In This Issue...

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The Bulldog Bulletin

4TH QUARTER 2014

Your Financial Road Map

Are you making progress toward your financial goals? Are your finances in order? Are you prepared for a financial emergency? If you're not sure, take time to thoroughly assess your finances so you have a road map for your financial life:

Assess Your Financial Situation

Evaluating where you currently stand financially will help you determine how much progress you are making toward your financial goals. There are several items to consider:

- **Your net worth** — Prepare a net worth statement, which basically lists your assets and liabilities, with the difference representing your net worth. Prepared at least annually, it can help you assess how much financial progress you are making. Ideally, your net worth should be growing by several percentage points over inflation.
- **Your spending** — Next, prepare a cash flow statement, detailing your income and expenditures for the past year. Are you happy with the way you spent your income? You may be surprised by the amount spent on nonessential items like dining out, entertainment, clothing, and vacations. This awareness may be enough to change your spending patterns. But more likely, you will need to prepare a budget to help guide your future spending.
- **Your debt** — Debt can be a serious impediment to achieving your financial goals. To assess how burdensome your debt is, divide your monthly debt payment, excluding your mortgage, by your monthly net income. This debt ratio should not exceed 10% to 15% of your net income, with many lenders viewing 20% as the maximum. If you are in the upper limits or are uncomfortable with your debt level, take active steps to reduce your debt or at least lower the interest rates on that debt.

Increase Your Savings

Calculate how much you are saving as a percentage of your income. Is it enough to fund your

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What Is a Reasonable Rate of Return?

The assumed rate of return used in your investment program will determine how much you need to save to reach your financial goals and how much you can withdraw annually from your portfolio after retirement. Use a rate that is too high and you may not accumulate the amount you need or be able to withdraw enough during retirement. But what is a reasonable long-term rate of return?

Typically, the assumed rate of return for an investment program is the average annual return for some historical period. Data is readily available going back as far as 1926. Consider the following points when deciding on an assumed long-term rate of return:

- When selecting what historical period to consider, keep in mind that returns can vary substantially over different time periods. As a starting point, you may want to consider average returns for the period from 1926 to present, making adjustments from there.
- Understand the difference between arithmetic and geometric returns. For the period from 1926 to 2012, the arithmetic average annual return for the Standard &

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Road Map

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future financial goals? If not, go back to your spending analysis and look for ways to reduce expenditures. That may mean reassessing your lifestyle choices, since you need to live below your means to find money to save. Commit to saving more immediately and then take steps to make that commitment a reality. For instance, you may decide to increase your saving by $25 per week through your 401(k) plan at work. To do that, you may need to forego your daily stop for coffee and a snack, cut back on how often you dine out for dinner, and reduce your monthly clothing allowance. Not sure it's worth that much sacrifice to save $25 a week? After 20 years, that weekly $25 savings could grow to $63,811 at an 8% annual rate of return, before the payment of any income taxes. *(This example is provided for illustrative purposes only and is not intended to project the performance of a specific investment.)*

Rebalance Your Investments

At least annually, thoroughly analyze your investment portfolio:

- Review each investment in your portfolio, ensuring that it is still appropriate for your situation.
- Calculate what percentage of your total portfolio each asset type represents, compare this allocation to your target allocation, and then decide if changes are needed.
- Compare the performance of each component of your portfolio to an appropriate benchmark to identify investments that may need to be changed or monitored more closely.
- Finally, calculate your overall rate of return and compare it to the return you estimated when setting up your investment program. If your actual return is less than your targeted return, you may need to increase the amount you are saving, invest in alternatives with higher return potential, or settle for less money in the future.

Organizing Your Estate

Estate planning is an ongoing process that rightly entails careful recordkeeping, review, and updates for the rest of your life to keep up with changes in the markets, laws, and your family. When you've finished creating the plan, the next step is to make it possible for your survivors to activate it easily and confidently when the time comes. And that means organizing your estate so all those documents are readily available.

This is not merely a matter of sparing your spouse needless energy and anxiety. It can also mean preventing the loss of a significant amount of money from your estate. According to the National Association of Unclaimed Property Administrator, as of July 20, 2011, state treasurers held *$32.9 billion* in unclaimed accounts and other assets.

While it isn't necessary or even desirable to keep every piece of paper documenting your financial life, keeping the most important documents well organized can save significant time for settling your estate.

Recognize that it's not just the estate documents you've created that you have to organize. It's also a wide array of documents that serve as proof of purchase and ownership of your assets and document your and your spouse's key life events. One of the best ways to organize them all is to collect them by category and create another master document that explains what they are, where they are, the first steps your spouse needs to take to get the settlement of your estate started, and contact information for all the important advisers he/she needs to connect with.

