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The Bulldog Bulletin

3RD QUARTER 2016

Your Objectives Drive Stock Strategies

No matter the activity you're engaging in, your strategy has to be driven by your end goals — what you want to achieve. In investing, of course, there are myriad objectives — short-term objectives like a trip to Hawaii, medium-term objectives like sending the kids to college, and long-term objectives like a comfortable retirement. Here we'll take three objectives that are very different but also very common among investors. We'll show how based on these different objectives, your investment strategy may need to change.

Objective: Retire Comfortably in 25+ Years

If you're young and your primary investment objective is retirement, then your strategy should be to take full advantage of the power of compounding. Compounding means you are earning returns on both your principal investment *and* accumulated earnings. It's what allows your money to work for you — to really grow over time.

Taking full advantage of the power of compounding requires that you start investing early, you stay invested for the long term, and you maximize the returns your investments generate. In other words, it requires that you invest in the stock market.

Remember, while the stock market has experienced some dramatic swings in the last century, over time, returns have been quite robust. The key is over time. When Jeremy Siegel, a professor of finance at Wharton, analyzed stock market returns over the 200 years ending in 2001, he found that stocks were very volatile, but only in the short term. The longer the term, the greater the

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Is Your 401(k) Plan Enough?

If you work for a company that offers a 401(k) plan, especially if the plan offers matching contributions, that 401(k) plan may be the most important part of your retirement investment plan. But should it be the only part?

In 2016, the maximum annual 401(k) contribution is $18,000, not including employer-matching contributions. If you are at least 50 years old, you can contribute an additional $6,000 in 2016, if permitted by the plan. Your plan may impose lower limits to ensure that it complies with nondiscrimination rules.

Yet, if you're over 50 and haven't started saving for retirement, even these large annual contributions may not be enough to reach your retirement goals. Here are five questions to help you decide whether your 401(k) plan is the only plan you'll need for retirement:

- **What kind of lifestyle do you want to fund in retirement?** You'll find general rules of thumb indicating you need anywhere from 70% to over 100% of your preretirement income during retirement. How much you'll need depends on your individual circumstances. For example, if your mortgage will be paid off and you plan to stay home and watch your grandchildren during retirement, 70% of your preretirement income may be sufficient. On the other hand, if you plan to travel extensively, 100% may be a better number.
- **How much can you count on from Social Security?** Social Security benefits were never designed as the sole source of

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Your Objectives

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return and lower the risk stocks posed. Over every 30-year period, stocks always made money. Why? Because the longer term gives stocks sufficient time to recover from downturns.

Objective: Retire Comfortably in 5–10 Years

While stocks have always made money over any 30-year period, over shorter time periods, returns were more volatile. No one knows that better than investors who were close to retirement when the financial system imploded in 2008. According to research by the Employee Benefits Research Institute, "many 401(k) participants near retirement had exceptionally high exposure to equities: Nearly 1 in 4 between ages 56–65 had more than 90% of their account balances in equities at year-end 2007, and more than 2 in 5 had more than 70%." Those investors suffered outsized losses as the stock market declined.

So as you get closer to retirement, it's important to move into less-risky investments — in other words, fewer stocks, more bonds and cash equivalents. (Though just as a long-term portfolio should not include only stocks, a shorter-term portfolio should not be completely devoid of stocks.) Increasingly prevalent are life-cycle or target-date funds, which automatically adjust a portfolio's asset allocation depending on the investor's age or years until retirement (typically, automatically shifting from stocks to bonds and cash as the investor ages and/or approaches retirement).

Objective: Generate Income

Many investors plan to use investment returns (and perhaps even withdraw principal) as income during retirement. Once you've reached that phase, your strategy should change again, different than the strategy you employed when you were 5–10 years from retirement. At this point, you'll have to balance the dual goals of generating enough returns so that your investments are not eroded by inflation and, at the same time, making withdrawals last for your lifetime. Inflation varies, but plan for a rate of about 3% a year, meaning that your investments must generate at least 3% to maintain an even level of purchasing power.

If you're going to also be drawing down the principal of your investments (rather than using just the returns), how much can you withdraw? The answer, of course, depends on the size of your portfolio, your age, and how long you might live. ❍❍❍

Dos and Don'ts of Investing

Investing is a very involved process with lots of financial jargon that can be difficult for a layperson to interpret. With so many things to consider throughout the investment process, it helps to have guidance. Here is a list of do's and don'ts to remember whether you are a new investor or a seasoned veteran.

Do...rebalance — Review your portfolio annually to ensure your investments are in alignment with your strategy. You may need to make modifications based on economic or personal changes.

