RB Capital Management, LLC

986 W. Alluvial, Suite 101
Fresno, CA 93711
(559) 432-6100
(559) 432-6110 Fax
rob@rbcapitalmanagement.com
www.rbcapitalmanagement.com

Rob Ballan
Portfolio Manager

The Bulldog Bulletin

4th Quarter 2015

Review Your Asset Allocation

You should reassess your asset allocation periodically. To do so, follow these steps:

1. **Review your desired asset allocation percentages.** When designing your investment strategy, you probably decided what percentage of your portfolio to allocate to different investments. Review those percentages to see if they still make sense for your situation. Over time, how much you want to allocate to different asset classes will probably change as your personal circumstances change. However, don't make significant changes as a result of discomfort over market fluctuations. First, reevaluate these factors:

❍ **Risk tolerance** — Carefully assess your tolerance for risk so that you invest in assets you are comfortable with.

❍ **Return expectations** — You need to set realistic return expectations for various investments to help assure you meet your investment goals. While past performance is not a guarantee of future results, reviewing historical rates of return can help you assess whether your return expectations are reasonable. Keep in mind that higher returns are generally accompanied by higher risk.

❍ **Time horizon** — The longer your investment period, the more risk you can typically tolerate. Investing for long periods through different market cycles generally reduces the risk of receiving a lower return than expected, especially with investments that can fluctuate significantly over the short term.

❍ **Investment preferences** — With such a wide variety of investments to choose from, you should understand the basics of each to decide which are appropriate for you.

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How Much Do You Really Need to Retire?

There are a lot of reasons people don't save for retirement or don't save enough. They feel they don't make enough, they have more immediate financial needs, or they're not sure how to get started. One other reason? People aren't sure how much they need to save, which can make it hard to get started. After all, if you don't have a clear destination in mind and a plan for reaching that destination, getting started is hard. In fact, only 44% of people have even attempted to calculate how much they might need to save for retirement, according to the 2014 Retirement Confidence Survey.

Unfortunately, there's not a magic retirement number that applies to every single person. We're all different, and we all have different retirement needs. There are a variety of ways to estimate how much you might need to enjoy a secure retirement. We'll review a few of them below.

The Goal: $1 Million

When it comes to retirement savings goals, people often fixate on one number: $1 million. Why? It's a nice round figure and it seems like a lot of money. After all, who wouldn't want to be a millionaire?

One million dollars isn't a bad place to start as far as retirement savings goals go. But the problem is that it isn't calibrated to your particular needs. A $1 million portfolio translates into an income of about $40,000 a year over a 30-year retirement. That, combined with income from Social Security, could mean a

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Asset Allocation

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In general, you should consider a more conservative allocation if you are older, have short-term needs for your funds, have low earnings, or are uncomfortable with investing. A more aggressive allocation may be appropriate if you have high earnings, are younger, do not need your funds for many years, or are an experienced investor.

2. Determine your portfolio's current allocation. You should consider all your investments, including taxable accounts, individual retirement accounts, and retirement plans at work.

3. Determine how much variation you are willing to tolerate in your asset allocation. It's unlikely that your actual asset allocation will equal your desired asset allocation, due to varying market values and rates of return. Since it is difficult to maintain precise asset allocation percentages, decide how much variation you will tolerate. For example, you may monitor your portfolio more closely if an asset class varies by 5% of your desired allocation and rebalance when it varies by 10%.

4. Decide how to move your portfolio closer to your desired asset allocation. If you have not reassessed your asset allocation for a while, you may find that significant changes are needed to get your allocation back in line. However, you may not want to make drastic changes all at once. Instead, you may want to take a more gradual approach to shifting your asset allocation. For instance, you can make new investments in assets that are underweighted in your portfolio. Periodic interest, dividends, or capital gains distributions can be redirected to other asset classes rather than reinvested in the same asset. Any withdrawals can come from overweighted asset classes.

Please call if you'd like help evaluating your asset allocation. ❍❍❍

Converting to a Roth IRA

Roth IRAs are a valuable retirement planning tool, as they offer a source of tax-free income after you retire. And since the federal government relaxed conversion rules in 2010, even high-income earners have been able convert to Roth IRAs. But despite some advantages, Roth IRA conversions aren't right for everyone.

What Is a Roth IRA Conversion?

