In This Issue...

How Much Do You Need to Save for College?

Reassess Your Portfolio

Bonds and Your Retirement Portfolio

Raising Financially Responsible Children

Financial Data

News and Announcements

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How Much Do You Need to Save for College?

The ever-rising cost of college is common knowledge. Depending on the school a student chooses, the cost of tuition and room and board for an undergraduate degree can easily exceed six figures. With costs so high, many parents are simply overwhelmed. Saving enough to cover all of a child's college education expenses may seem like an impossible goal, so many parents don't get started. Or if they do save, they don't save enough.

If you want to help your children pay for college costs, you need a clear savings strategy. Below are some simple guidelines for determining how much you really need to save.

Estimate How Much College Will Cost

According to data from the College Board, a year of tuition and room and board at a public institution cost $18,943 in the 2014–15 academic year and $42,419 at a private, nonprofit institution. Assuming future increases of 3% annually means that in 18 years, a year of college will cost more than $32,000 at a public school and roughly $72,000 at a private school.

While those estimates are staggering, it's possible that college costs will level off or increases won't be quite so steep. But in any case, the young children of today will certainly face much higher college costs than students do currently.

Why does all this matter? Because you need to get a sense of what it might actually cost for your child to attend college. If you have a baby who was born this year and hope to send them to a private four-year college, you'd need to save about $288,000 to cover all the costs.

Decide How Much You Want to Save

Once you have an idea of how

Continued on page 2

Reassess Your Portfolio

Now is a good time to thoroughly review your portfolio and make any necessary adjustments. Consider these tips:

- **Take another look at your financial goals.** Recalculate how much you need to save on an annual basis to reach your goals, based on your portfolio's current value and a reasonable rate of return. Be prepared to readjust your goals.
- **Set an allocation strategy for the long term.** The most basic investment decision you'll make is how to allocate your portfolio among the various investment categories, such as cash, bonds, and stocks. You want to ensure your portfolio is diversified among a variety of investments, so when one category is declining, hopefully other categories will be increasing or at least not decreasing as much. To decide how to allocate your portfolio, you'll first need to come to terms with your risk tolerance. Factors like your time horizon for investing and return expectations will also impact your decision. Once you've decided on an asset allocation strategy, you'll need to adjust your current portfolio to get it in line.
- **Thoroughly review each investment in your portfolio and decide whether you should continue to own it.** If you think

Continued on page 3

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How Much?

Continued from page 1

much your children's college might cost, you can set realistic savings targets. Say you want to be able to cover 80% of the cost at a four-year, private college for your child, with the expectation that your child will either obtain grants or scholarships or take out loans to pay the remaining portion. That means a savings goal of $230,400 at the end of 18 years. To reach that target, you'd need to set aside about $595 a month, assuming annual returns of 6%. If you want to cover 80% of the costs of a four-year education at a public college (estimated at $128,000), you'd need to save $102,400. To reach that goal, you'd need to save about $264 a month, assuming annual returns of 6%.

If your initial savings estimates are high, consider tweaking your goals. Meeting 80% of your child's estimated college costs may be unreachable, but 70% may be achievable. Also, consider whether there are other sources you can tap to boost your savings. Grandparents may be willing to make contributions to a child's college fund. Monetary gifts your child receives for birthdays and other milestones can be added to a college fund. Finally, don't count out the possibility of financial aid — in the 2011–12 school year, 85% of first-time undergraduates obtained some amount of financial aid, according to the National Center for Education Statistics.

Create a Plan

The estimates above are just that — estimates. Unfortunately, many parents have little idea how to get started saving. Placing funds in a low-interest savings account reduces risk, but means you'll have to save more. A 529 college savings plan, which offers tax advantages and access to investments, could be a better way to reach your goals.

To create your own savings plan, you'll need to consider your situation. Please call if you'd like to discuss this in more detail. ❍❍❍

Bonds and Your Retirement Portfolio

For years, bonds have been an investment cornerstone for retirees because of their perceived stability, security, and ability to provide a reliable source of income. Compared to equities (or stocks), bonds have a reputation as a relatively conservative investment. While bonds come with some risks, the income they generate is predictable. That predictability is appealing to many retirees who are looking for the confidence that they'll have the money they need to meet all their expenses.

Bonds can also offer tax advantages. Since you won't pay federal income tax (and in some cases, state and local tax) on income from municipal bonds, including some of these investments in your retirement portfolio may be a way to generate much-needed income while also keeping your tax burden as low as possible.

