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FINANCIAL OUTLOOK

FALL 2014

BOND INVESTING IN 2014

Since November 2008, when the Federal Reserve Bank announced its plan to make significant purchases of bonds, the bond-buying programs known as quantitative easing have been significant drivers of movement in the bond market. Prior to 2008, observers would have predicted that the Fed's bond purchases would drive bond yields down. The thinking goes like this: as the Fed gobbles up the supply of bonds, their price rises — and yields fall.

Indeed, that's how huge purchases of bonds *should* affect the bond market. But when it's the Fed doing the buying, it doesn't work that way. Quantitative easing has actually driven bond yields up. Why? Theories abound, but many observers argue that it's because when the Fed is doing the bond buying, it's signaling it will take action to heat up the economy. And who wants to own bonds if the economy is booming?

For the individual investor, though, tying a bond-investing strategy to what the Fed may or may not do and the outcome of that action is difficult. What the last six years have shown us is that the age-old principles of bond investing — and the reasons to invest in bonds in the first place — still hold true. Those principles include predictable income, relatively infrequent and shallow losses, and diversification. Let's take each in turn.

PREDICTABLE INCOME

Predictability of bond income is measured by standard deviation — the amount of variation in annual bond yields over time. The lower the standard deviation, the more predictable the yield. And bonds are more predictable than stocks, on average. For example, between 1928 and 2013, the standard deviation of the 10-year Treasury bond was 7.8%, and the standard deviation of the

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5 ESTATE-PLANNING TIPS FOR YOUR DEPENDENTS

When you have people who are dependent on you, like children or elderly parents, you want to ensure that they will be well taken care of in the event you can no longer care for them. Here are five tips for creating an estate plan that will ensure your dependents are taken care of.

- **HIRE AN ESTATE PLANNER** — An estate planner will make sure that you think of and lay out every aspect of your estate plan. Estate planners stay up to date on tax rules and other laws and regulations, so they can help you ensure that your plan is legally and financially sound.
- **CHOOSE A GUARDIAN** — Choosing someone to take care of your children in the event that both you and the children's second parent are deceased is a huge decision to make and deserves great care and time. You want to choose a guardian who loves your children and has the capacity to take care of them into their adulthood. That means a guardian who has the financial capacity to care for your dependents as well as the physical capacity to do so. So even though grandparents may be able to love and care for your children just as you did, they may not be in good enough health to care for a child or children. On the other hand, your sister may be able to love your dependents just as much as you did and be in perfect health, but is unable to hold a steady job or stay in a committed relationship. The goal of choosing a guardian is to make sure your

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Bond Investing

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3-month Treasury bill was 3.1%. The standard deviation of the S&P 500, in contrast, was 20% (Source: New York University Stern School of Business, 2014).

Why are bonds relatively more predictable than stocks? Bonds are debt obligations; so unless the entity goes under, bonds are guaranteed to return the investor's principal plus interest, which is typically paid twice a year. Of course, the price of bonds as they're sold on the secondary market fluctuates, just like the price of stocks do. But with bonds, you're all but guaranteed to receive at least the regular interest and the return of your principal at the term's end.

Of course, the higher rate of predictability bonds offer doesn't come free. The trade-off is a lower rate of return. So while bonds were much more predictable than stocks between 1928 and 2013, they also generated lower returns. The average return on the 3-month T-bill was 3.6%, and the average return on the 10-year Treasury bond was 5.2%, while the average return of the S&P 500 was 11.5% (Source: New York University Stern School of Business, 2014).

Infrequent and Shallow Losses

On a year-to-year basis, the relatively higher predictability of bonds means that losses are more rare and more shallow. Over that period, the 3-month Treasury bill never generated a negative return — though during a number of years its return was below inflation, meaning that investors were actually losing money in real terms. The 10-year Treasury bond yield was negative in 16 of the years between 1928 and 2013. Its deepest loss was -11.1% in 2009. The stock market, in contrast, had 24 losing years between 1928 and 2013, with its deepest loss -43.8% in 1931; the second-deepest loss was -36.6% in 2008.

Diversification

Because of income predictability and shallow losses, bonds are effective at diversifying a portfolio. Precisely because bonds are seen as safe investments when the stock market is declining, bond market and stock market returns tend to be countercyclical. For example, in 13 of the 16 years that the 10-year Treasury bond generated negative returns, stock market returns were positive. In 21 of the 24 years stock market returns were negative, Treasury bond returns were positive.