Don't...babysit your investment accounts — As long as you're invested, you will experience gains and losses. While it is important to evaluate and rebalance annually, babysitting your investments can only cause stress (and at the worst lead to rash decisions).

Do...what is best for you — Always make decisions based on your unique goals, comfort level, and financial portfolio. There are so many variables that should influence your investment decisions, and probably none of them are exactly the same as anyone else's.

Don't...do what everyone else is doing — Make investments because they make sense for you, not because everyone else is doing it. Herd mentality definitely applies to the market.

Do...invest for the long term — Investing long term gives your money time to grow in the market. Compounding interest is very powerful.

Don't...rush your investments — The market needs time to grow your money for you; let it. Of course, some investments are appropriately short term, but most of your investments should be in the market for the medium to long term.

Do...diversify — Allocate your funds among asset classes and asset class categories. This will give you a more balanced, stable portfolio, mitigating losses when downturns do occur.

Don't...put all your eggs in one basket — If you invest everything in only one place (in one asset class or asset class category), you risk suffering significant losses when that investment falls.

Do...set a strategy and stick to it — Once you have developed your investment strategy, every financial decision you make needs to reflect it. When events occur that affect your strategy, sit down and discuss options (that's a conversation you should have annually regardless of what has or hasn't changed in your financial situation).

Don't...make decisions out of emotion — When it comes to financial decisions, they should be made rationally based on informed analysis and according to your investment strategy. ❍❍❍

Is Your 401(k)?

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retirement income, but they still are a valuable source of income. Those with lower incomes will find that Social Security replaces a higher percentage of their preretirement income than those with higher incomes.

- ❍ **How much does your employer contribute to your 401(k) plan?** The $18,000 maximum contribution to your 401(k) plan does not include employer contributions. Employer-matching contributions vary by plan, but a typical match is 50 cents for every dollar contributed up to a maximum of 6% of your pay. However, in recent times, many employers have reduced or eliminated matching contributions. If your employer offers a match, make sure you take full advantage of it. A generous matching contribution can contribute substantially toward your retirement.
- ❍ **What are your average returns on your 401(k) investments?** You can only choose from the investments offered by your 401(k) plan. But within those parameters, select investments that match the long-term nature of your investments and will help grow your retirement funds over time.
- ❍ **What other sources of income can you count on in retirement?** If you already have other retirement assets, you might not need to count as heavily on your 401(k) plan. Other potential sources of retirement income might include a defined-benefit pension plan, individual retirement accounts (IRAs), an inheritance, or other investments.

If you contribute the maximum possible to your 401(k) plan and still aren't sure you'll have enough for retirement, please call for a review. There are a variety of other options you can use for saving for retirement. ❍❍❍

Dealing with Bond Fluctuations

There are two primary factors that affect bond prices — interest rate changes and credit rating changes. Interest rate changes typically will cause a bond's value to fluctuate more than credit rating changes.

As interest rates rise, a bond's price adjusts down, while the bond's price will increase when rates decrease. Simply put, bond prices and interest rates move in opposite directions. Also, bonds with longer maturity dates are more vulnerable to interest rate changes, since the difference will impact the bond for a longer time period. One of the reasons longer-term bonds typically pay higher interest rates is because there is more risk that interest rates will change during the bond's life.

Credit ratings also influence a bond's price. When a bond is issued, rating agencies assign a rating to give investors an indication of the bond's investment quality and relative risk of default. Typically, higher-rated bonds pay a lower interest rate than lower-rated bonds. After the bond is issued, the rating agencies continue to monitor it, making changes if warranted. A bond's price tends to decline when a rating is downgraded and increase when a rating is upgraded. The price change brings the bond's yield in line with other bonds with similar ratings. However, these price changes are typically minor if the rating changes by only one notch. Certain downgrades are more significant, such as a downgrade that moves a bond from an investment-grade to a speculative rating, a downgrade of more than one notch, and a series of downgrades over a short period of time. In those situations, you should review whether you want to continue to hold the bond.