After collecting all appropriate documents by category, put them in a separate, labeled file folder, binder, or envelope for each category, and store them in a place that protects them from fire and water — either a home safe or a safe deposit box at a bank. ❍❍❍

Prepare for Financial Emergencies

To make sure you and your family are protected in case of an emergency, set up:

- A reserve fund covering several months of living expenses. The exact amount you'll need depends on your age, health, job outlook, and borrowing capacity.
- Insurance to cover catastrophes. At a minimum, review your coverage for life, medical, homeowners, auto, disability income, and personal liability insurance. Over time, your insurance needs are likely to change, so you may find yourself with too much or too little insurance.

Review Your Estate Plan

Due to significant tax law changes recently, take a fresh look at your estate planning documents. Even if the increases in exemption amounts mean that your estate won't be subject to estate taxes, there are still reasons to plan your estate. You probably still need a will to provide for the distribution of your estate and to name guardians for minor children. You should also consider a durable power of attorney, which designates someone to control your financial affairs if you become incapacitated, and a health care proxy, which delegates health care decisions to someone else when you are unable to make those decisions.

If you'd like help evaluating your finances, please call. ❍❍❍

Rate of Return

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Poor's 500 (S&P 500) was 11.8%, while the geometric average return was 9.8%.* The arithmetic average is a simple average of the sum of each annual return divided by the number of years used. The geometric return calculates the return earned over the years, calculating the change in value over a specified period. Typically, the geometric return will be equal to or lower than the arithmetic return.

- ❍ Don't forget to factor in inflation. You will need a higher amount at that future date for the same purchasing power. From 1926 to 2012, inflation has averaged 3% annually.*
- ❍ Returns tend to regress to the mean. There is a tendency for the stock market, when it has had above- or below-average returns for an extended period, to revert back to the average. So, following an extended period of above-average returns, it is possible that the market may go through a period of below-average returns.
- ❍ Use conservative estimates. When deciding between a lower or higher expected return, it is usually more prudent to use the lower return. While a higher return means that you will need to save less annually, you run the risk of not meeting your savings goals if actual returns are lower. If you save too much, you can always reduce your savings in later years or spend more in retirement. The alternatives are far less attractive if you don't have enough money saved.

So what is a reasonable long-term rate of return to use in investment programs? Starting out with the average geometric return (since this is more conservative than the arithmetic return) from 1926 to 2012 of 9.8% and subtracting the long-term inflation rate of 3% would result in a return of 6.8%. You may even want to use a more conservative return than that if you feel the stock market may go through an extended period of below-average returns. If you'd like to discuss this in more detail, please call. ❍❍❍

* The S&P 500 is an unmanaged index generally considered representative of the U.S. stock market. Investors cannot invest directly in an index. Past performance is not a guarantee of future returns. Returns presented are for illustrative purposes only and are not intended to project the performance of any specific investment vehicle. Source: *Stocks, Bonds, Bills, and Inflation 2013 Yearbook*.

Buying a Second Home?

For many Americans, owning a vacation home is a long-held dream. If it's one of your dreams, consider these five factors before you decide to purchase.

1. Where will the mortgage money come from? Your first financial priority, after meeting your living expenses, should be to build up a rainy day savings of 3–6 months of living expenses and then to fully fund your retirement accounts. If you've met those goals, weigh your desire for a second home against the other things you'd like to spend money on.

2. What is the true, total cost of second home ownership? The costs associated with owning a home go far beyond just the mortgage principal and interest payment. You'll also have to consider mortgage closing costs, state and local property taxes, homeowners insurance, private mortgage insurance, homeowners association dues, maintenance, utilities, home security, and furnishings. At the same time, there can be substantial financial benefits to owning a second home, including tax deductions for mortgage interest, property tax, and other homeownership- related expenses.

3. How does the cost of owning a vacation home compare to the cost of renting a vacation property? Many people who buy a second home do so in a place that they visit frequently. It's important to consider how often you would actually use the vacation home. For many people, the total cost of owning a second home is much more than renting a home or staying in a hotel every visit.

4. Will you use the second home as a source of income? Since 1987, the average annual home price increase was 2.8%, just a hair above inflation. So as a pure investment, a second home probably doesn't make sense. However, if your plan is to use the home when you vacation or rent it as a source of income, it can make sense to buy.

If you plan to use your second home as a source of income by renting it out, the tax implications may be different than if the home is just a vacation home. Explore those implications with your tax advisor. Also, it's important to research the rental market in the area you're considering.