So, is bond investing in 2014 hot or not? It depends. If you're looking for fixed-income stability — hot. If you're looking for growth — not. Then again, it all depends on what the economy does. If the economy continues to strengthen, bond yields will likely remain low. But if the economy weakens, bond yields could rise again. The bottom line: It's all about diversification. Please call to discuss this in more detail. ❍❍❍

Government Bonds and Our Economy

The government finances debt by selling U.S. debt obligations — Treasury securities or Treasuries. The issuance of federal debt securities brings in money that's used to pay for regular government spending. In 2013, for example, the federal government ran a $680 billion budget deficit — financed by Treasury securities. The issuance of new Treasuries is also used to pay off maturing debt securities. And securities continue to be issued to fund war efforts. All told, in 2013, the U.S. issued approximately $7.9 trillion in securities.

Who owns that debt? Social Security funds hold 16% of the debt, other federal government funds hold 13%, the Federal Reserve holds 12%, China holds 8%, Japan holds 7%, other foreign nations hold 19%, state and local governments hold 3%, mutual funds hold 6%, and all other holders account for 17%.

The federal government issues three types of debt instruments:

- ❍ Treasury bills are short-term obligations issued with a term of one year or less. They do not pay interest before maturity.
- ❍ Treasury notes mature in 2-, 3-, 5-, and 10-year terms. They pay interest twice a year.
- ❍ Treasury bonds are long-term investments that mature in more than 10 years. They also pay interest twice a year.

Generally, shorter-term Treasuries pay lower interest rates because they're less risky. Because Treasuries are fixed-income securities, there is risk inherent in longer-term investment. A 5% return might beat the market today, but will it still look good in two years — or five — or 20? It's easier to foresee how the market might change in three months than in 10 years; hence, the yields that longer-term securities pay are typically higher.

Whether you should invest in government bonds depends on your risk appetite, your investment horizon, and your goals. For example, if you are uncomfortable with relatively high levels of risk, Treasuries might match your risk appetite well. If you're investing for the relatively short term — say, for retirement in five years — Treasuries of the same term might provide you the stability you need and the peace of mind that at least your principal is safe.

If, however, you're investing for retirement in 30 years, your portfolio likely needs to include higher risk, higher return investments like stocks. Bonds still have their place but should make up a relatively smaller percentage of your total portfolio.

Is investment in government securities right *for you*? Please call to discuss this in more detail. ❍❍❍

5 Estate Planning

Continued from page 1

children are loved and taken care of adequately, that they receive a good education, their lives remain as stable as possible, and they receive emotional support to cope with their loss.

- **Develop a trust** — A trust is often used when people have minor children or dependents who are incapable of taking care of themselves. You, the trustor, put a trustee in charge of the beneficiary's property and/or assets until the beneficiary meets certain requirements, such as reaching a certain age or milestone. Usually the named guardian is also the trustee, however, every situation is different.
- **Start as soon as possible** — As soon as you have a child or otherwise become responsible for a dependent, it is important to get an estate plan in place to protect them in case of emergency.
- **Reevaluate often** — As time goes on, your situation may change quite a bit from your original plan. For example, anytime you acquire a new asset or debt, it should be included in your estate plan. Also, you may realize that the guardian you originally chose for your dependent is no longer the right choice. You may have more children or unexpectedly start caring for an elderly family member. Anytime major changes happen in your life that impact what you would leave behind and to whom you'd want to leave it, you should revisit your estate plan.

We all want the people we leave behind to be cared for after our deaths as we cared for them during our lives. You may have no control over when or how you will die, but you do have control over what happens to your dependents. To get started, please call. ❍❍❍

The Sooner the Better

According to a survey on retirement readiness by the Employee Benefits Research Institute, only 14% of Americans are confident that they will be able to maintain a comfortable lifestyle after retirement; among those, about 60% have less than $25,000 in savings (so depending on age, they will likely *not* be able to maintain a comfortable lifestyle after retirement). One of the biggest problems in retirement planning is people put it off too long or rely solely on one account or investment vehicle. The key to a successful retirement (whatever that looks like for you) is starting early and evaluating often.

Developing a retirement plan can be quite overwhelming, but there are some easy steps to take to jump-start your plan and increase your retirement success. Here are five:

Step 1: Set goals. Define what a successful retirement looks like to you. How old do you want to be when you retire? What kind of lifestyle will you have? How much money will you need? Write your goals down and use them as a driving force in your retirement planning.

Step 2: Seek professional guidance to develop a plan. Once you know what you want to achieve, it is important to sit down with a financial advisor and devise a plan on how you will reach those goals. There are many options in retirement planning depending on your investment personality, your age, and your income. A financial advisor will walk you through all of the factors to consider and help you formulate an appropriate plan.

Step 3: Follow the plan. Open the necessary accounts and start putting money into them every month. If you are just starting out and can only afford to save $50 a month, do that. Small amounts can be meaningful over the long term.