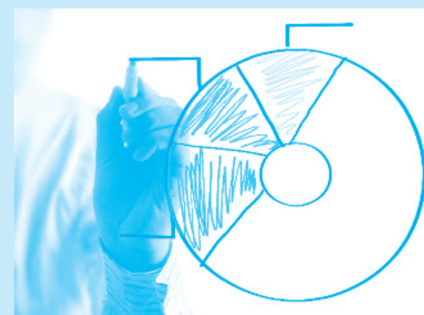
Most people who invest end up with some of their portfolio in bonds, since they are a good way to provide diversification. If you are including bonds in your retirement portfolio, you will likely want to diversify your holdings, just as you would with stocks. Treasuries and highly rated corporate and municipal bonds may help generate income without taking on too much risk. Lower-rated bonds can generate more income, but there's a greater chance of default.

Given the perceived advantages of bonds, you may be wondering not *if* you should invest in bonds, but rather *how much* of your retirement portfolio should be made up of bonds. That's a tough question. Traditionally, financial experts have urged people to focus on investing in equities when they are younger to earn as high a return as possible while they are able to take on more risk. Once people get closer to retirement, the conventional advice is to move to more bond-heavy portfolios for all the reasons discussed above. But recently, some have challenged this conventional wisdom.

One problem with bonds is that they tend to have less-impressive returns than stocks. In some ways, that's good for retirees who tend to be looking for stability, not growth. But it can present a hidden hazard, especially when interest rates are low, as they are now (and have been for some time). Low interest rates mean that retirees aren't earning much on their bond investments. And when you combine low earnings with creeping inflation, you may actually end up losing money. In turn, that can cause you to draw down your retirement portfolio faster than expected, creating a risk that you'll run out of money.

Another problem with the relatively low yields on bonds? Because people are living longer, they often need a plan to make their portfolio last for three or four decades after they retire. Some retirees may still need to generate significant returns from their investments if they are anticipating retiring at 65 and living to age 95 or 100.

So what's the solution? There's no easy answer. Retirees need to strike a balance between preserving the wealth they've earned so they can live well for decades with the need to generate enough income to sustain their lifestyles. Please call if you'd like to discuss this in more detail. ❍❍❍



Reassess

Continued from page 1

an investment with a loss won't rebound or will take a long time to do so, sell it and reinvest in others with better prospects. It's an important step if you want to make sure your portfolio is on track going forward. Also make sure your remaining investments are all adding diversification benefits to your portfolio. Often, investors keep purchasing investments that are similar in nature. That doesn't add much in the way of diversification while also making the portfolio more difficult to monitor.

❍ **Look for investments you'll be comfortable owning for the long term.** It's tempting to look for the biggest winners in investments and put your money there. However, you need to keep in mind that the best performing investment category will change from year to year. A better strategy may be to select a diversified portfolio of investments you'll be comfortable owning for the long term, so you have some money invested in each of the major investment categories.

❍ **Use dollar cost averaging to invest.** The point of dollar cost averaging is to invest a set amount of money in a certain investment on a periodic basis. When prices are lower, you will purchase more shares than when prices are higher, following half of the investment principle of buy low and sell high. But the most important part of dollar cost averaging is that it forces you to continue investing when you really don't want to invest. In the long run, you will probably be glad you had the discipline to continue investing during any market downturns. *(Keep in mind dollar cost averaging does not guarantee a profit or protect against losses. Because it involves continuous investment regardless of fluctuating prices levels, you should consider your ability to continue investing through periods of low price levels.)*

❍ **Pay attention to taxes.** Taxes are probably your portfolio's most significant expense. Ordinary income taxes on short-term capital gains and interest income can go as high as 35%, while long-term capital gains and dividends are taxed at rates not exceeding 20% (0% if you are in the 10% or 15% tax bracket). Using strategies that defer income taxes for as long as possible can make a substantial difference in the ultimate size of your portfolio. Some strategies to consider include utilizing tax-deferred investment vehicles (such as 401(k) plans and individual retirement accounts), minimizing portfolio turnover, selling investments with losses to offset gains, and placing assets generating ordinary income or that you want to trade frequently into your tax-deferred accounts.

❍ **Review your portfolio at least annually.** You can't adjust your portfolio now and then leave it on autopilot. You need to keep an eye on it in case market or company situations require changes. By reviewing your portfolio annually, you'll have an opportunity to make adjustments on an ongoing basis, which should prevent major overhauls in the future.

If you'd like help getting your portfolio back on track, please call. ❍❍❍

Raising Financially Responsible Children

How do you help your children obtain the values you'd like them to have? Consider these tips:

❍ **Lead by example.** Of course, you want to have many discussions with your children about the values you consider important. But it is equally important to ensure that your behavior supports these values, since children watch their parents' actions closely. Make sure how you handle spending, debt, asset purchases, investments, and charitable donations support the behavior you are trying to instill in your children.

