your portfolio

One strategy that may help address sequencing risk is to allocate your portfolio into three different buckets that reflect the needs, risk level, and growth potential of three retirement phases.

Short-term (first 2 to 3 years): Assets such as cash and cash alternatives that you could draw on regardless of market conditions.

Mid-term (3 to 10 years in the future): Mostly fixed-income securities that may have moderate growth potential with low or moderate volatility. You might also have some equities in this bucket.

Long-term (more than 10 years in the future): Primarily growth-oriented investments such as stocks that might be more volatile but have higher growth potential over the long term.

Throughout your retirement, you can periodically move assets from the long-term

bucket to the other two buckets so you continue to have short-term and mid-term funds available. This enables you to take a more strategic approach in choosing appropriate times to buy or sell assets. Although you will always need assets in the short-term bucket, you can monitor performance in your mid-term and long-term buckets and shift assets based on changing circumstances and longer-term market cycles.

If this strategy appeals to you, consider restructuring your portfolio before you retire so you can choose appropriate times to adjust your investments.

Determining withdrawals

The three-part allocation strategy may help mitigate the effects of a down market by spreading risk over a longer period of time, but it does not help determine how much to withdraw from your savings each year. The amount you withdraw will directly affect how long your savings might last under any market conditions, but it is especially critical in volatile markets.

One common rule of thumb is the so-called 4% rule. According to this strategy, you initially withdraw 4% of your portfolio, increasing the amount annually to account for inflation. Some experts consider this approach to be too aggressive--you might withdraw less depending on your personal situation and market performance, or more if you receive large market gains.

Another strategy, sometimes called the endowment method, automatically adjusts for market performance. Like the 4% rule, the endowment method begins with an initial withdrawal of a fixed percentage, typically 3% to 5%. In subsequent years, the same fixed percentage is applied to the remaining assets, so the actual withdrawal amount may go up or down depending on previous withdrawals and market performance.

A modified endowment method applies a ceiling and/or a floor to the change in your withdrawal amount. You still base your withdrawals on a fixed percentage of the remaining assets, but you limit any increase or decrease from the prior year's withdrawal amount. This could help prevent you from withdrawing too much after a good market year, while maintaining a relatively steady income after a down market year.

Note: *Asset allocation is a method used to help manage investment risk; it does not guarantee a profit or protect against investment loss.*

¹ Employee Benefit Research Institute, "2016 Retirement Confidence Survey"



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What do you need to know about chip-card technology?

When you're checking out items at the store, should you insert your card into the payment terminal? These days, as the use of chip-card

technology grows, the answer to that question is less clear. The computer chip now embedded in debit and credit cards uses EMV (Europay, MasterCard, and Visa) technology, which is meant to reduce fraud at physical retail stores (as opposed to online shops). But because businesses aren't required to upgrade their terminals, it's confusing to figure out what to do at the register. Here are answers to some questions you might have about chip cards.

How does it work? Magnetic strip cards contain information within the strip, so it's easy for a thief to "capture" that information and use it to accrue charges without the cardholder's knowledge. By contrast, the chip card generates a unique, specific code for each transaction that cannot be reused.

Why does it take longer to check out? The unique code generated by the chip for each transaction is sent to the bank by the payment terminal. The bank matches the code to an

identical one-time code and sends it back as verification for the transaction. As a result, it takes a few seconds longer to check out using a chip card because it takes time for the information to be transmitted.

Why aren't some terminals working yet? You might notice that terminals in some stores are equipped with a chip-card reader, but you're told you can't use it. These terminals are awaiting chip-card certification, which can take several months to process. Until their terminals are certified, retailers are responsible for any fraudulent charges.

How much longer will I have to carry a physical card? The answer to this question isn't clear. However, it's important to note that terminals with upgraded chip-card technology are also equipped with technology that can accept wireless near-field communication. This allows data to be exchanged between two different devices (e.g., a cell phone and a terminal) that are a short distance away. This means that one day, instead of swiping or inserting a card at the checkout, you might just be tapping the terminal to make payments.



What is the most important component of GDP in the United States?

We often hear in the media that consumer spending is crucial to the overall health of the U.S. economy, but exactly

how important is it? Representing approximately two-thirds of overall GDP, consumption--the almighty consumer--is the largest driver of economic growth in the United States. Of the nearly \$18 trillion in U.S. GDP (2015), American shoppers are responsible for a piece of the pie worth about \$12 trillion.

Consumption is tracked by the Bureau of Economic Analysis, and is reported as Personal Consumption Expenditures (PCE) in its monthly "Personal Income and Outlays" news release. Since the late 1960s, PCE as a percentage of overall GDP has crept up from a low of approximately 58% to nearly 70% today.

PCE is divided into goods and services. The services category typically represents the largest part of PCE, accounting for more than 65% over the past two years. Examples of services include health care, utilities, recreation, and financial services.

Goods are broken down further into durable and nondurable goods. Durable goods are those that have an average life of at least three years. Examples include cars, appliances and furniture. Nondurable goods are those with an average life span of less than three years and include such items as clothing, food, and gasoline.

Durable goods represent approximately 10% of total PCE, while nondurable goods make up about 20%.

So the next time you're out shopping, for anything from a bottle of ketchup to a new car, consider that you're doing your part to fuel our nation's growth.

Sources: World Bank.org, accessed June 2016; Federal Reserve Bank of St. Louis, 2016; Bureau of Economic Analysis, 2016