Step 4: Contribute to your 401(k) plan. If your employer offers a sponsored plan and matches contributions, you are literally leaving money behind if you don't contribute. At the very least, contribute as much as your employer will match. A 401(k) plan is an easy way to save for retirement, because the money comes straight out of your paycheck every month. And while a 401(k) doesn't require your active management, as with any investment, you should review it once a year to make sure that you are comfortable with the amount of money that you are contributing, your investment allocations, and the way your account is being managed — and make changes if necessary.

Step 5: Revisit your plan regularly. Circumstances in life are always changing. You get married, you have a child or children, your goals change, your job changes. Don't leave your retirement plan behind; revisit your plan regularly to make sure that it works for you and your unique circumstances.

Following these five steps is an easy way to jump-start your retirement plan. It doesn't matter how old you are, where you are in your life, or how much money you make — now is the right time to start saving for your retirement. Please call if you'd like to discuss this in more detail. ❍❍❍

Financial Data

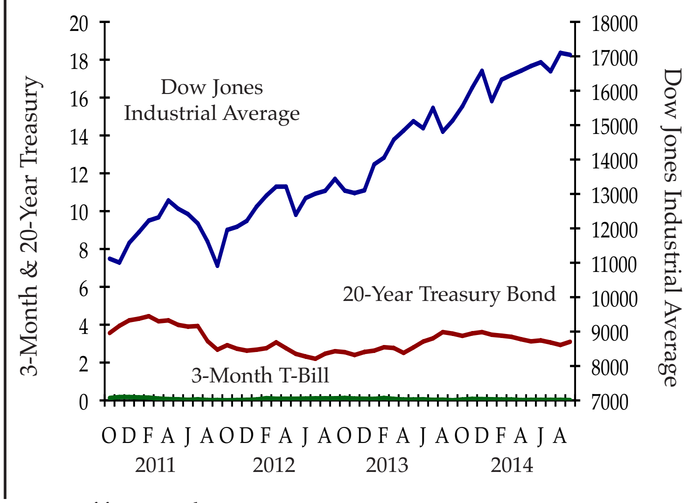
Indicator	Month-end Jul-14	Aug-14	Sep-14	Dec-13	Sep-13
Prime rate	3.25	3.25	3.25	3.25	3.25
Money market rate	0.40	0.39	0.42	0.43	0.42
3-month T-bill yield	0.03	0.03	0.02	0.07	0.01
20-year T-bond yield	3.06	2.93	3.10	3.61	3.53
Dow Jones Corp.	2.81	2.72	2.90	3.11	3.09
30-year fixed mortgage	3.81	3.69	3.81	4.21	3.86
GDP (adj. annual rate)#	+2.60	-2.10	+4.60	+2.60	+2.50

Indicator	Month-end Jul-14	Aug-14	Sep-14	% Change YTD	12 Mon.
Dow Jones Industrials	16563.30	17098.45	17042.90	2.8%	12.6%
Standard & Poor's 500	1930.67	2003.37	1972.29	6.7%	17.3%
Nasdaq Composite	4369.77	4580.27	4493.39	7.6%	19.1%
Gold	1285.25	1285.75	1216.50	1.2%	-8.3%
Consumer price index@	238.30	238.30	237.90	2.1%	1.7%
Unemployment rate@	6.10	6.20	6.10	-12.9%	-16.4%
Index of leading ind.@	102.40	103.60	103.80	5.6%	7.5%

— 4th, 1st, 2nd quarter @ — Jun, Jul, Aug Sources: *Barron's, Wall Street Journal*

4-Year Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield

October 2010 to September 2014



Past performance is not a guarantee of future results.

News and Announcements

As we countdown the final days of summer, we thought it might be a good opportunity to make a few general announcements. After eight years with Saline Wealth Management, Lynda Radano has decided to pursue other opportunities. We wish Lynda all the best.

We would also like to take this opportunity to welcome our newest associate, Chanelle Seay. Chanelle joined the Saline Wealth Management team in September 2014, but she is no stranger to our office. As some of you may recall, Chanelle worked for Chuck and Kathy for five years before taking a brief hiatus to finish her degree. Welcome back, Chanelle.

Also happening at Saline Wealth Management, Eli Saline is studying to complete his Certified Financial Planner® (CFP®) designation. Eli is studying at The American College in Bryn Mawr, Pennsylvania, but that's not the real reason Eli is so excited these days. Lately, Eli is teaming with enchantment over his upcoming nuptials on the 13th of December.

In other news, Jeff recently made the trip to Boston University to drop of his son, Austin who is completing his senior year as a neuroscience undergraduate. We could not be more proud of Austin, who is also interning at Massachusetts General Hospital in a sleep study program that is being conducted by a Havard University professor.

Last but not least, we would like to recognize a real superstar. Lisa Harris's husband, Joe Harris, was presented with a Gold Record for his work with the R&B/disco group Double Exposure. The group was recognized for their 1976 hit *Ten Percent*. Congratulations, Joe!