Investor Insights & Outlook

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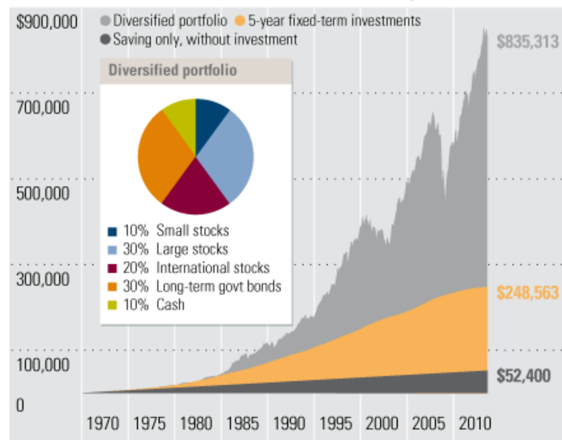
Saving Is Not Enough

After two financial crises occurring almost back to back during the "lost decade," investors have every right to be risk-averse, hesitant, angry, or distrustful. The problem with not investing at all, however, is that you may not have sufficient money to achieve your financial goals. An individual saving $100 per month, without investing, would have put away only $52,400 since 1970. By placing that money in five-year fixed-term investments, the investor would have been able to end up with almost five times that amount. And if invested in a diversified portfolio, our investor's savings would have grown to $835,313. It's true that any investment involves varying levels of risk. But, as the image illustrates, even if you have low risk tolerance, you can find a suitable investment for your needs that may still be much better than no investment at all.

Two Types of Investments Versus Saving Without Investment, Jan 1970–Aug 2013



Past performance is no guarantee of future results. This hypothetical example is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. Holding a portfolio of securities for the long term does not ensure a profitable outcome and investing in securities always involves risk of loss. The diversified portfolio was created for illustrative purposes only; it is neither a recommendation, nor an actual portfolio. Government bonds are guaranteed by the full faith and credit of the United States government as to the timely payment of principal and interest, while stocks are not guaranteed and have been more volatile than bonds. International investments involve special risks such as fluctuations in currency, foreign taxation, economic and political risks, and differences in accounting and financial standards. Diversification does not eliminate the risk of experiencing investment losses. The data assumes reinvestment of income and does not account for taxes or transaction costs.

Source: Small stocks—Ibbotson® Small Company Stock Index. Large stocks—Standard & Poor's 500®, an unmanaged group of securities considered to be representative of the U.S. stock market. International stocks—Morgan Stanley Capital International Europe, Australasia, and Far East (EAFE®) index. Long-term government bonds—20-year U.S. government bond. 5-year fixed-term investments—yield on a 5-year U.S. government bond. Cash—30-day U.S. Treasury bill.

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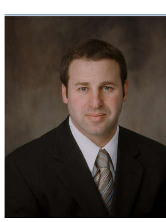

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He holds a Bachelor of Science Degree in Economics from Northern Michigan University, and earned his Master of Science in Financial Services (MSFS) degree from the Richard D. Irwin Graduate School at The American College in Bryn Mawr, Pennsylvania. 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.

Required Minimum Distribution (RMD) Tips and Traps

The tax-deferred compounding you get via an IRA or a company retirement plan enables you to grow your savings without having to fork over taxes on your investment earnings year in and year out. However, at some point, required minimum distributions, or RMDs, will take effect. All retirees must begin taking RMDs from their tax-deferred retirement plans by April 1st of the year following the year in which they turn age 70 1/2. They must then continue to take distributions by December 31st of each year thereafter. Roth IRAs aren't subject to RMDs. However, you exert more control than you might think over the timing of your RMDs, as well as over which accounts you tap. Here are some tips for getting the most out of your RMDs, as well as some traps to avoid.

Do

1. Even though you must calculate your RMD amounts for each of your traditional IRAs, you can draw your RMD from the investment that's most advantageous for you. If you've assessed your asset allocation and determined it's time to rebalance, take your RMD from the IRAs that hold assets where you need to lighten up.

2. Rather than taking your whole distribution at year-end, consider spacing your distributions throughout the calendar year to obtain a range of sale prices for your longer-term assets.

3. Consider "bucketing" your IRA and retirement-plan assets. That means dividing assets into cash or cash-like accounts to help address RMD and other income needs, intermediate-term assets (such as bonds) that are next in line for distributions, and long-term assets.

4. Put your distributions on autopilot to avoid the last-minute rush to execute trades (or worse, to avoid missing the deadline altogether). If you go the autopilot route, be sure to maintain cash assets in your accounts to avoid having your fund company or brokerage firm sell a long-term asset that you would have preferred to hold.

5. Coach elderly parents on taking their RMDs.

Don't

1. Miss the deadline. You'll owe a tax penalty equal to 50% of the distribution amount you should have taken but didn't, as well as the taxes that are due on any retirement-plan distribution.

2. Pay a tax penalty without stating your case first. The IRS' website indicates that the penalty will be waived if "the shortfall in distributions was due to reasonable error and that reasonable steps are being taken to remedy the shortfall." If you've missed a distribution or didn't take as much of an RMD as you should have, you'll need to fill out an IRS form. You'll also have to submit a letter detailing why you had a shortfall in your distribution and what you're doing to remedy it.

3. Spend your RMDs right away unless you've analyzed your retirement plan's viability and determined that you can afford to splurge.

