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Asset Management • Retirement, Tax and Estate Planning • Fee Only • No Commissions • Independent Advisor

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Here is our newsletter for the 1st Quarter of 2016.

2015 Markets in Review

Most asset classes suffered losses in 2015, with 8 of the 12 major asset classes shown here being down. U.S. large cap stocks gained 1.3%, outperforming foreign stocks and continuing the trend of outperformance that has been in place for almost 5 years. Just over the last 3 years the U.S. large cap stock market has returned over 22% per year more than the emerging markets. The bond markets were not much help with U.S. intermediate-term bonds up only 0.5%, high yield down 5%, and TIPS down 1.75%. Emerging market local bonds fell 12%. The commodity market was the big looser with a 28% loss.

Asset Class Returns- Ending 12/31/15

Asset Class	2015	3 YR-Annual
US Large Cap Stock	1.3	15.03
US Small Cap Stock	-4.47	11.65
Foreign -Developed Mkts Stock	-0.38	4.5
Emerging Mkts Stock	-15.81	-7.17
US Intermediate-Term Bond	0.48	1.45
Emerging Markets Local Bond	-12.12	-7.33
High Yield Bond	-5.03	0.78
Inflation-Protected Bond (TIPS)	-1.75	-2.34
Cash	0.05	0.03
US Real Estate	2.42	10.95
Natural Resource Stocks	-8.67	7.24
Commodities	-27.59	-21.65

Our portfolios had mid to high single-digit losses for the year. The primary reasons for underperforming our benchmarks were our allocations to emerging market local bonds, natural resource stocks and commodities. All of these asset classes are not represented in our 5 asset class benchmarks. It was clearly a year when our strategy of investing across 12 or more asset classes to better diversify our portfolios did not work well. We know it does not work every year but works over the long term.

As we detailed in our newsletter in October, emerging markets stocks and bonds and commodities represent the best value in the markets. We initiated our commodity and natural resource stock allocations in late January after prices had declined for 3 years. The price of oil had dropped from about \$110 to \$44 in about 18 months. Many other commodities has similar price drops. The price of oil is currently down to about \$32, a 16 year low. Emerging market local bonds fell primarily due to the strong dollar. We invest in these bonds not only for their higher yields than U.S. and other bonds, but also to diversify a small portion of our investments out of the dollar. The markets have given us the best opportunity for good returns in these asset classes in many years.

Changes to Social Security Benefits
For many years I have helped clients by recommending Social Security retirement claiming strategies which on average have increased their benefits by around $80,000. We detailed some examples in our April 2013 newsletter.

Unfortunately the recent U.S. budget deal signed into law will end some of the strategies we have used, specifically the file-and-suspend and restricted claiming strategies for married couples. The new law will not go into effect until April 30th of this year, so there is still time to get in under the wire before the changes are implemented. If you are a married couple (or divorced) in one of the groups below you need to act soon. It's ok if you have already started your benefits.

1. Those who will be 66 years or older by April 30, 2016 and less than 70.
2. Those who are 62 or older by the end of 2015.

Under current law, two-earner couples have the option to have one spouse file for Social Security benefits without actually taking the money (file and suspend) while the other spouse files a restricted application for only spousal benefits. This allows them to claim "free money"- the spousal benefit for one spouse over four years or more. Afterwards you can switch to your own benefit which has been increasing by 2/3% per month or 8% per year. The benefit on your own record is not reduced due to taking the spousal benefit early.

You will still be able to suspend your benefits after the new rules are in effect. What will change is that a spouse or children will not be able to collect spousal or child benefits unless the benefit is actually taken, not suspended. Under the new rules you also will not be able to restrict your application to a spousal benefit before you reach normal retirement age (currently 66). Without the ability to restrict your application Social Security would deem you to be taking the benefit on your own record if that benefit is higher, not the spousal benefit. A 66 year old can still restrict their application to a spousal benefit and then 4 years later switch to your own higher retirement benefit at 70 on your own record.

It's an understatement to say the rules are extremely complicated. We have a separate program we use to evaluate the options and provide advice to our clients. If you are in one of the above groups who would benefit from an analysis of your benefits give us a call. It could earn you $60,000 or more in extra retirement benefits.

The College Funding Challenge
In my October newsletter I discussed our new partnership with EFC PLUS, a college funding solution service. The principal of EFC, Fred Amrein is a fellow fee-only financial planner and specialized in helping parents reduce the cost of college for their kids and grandkids. His website is http://www.efcplus.com. I have registered as a financial advisor on his system and you can use his service under my advisor license for a $50 fee. Go to his website to get the details on the service and give me a call.

On the site there are many resources to learn about the college funding process and taking actions to help you qualify for financial aid. You may have a large nest egg but still qualify for aid. January is the time to fill out the FAFSA form and Fred has some great information on how to do this on his site (www.efcplus.com/fafsa-submission). Everyone should fill out this form, even if you do not think you will qualify for needs-based aid. One reason to do so is to inform the colleges that you will be paying full rate and this will likely improve your odds of getting accepted by the school of your choice.

There is also great information on SAT and ACT testing, saving for college, the application process and student loan repayment. Let me know if you would like to use the system and I can provide any support you need.

Some Annual Tax Breaks Made Permanent (for now)
The budget deal also made numerous changes to the tax laws. One favorable change was making many tax provisions permanent that were only good for the current year. Every year congress would extend many at the last minute for another year. One provision which has been made permanent (at least until they change it again) is the ability to gift to charities using your IRA. This could be the best way for you to give depending upon your tax situation. When you make a distribution from your traditional IRA is counts as ordinary income. The increase in income could be offset by deducting it from income as an Itemized Deduction. However, some taxpayers do not have enough itemized deductions to realize a deduction. Also, the withdrawal can increase taxation of Social Security and portfolio income for retirees.

Giving directly to the charity from your IRA avoids all of the above problems. Before you gift to your favorite charity give me a call to discuss.

Check Out our New Website
Go to our revamped website at www.CompFinancial.com to see the changes we have made. On the Wealth Management page we have added the Risk Analysis from Riskalyze to explore your risk tolerance and how your nest egg should be invested. On the News & Resources page there are lots of links to great information you can use.

Thanks for reading and call me to discuss any issues you may have.

Sincerely,

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