Investor Insights & Outlook

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Understanding Risk Tolerance and Risk Capacity

When determining an appropriate asset allocation mix, it is important to consider not only one's risk tolerance, but also one's risk capacity.

An investor's risk tolerance refers to his or her aversion to risk, while an investor's risk capacity relates to his or her ability to assume risk. Sometimes, an investor's risk capacity and risk tolerance do not match up. If an investor's capacity to take risk is low but the risk tolerance is high, then the portfolio should be reallocated more conservatively to prevent taking unnecessary risk. On the other hand, if an investor's risk capacity is high but the risk tolerance is low, reallocating the portfolio more aggressively may be necessary to meet future return goals. In either case, speaking with a financial advisor may help to determine if your risk tolerance and risk capacity are in sync.

Risk Strategy Matrix

		Risk Capacity	
		High	**Low**
Risk Tolerance	**High**	No action required	Consider reallocating more conservatively
	Low	Consider reallocating more aggressively	No action required

There is no guarantee that diversification or asset allocation will protect against market risk. These investment strategies do not ensure a profit or protect against loss in a declining market. Holding a portfolio of securities for the long term does not ensure a profitable outcome and investing in securities always involves risk of loss. It is highly recommended that you consult with a financial professional for advice specific to your situation.

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He holds a Bachelor of Science Degree in Economics from Northern Michigan University, and earned his Master of Science in Financial Services (MSFS) degree from the Richard D. Irwin Graduate School at The American College in Bryn Mawr, Pennsylvania. This commitment to higher education and professionalism puts Jason in a select group who has reached this level of academic achievement in financial services, and puts him in a position to address a broad range of issues when working with clients.

Jason worked as an independent financial advisor for Ameriprise Financial for 9 years. He was a member of their Advanced Advisor Group until 2007 when he became a founding partner at Kerntke Otto McGlone Wealth Management Group.

What You Need to Know about Health Savings Accounts

Health Savings Accounts (HSAs) are growing in popularity, and more companies are offering them to their employees. Many people, however, are confused about what these plans are and when it is appropriate to take advantage of them.

What Is an HSA? Health Savings Accounts were created by a provision in the Medicare Prescription Drug Improvement and Modernization Act of 2003 and signed into law in December of that year. The purpose of creating the accounts was to provide a way for Americans to prepare for future medical costs and lower their health insurance premiums by switching to higher-deductible medical plans. Employers can establish plans for employees, and HSAs are also offered by banks, credit unions, insurance companies, and other approved companies.

In 2013, an individual can contribute up to $3,250 to an HSA, while families can contribute $6,450. People over 55 can also make a catch-up contribution of $1,000.

What Type of Tax Benefits Does an HSA Offer? Personal contributions offer participants an "above-the-line" deduction, which allows them to reduce their taxable income by the amount they contribute to their HSA. Participants aren't required to itemize their deductions to realize this benefit.

If your employer offers a "salary reduction" plan (also known as a "Section 125 plan" or "cafeteria plan"), you can make contributions to your HSA on a pre-tax basis. However, the "above-the-line" deduction is off limits for those who elect to contribute on a pre-tax basis.

If you are self employed, you cannot contribute to an HSA on a pre-tax basis. However, you can contribute with after-tax dollars and take the above-the-line deduction.

Who's Eligible? In order to be eligible to contribute to an HSA you have to be covered by a high-deductible health insurance plan. "High-deductible" is defined as a deductible (where you pay the first dollars for medical service out of your own pocket) of $1,250 or higher for singles and $2,500 or higher for families.

In order to be eligible to contribute to an HSA, you cannot be 65 years of age or older. People 65 and older can maintain an HSA established prior to age 65, but they can no longer make contributions into it.

An HSA cannot be established for those eligible to be claimed as a dependent on another person's tax return. Also, if you are covered by another health insurance plan (such as a spouse's), you are not eligible for an HSA.

If you die and have money in an HSA, your spouse can use the account as if it were his or her own. If you are not married, the account can pass to a beneficiary but will no longer be considered an HSA and will be taxable to the beneficiary. If your estate is the beneficiary, the value of the HSA will be included on your final income tax return.

Making Withdrawals from Your HSA: Withdrawals made from your HSA are tax-free if used for qualified medical expenses. The same things you can deduct on Schedule A are considered medical expenses for HSAs. For more information on exactly what qualifies, see IRS Publication 502: Medical and Dental Expenses.