❍ **Teach financial basics.** Encourage your children to take finance courses in high school and college that explain the basics of investments and personal finance. Include your children in discussions about significant financial decisions.

❍ **Allow your children to make their own financial decisions.** Don't just give them money every time they want to make a purchase. Give your children an allowance that increases as they get older to cover certain expenses. Let them learn how to spend the money, but don't give them extra money if they make bad choices.

❍ **Encourage philanthropic values.** If charitable causes are important to you, require your children to contribute a certain percentage of their allowance to a charity of their choice. Get children involved with charitable organizations with which you are involved.

❍ **Counsel your children on continuing your financial legacy.** You should have plans in place to help ensure your financial legacy lasts for a long time. That could include setting up trusts that will distribute funds to your children gradually. Or you may want to structure distributions to promote behavior that is important to you. Once your plans are in place, explain them in detail to your children so they understand what you are trying to accomplish. ❍❍❍

Financial Data

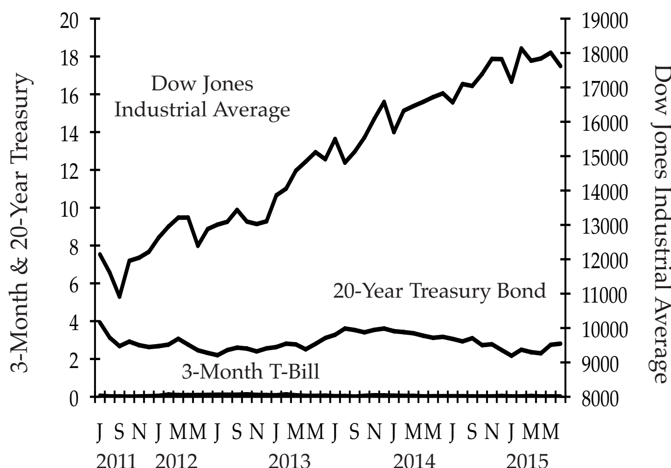
Indicator	Month-end Apr-15	May-15	Jun-15	Dec-14	Jun-14
Prime rate	3.25	3.25	3.25	3.25	3.25
Money market rate	0.36	0.36	0.34	0.43	0.43
3-month T-bill yield	0.02	0.02	0.02	0.04	0.03
20-year T-bond yield	2.30	2.75	2.81	2.47	3.17
Dow Jones Corp.	2.71	2.98	3.25	3.08	2.71
30-year fixed mortgage	3.27	3.41	3.69	3.47	3.71
GDP (adj. annual rate)#	+5.00	+2.20	-0.20	+2.20	-2.10

Indicator	Month-end Apr-15	May-15	Jun-15	% Change YTD	12 Mon.
Dow Jones Industrials	17840.52	18010.68	17619.51	-1.1%	4.7%
Standard & Poor's 500	2085.51	2107.39	2063.11	0.2%	5.2%
Nasdaq Composite	4941.42	5070.03	4986.87	5.3%	13.1%
Gold	1180.25	1191.40	1171.00	-2.4%	-11.0%
Consumer price index@	236.10	236.60	237.80	0.7%	0.0%
Unemployment rate@	5.50	5.40	5.50	-5.2%	-12.7%
Index of leading ind.@	121.50	122.30	123.10	16.7%	20.8%

— 3rd, 4th, 1st quarter @ — Mar, Apr, May Sources: *Barron's, Wall Street Journal*

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

July 2011 to June 2015



Past performance is not a guarantee of future results.

News and Announcements

Choosing a Beneficiary for Your 401(k) Plan

When you sign up for a 401(k) plan, you will typically be asked to fill out a beneficiary designation form, listing who should receive your 401(k) plan assets when you die. Make these selections carefully, since they typically override any provisions in your will.

If you are married, federal law dictates your spouse is automatically your 401(k) plan's beneficiary. Even if you list another person as the primary beneficiary, your spouse will receive the proceeds unless he/she signs a written waiver. Also, if you are separated but not divorced from your spouse, he/she will be entitled to your 401(k) proceeds after your death.

Similarly, if you remarry and want to keep your children from a previous marriage as beneficiaries, you must have your current spouse sign a waiver. You should not rely on a prenuptial agreement or other document.

When your beneficiaries are minor children, keep in mind that most 401(k) plans will not transfer money directly to minors. Thus, you may want to set up a trust so the trustee can take immediate control of the funds. Otherwise, a court-appointed trustee or guardian may need to be named before your children will have access to the funds.

If you are single and don't name a beneficiary, the proceeds will go to your estate and be distributed with the rest of your assets.

Periodically review your beneficiaries to determine if changes are needed. A divorce, remarriage, spouse's death, or child's birth are all events that may require changes to beneficiaries.

Please call if you'd like to discuss this topic in more detail. ❍❍❍

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