If you want to minimize the risk of price fluctuations, consider these tips:

- ❍ If you hold a bond to maturity, you receive the full principal value, so you won't be affected by any price fluctuations. Thus, consider purchasing bonds with maturity dates that match when you will need your principal.
- ❍ Consider investing in bonds with shorter-term maturities, which are less susceptible to interest rate changes.
- ❍ Design your bond portfolio using a ladder so you will have bonds coming due every year or so. This strategy typically lessens the effects of interest rate changes. Since the bonds are held to maturity, changing interest rates won't result in a gain or loss from a sale. The bonds are maturing every year or two, so your principal is reinvested over a period of time instead of in one lump sum. If interest rates rise, you have principal coming due every year or so to reinvest at higher rates. In a declining interest rate environment, you have some funds in longer-term bonds with higher interest rates. A bond ladder keeps your bond portfolio invested in a range of maturity dates, evening out your interest income over time.
- ❍ Choose bonds that match your risk tolerance. Safer bonds, such as U.S. Treasury bonds or investment-grade corporate bonds, are less susceptible to credit rating risks. ❍❍❍

FINANCIAL DATA

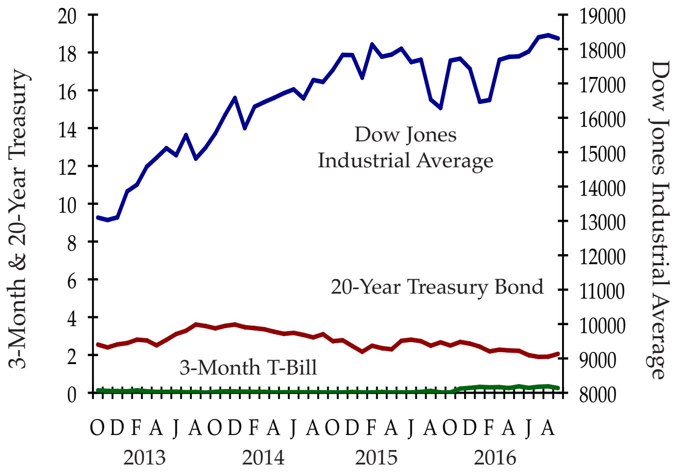
Indicator	Jul-16	Aug-16	Sep-16	Dec-15	Sep-15
	Month-end				
Prime rate	3.50	3.50	3.50	3.50	3.25
Money market rate	0.26	0.27	0.28	0.27	0.29
3-month T-bill yield	0.32	0.34	0.25	0.26	0.02
20-year T-bond yield	1.90	1.91	2.06	2.60	2.67
Dow Jones Corp.	2.54	2.51	2.57	3.43	3.26
30-year fixed mortgage	2.83	2.88	2.85	3.58	3.47
GDP (adj. annual rate)#	+1.40	+0.80	+1.40	+1.40	+3.90

Indicator	Month-end			% Change	
	Jul-16	Aug-16	Sep-16	YTD	12 Mon.
Dow Jones Industrials	18432.24	18400.88	18308.15	5.1%	12.4%
Standard & Poor's 500	2173.60	2170.95	2168.27	6.1%	12.9%
Nasdaq Composite	5162.13	5213.22	5312.00	6.1%	15.0%
Gold	1342.00	1309.25	1322.50	24.5%	18.7%
Consumer price index@	241.00	240.60	240.90	1.5%	1.1%
Unemployment rate@	4.90	4.90	4.90	-2.0%	-3.9%
Index of leading ind.@	123.80	124.30	124.10	-0.4%	0.5%

— 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 2012 TO SEPTEMBER 2016



Past performance is not a guarantee of future results.

NEWS AND ANNOUNCEMENTS

HOW MUCH OF YOUR PORTFOLIO SHOULD BE INVESTED IN STOCKS?

One of the most often asked questions is how much of a person's portfolio should be made up of stocks. It's a good question and one that doesn't always have a clear-cut answer. The amount of stocks you should have in your portfolio will vary depending upon a number of different factors, including your age, current net worth, and penchant for taking risks. Still, there are a few basic rules of thumb that are worth adhering to, which should make fleshing out your portfolio less stressful.

If you're saving for retirement, most financial advisors will recommend that the younger you are, the more of your portfolio should be allocated to stocks. As stocks are a relatively risky and volatile form of investment, this makes perfect sense. When we're young, taking risks tends to come along with less-catastrophic consequences than when we're nearing retirement age. If formulas work for you, the general idea is to subtract your age from the number 100 to wind up with a safe percentage of stocks versus other investments. Thirty-year-olds, for example, will often do well by allotting 70% of their portfolios to stocks, while 60-year-olds may want to reduce this percentage to 40%.

Of course, age is just one factor that influences portfolio allocations, and there are more aspects that need to be taken into consideration to make the right decisions. The best way to ensure your portfolio is properly divided is to work with a financial advisor who is fully aware of your situation and can make educated suggestions about how to move forward with your investments. After all, a formula can only get you so far, and personal recommendations will always be more valuable than guesswork.

Please call if you'd like to discuss stocks and portfolio allocation in more detail. ❍❍❍

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