If you don't need to withdraw the funds from your HSA, you can let your contributions grow over time tax-free (similar to IRA accounts). HSA contributions grow on a tax-deferred basis. Moreover, unlike flexible spending accounts you may have used in the past, HSA contributions are not "use it or lose it."

Major Stock Market Indexes

There are a number of stock market indexes that are frequently mentioned on television and cited in financial newspapers and magazines. They measure various slices of the stock market and can be used as performance benchmarks for both investment vehicles (such as mutual funds) and one's own portfolio returns. Here are three of the most popular and referenced indexes.

Dow Jones Industrial Average

The Dow Jones Industrial Average was first unveiled by Charles H. Dow on May 26, 1896, and consisted of 12 stocks. In 1916, the industrial average expanded to 20 stocks and in 1928 was subsequently bumped to 30, where it currently stands. The index constituents are 30 of the world's largest, most influential and well-known companies. Whenever you hear someone referring to what "the market" did in any given day, they are most likely referring to the Dow. Changes to the index are rare and usually take place, according to Dow Jones Indexes (www.djaverages.com), "when a current component is going through a major change, such as a shift in its main line of business, acquisition by another company, or bankruptcy. There is no review schedule."

Standard & Poor's 500 Stock Index

When you hear that a portfolio has "beaten the market" it is most likely being compared with the S&P 500, which was first published in 1957. The index is composed of 500 leading companies in leading industries of the U.S. economy, focusing on the large-cap segment of the market but also serving as a proxy for the total market—covering approximately 75% of the U.S. equities market. The S&P Index Committee follows a set of published guidelines for maintaining the index (complete details of these guidelines are available at www.indices.standardandpoors.com). Some of the criteria for addition include a market capitalization (share price multiplied by shares outstanding) in excess of $4 billion, adequate liquidity (how easy it is to buy and sell shares) and reasonable price and financial viability. Those that substantially violate the criteria are dropped.

NASDAQ Composite Index

Launched in 1971, the NASDAQ Composite Index measures all NASDAQ domestic- and international-based common type stocks listed on the NASDAQ Stock Market. The index includes roughly 2,700 securities. While it is best known for its large portion of technology stocks, it also contains stocks in other industries. To be eligible for inclusion in this index, securities must be listed on the NASDAQ Stock Market and they need to be of a specific type. For more information, visit www.nasdaq.com.

Please keep in mind that a company can be a member of more than one of the three indexes described above. Microsoft is an example of a company that has a place in all three.

Stock Market Index Comparison

Stock Index	Dow	S&P 500	NASDAQ
Year Introduced	1896	1957	1971
Constituents	30	500	2,701*
Types of Companies	Large, well-known, influential.	Leading companies in all industries. Focuses on large-cap segment.	Large number of technology stocks. Also includes stocks in other industries.
Index Modifications/ Eligibility	Companies undergoing a major change can lead to a modification.	Market cap in excess of $4 billion, adequate liquidity/ reasonable price, financial viability.	Listed on NASDAQ Stock Market and needs to be specific security type.
Examples of Current Constituents*	Walt Disney, Johnson & Johnson, Coca-Cola, McDonald's, Walmart	AT&T, Boeing, General Mills, Procter & Gamble, Google	Apple, eBay, Cisco, Dell, Yahoo!

*As of 11/13/2012

Stocks are not guaranteed and are more volatile than other asset classes. The information above is provided for illustrative and information purposes only. The indexes noted are unmanaged and can not be directly invested in. References to specific securities should not be viewed as a recommendation to buy or sell the mentioned security.

The Importance of Saving for Women

Women face a different set of financial-planning challenges than men because they tend to live longer, earn less, and take more breaks from the work force. Women may also experience more difficulties if they are widowed or divorced. The good news is that women tend to save more. According to Vanguard's "How America Saves 2012" report, women saved at rates about 5% to 10% higher than those of men across every income group. However, even though their savings rates were higher, women's balances in savings accounts tended to be lower than those of men because women, on average, had lower incomes. This illustrates the extreme importance that saving (and starting to do so early) has for women. It's not always easy, but managing debt, controlling expenses, and contributing to a retirement plan can make a world of a difference down the road.

Average Deferral Rates by Income and Gender 2011

Vanguard defined contribution plans permitting employee-elective deferrals

	Female	Male	All
<$30,000	5.1%	4.5%	4.8%
$30,000–$49,999	5.9	5.6	5.8
$50,000–$74,999	7.4	6.9	7.1
$75,000–$99,999	8.9	8.0	8.3
$100,000+	8.8	8.0	8.2

Source: Vanguard, 2012

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