4. Plow the proceeds into a Roth IRA without doing your homework first. You need to have enough earned income (generally, that means income from a job) to cover the amount of your IRA contribution. For example, if you want to contribute $6,000 to a Roth, you'd need to have at least $6,000 in earned income to do so. Unfortunately, income drawn from your retirement accounts doesn't count. Note that you can't make additional traditional IRA contributions after age 70 1/2.

Funds in a traditional IRA grow tax-deferred and are taxed at ordinary income tax rates when withdrawn. Contributions to a Roth IRA are not tax-deductible, but funds grow tax free, and can be withdrawn tax free if assets are held for five years. A 10% federal tax penalty may apply for withdrawals prior to age 59 1/2. Please consult with a financial or tax professional for advice specific to your situation.

A Brief Overview of ETF Providers

The exchange-traded fund industry has come a long way since the first ETF, SPDR S&P 500, was launched in 1993. U.S. ETFs closed August 2013 with just over $1.49 trillion in total net assets.

An ETF is a passively managed index fund that strives to achieve a return similar to that of a particular market index. There are many factors that contributed to the increase in popularity of ETFs, including trading flexibility, lower expense ratios, tax efficiency with regard to capital gains distributions and, more importantly, potential diversification benefits. By buying a single unit of an ETF, investors can get exposure to all the securities that make up the related index—for example, the S&P 500. Here is a quick look at the three major providers in the industry.

iShares is the largest ETF provider in the world, with a 39.4% current market share and $587 billion in assets as of August 2013. It was acquired by money manager BlackRock in 2009, and the impact of this transaction might have been seen in the recent SEC filing to launch its own actively-managed ETFs. iShares is best known for a varied and large product lineup, with a suite of ETFs that invest in municipal bonds, treasuries, and specific countries. In September 2010, iShares launched three new country-specific emerging-markets ETFs for China, Brazil, and the Philippines.

SPDR State Street Global Advisors manages the SPDRs family of ETFs and is best known for sector funds that track the S&P 500's sectors, including the most heavily traded ETF, SPDR S&P 500, as well as high-yield bond and mortgage ETFs. As of August 2013, it has approximately 22.7% of the total market share of the ETF industry, with $338 billion in assets.

Vanguard is the third-largest provider of ETFs in terms of assets under management. It has aggressively increased its market share in the past few years, with a 1.5% increase during the past year, and it currently has a 19.4% market share as of August 2013. It is best known for having some of the lowest expenses among the industry's major players and has launched ETFs based on Russell indexes, as well as expanded its suite of equity indexes, while offering lower-priced alternatives.

All the major ETF providers have offerings that suit the needs of a variety of investors. When deciding which ETF to invest in, consider important factors like expense ratios and brokerage commissions, since these can reduce the returns on any portfolio. In addition, make sure that your overall investment portfolio is diversified and that ETF investments are only used to complement existing investments, not replace them.

Diversification does not eliminate the risk of experiencing investment losses.

Top 10 ETF Providers by Market Share August 2013

Name	Market Share (%)
iShares	39.4
SPDR State Street Global Advisors	22.7
Vanguard	19.4
PowerShares	4.9
WisdomTree	1.9
ProShares	1.8
Market Vectors	1.5
Guggenheim Investments	1.1
First Trust	0.9
Schwab ETFs	0.9

Source: Morningstar Fund Flows, Morningstar Direct.

Holding an exchange-traded fund does not ensure a profitable outcome and all investing involves risk, including the loss of the entire principal. Since each ETF is different, investors should read the prospectus and consider this information carefully before investing. The prospectus can be obtained from your financial professional or the ETF provider and contains complete information, including investment objectives, risks, charges and expenses. ETF risks include, but are not limited to, market risk, market trading risk, liquidity risk, imperfect benchmark correlation, leverage, and any other risk associated with the underlying securities. There is no guarantee that any fund will achieve its investment objective. In addition to ETF expenses, brokerage costs apply. Fees are charged regardless of profitability and may result in depletion of assets.

The Risks of Over-Allocated Funds

Exposure to concentrated investments may increase the overall risk of a portfolio. As a rule of thumb, if a fund holds more than 30% of assets in one sector, you may be putting all those eggs in one basket. Take, for example, the dot-com bubble. Investors who loaded up on rapidly growing Internet investments probably lost a considerable amount of money when the bubble burst.

It is also important to consider the extent a fund is vested in its top investments. For example, if 25% of its assets are in the top three holdings, or a fund consists of 40 or fewer holdings, the fund could be a higher risk. Funds with investments concentrated in one country can be a risky proposition as well. A fund manager not only must pick good investments but also runs the risk of a souring economy. Country-specific risks become even more prominent when a fund involves investments in emerging markets. These economies are generally subject to a variety of risks that can drive holdings southbound.

Concentrated investing is not for the casual or risk-averse. You can be exposed to substantially greater losses than those in the overall market, so be sure to evaluate a fund's holdings to determine the level of risk inherent when investing.

Keep in mind that diversification does not eliminate the risk of experiencing investment losses. International investments involve special risks such as fluctuations in currency, foreign taxation, economic and political risks, and differences in accounting and financial standards. Keep in mind that concentrated investments are narrowly focused investments that typically exhibit higher volatility than the market in general. These investments will fluctuate with current market conditions and may be worth more or less than the original cost upon liquidation.

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