5. What are prices like in the market(s) you're considering? Trying to assess whether a home is undervalued or overvalued is difficult. But by researching price trends in the market(s) you're considering, you can get a sense of whether homes are under or over price trends. If they're over, now might not be the best time to buy; if prices are below trend, you might be able to get a good deal. ❍❍❍

FINANCIAL DATA

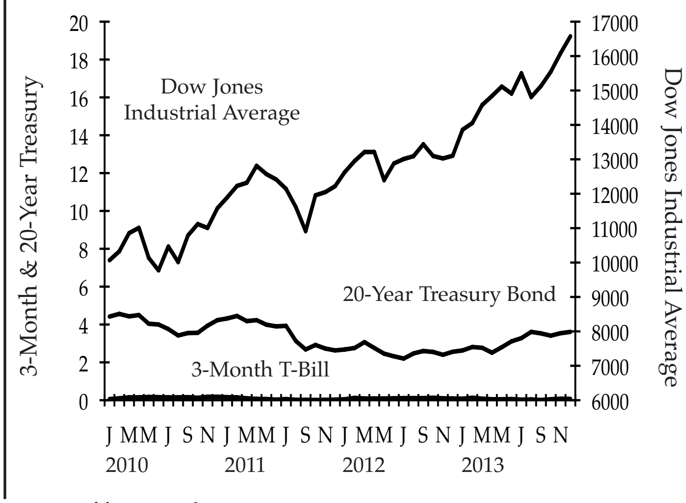
Indicator	Month-end Oct-13	Nov-13	Dec-13	Dec-12	Dec-11
Prime rate	3.25	3.25	3.25	3.25	3.25
Money market rate	0.42	0.42	0.43	0.51	0.49
3-month T-bill yield	0.05	0.08	0.07	0.09	0.03
20-year T-bond yield	3.41	3.54	3.61	2.56	2.63
Dow Jones Corp.	2.98	2.99	3.11	2.70	3.74
30-year fixed mortgage	3.73	3.96	4.21	2.81	3.42
GDP (adj. annual rate)#	+1.10	+2.50	+4.10	+0.40	+3.00

Indicator	Month-end Oct-13	Nov-13	Dec-13	% Change YTD	12 Mon.
Dow Jones Industrials	15545.75	16086.41	16576.66	26.5%	7.3%
Standard & Poor's 500	1756.54	1805.81	1848.36	29.6%	13.4%
Nasdaq Composite	3919.71	4059.89	4176.59	38.3%	15.9%
Gold	1324.00	1245.00	1201.50	-27.7%	5.9%
Consumer price index@	234.10	233.50	233.10	1.3%	1.8%
Unemployment rate@	7.20	7.30	7.00	-10.3%	-10.3%
Index of leading ind.@	97.30	97.50	98.30	5.2%	-20.4%

\# — 1st, 2nd, 3rd quarter @ — Aug, Sep, Oct Sources: *Barron's, Wall Street Journal*

4-YEAR SUMMARY OF DOW JONES INDUSTRIAL AVERAGE, 3-MONTH T-BILL & 20-YEAR TREASURY BOND YIELD

JANUARY 2010 TO DECEMBER 2013



Past performance is not a guarantee of future results.

NEWS AND ANNOUNCEMENTS

CONTRIBUTING TO SPOUSAL IRAS

A spousal individual retirement account (IRA) allows a nonworking spouse to contribute to an IRA, even though the spouse has little or no earned income. Here are the basics:

- To be eligible to contribute, the couple must be legally married at tax year-end and file taxes jointly. The couple's combined earned income must equal or exceed the combined IRA contribution.
- Contributions can be made to traditional IRAs as long as the owner is under age 70½, while there is no age limit for Roth IRAs.
- In 2013 and 2014, the maximum contribution to an IRA is \$5,500, with an additional \$1,000 catch-up contribution for individuals age 50 and over.
- For traditional IRAs, if the working spouse is covered by a qualified retirement plan but the nonworking spouse is not, the contribution for the nonworking spouse is phased out once adjusted gross income (AGI) is between \$178,000 and \$188,000 in 2013 (\$181,000 and \$191,000 in 2014) and totally phased out once income exceeds \$188,000. If you both have earned income equal to at least the maximum IRA contribution amount and are both covered by a qualified retirement plan, your contribution is phased out at joint AGI between \$95,000 and \$115,000 in 2013 (\$96,000 and \$116,000 in 2014). If neither of you is covered by a qualified plan, both of you can make a deductible contribution regardless of your AGI.
- For Roth IRAs, eligibility is phased out for AGI levels between \$178,000 and \$188,000 in 2013 (\$181,000 and \$191,000 in 2014). It doesn't matter if your spouse is covered by a qualified retirement plan at work.

Contributing to a spouse's IRA may be as beneficial to the working spouse as to the nonworking spouse, since the assets are likely to be shared during retirement. Please call if you'd like to review whether you or your spouse is eligible to contribute to a spousal IRA. ❍❍❍

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