In simplest terms, a Roth conversion involves changing the tax treatment of your retirement savings. Generally, contributions to a traditional IRA are tax deductible in the year you make them (contributions may be allowed but not deductible if your income exceeds certain limits). The money you contribute grows over time; and when you start making withdrawals in retirement, you pay taxes on the money you take out.

On the other hand, contributions to Roth IRAs aren't tax deductible in the year they are made. But earnings grow tax free; and when you withdraw the money, you don't pay any federal income taxes. A Roth IRA conversion involves taking funds from a traditional IRA, paying tax on any previously untaxed funds, and then putting the funds in a Roth IRA so that you can have tax-free income in retirement.

Roth IRA Conversion Pros

For anyone who suspects they may be in a higher tax bracket in retirement, converting to a Roth IRA may be appealing. Roth IRA conversions may also be a smart move if the value of your IRA has recently dropped because you'll pay less tax on the conversion, or if you have other deductions or credits you can claim to help offset the tax on the converted amount. If you're young and in a relatively low tax bracket, Roth IRAs are also advantageous since you won't get much of a tax break from current deductible contributions, and your taxes are likely to be higher in the future.

People who have significant assets may also use Roth IRA conversions as an estate-planning tool. If your other assets will be sufficient for your retirement income needs and you don't anticipate a need to make withdrawals from your Roth IRA during your lifetime, you may want to use it as a way to leave tax-free income to your heirs. Since there are no required minimum distributions from a Roth IRA, the money can grow undisturbed during your lifetime, plus the distributions to your heirs should be free of income tax.

Roth IRA Conversion Cons

When is it not a good idea to convert to a Roth IRA? If the steep tax bill required for converting makes you squirm, a Roth IRA conversion may not be for you. After all, if you're in the 28% tax bracket and convert a $100,000 IRA, you'll owe $28,000 in taxes. Most experts also recommend using cash to pay the tax on conversion to avoid depleting your retirement savings. Paying the taxes with cash is especially critical if you are under age 59½, since using money from your IRA to pay the tax will result in a 10% penalty on the amount that's not rolled over into the Roth IRA. Likewise, if you plan on spending the Roth funds early on in retirement (within five years of the conversion), you may not have enough time for earnings in the Roth to make up for taxes paid on the conversion.

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

How Much?

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comfortable or strained retirement budget, depending on your lifestyle. If your expenses are modest and you live in a relatively inexpensive area, that $1 million portfolio could be more than adequate (some people may even be happy living on less). But if you live in a big city, are still paying your mortgage, or want to travel a lot, you may not have enough. To really plan for retirement, you need a more specific number.

The Goal: Replace 70% to 80% of Your Preretirement Income

Retirement planning experts often talk about income replacement rates. In simple terms, this is the percentage of your preretirement income you would need to maintain roughly the same standard of living you had before retirement. The rule of thumb is that most people will need between 70% and 80% of their preretirement income. This estimate is based on the idea that your expenses will shrink once you stop working — you'll spend less on transportation and eliminate 401(k) contributions, for example — so you'll need less money day-to-day.

That sounds reasonable on the surface, but many retirees find that their expenses don't actually decrease when they retire. In fact, they may even grow. Freed from the 9-to-5 grind but still feeling energetic and healthy, many people use the early years of retirement to indulge in all the fun activities they put off while working and raising a family. These people may need to plan on replacing 100% or more of their preretirement income. One other thing to keep in mind: Lower-income people tend to need a replacement rate that's closer to 100%, since they usually have fewer areas where they can cut spending.

The Goal: Save 10% to 15% of Your Current Income

Often, you'll see recommendations to save somewhere between 10% and 15% of your income for retirement. That's not a random number. Researchers from Boston College's Center for Retirement Research found that saving 10% of income starting at age 25 meant that a person could retire at age 65 with a 70% replacement rate. Start saving later, and you'll need to save more — wait until age 45, and you'll need to set aside more than a quarter of your income. That's just not realistic for most people. If you're young and not sure about what your retirement lifestyle will really look like, give yourself a solid foundation by setting a saving target in the 10% to 15% range. That will position you for success.

The Goal: Your Personal Retirement Number

Rules of thumb are just that — rules of thumb. You'll see a lot of them out there. But the important thing is to use those numbers as a guide to develop your own personal retirement number, which should consider how you want to live, where you want to travel, your health, how much you want to leave to your children and charity, and more. Along with details about your current savings, you can reach a target retirement number that is achievable *and* will allow you to live the lifestyle you want.

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

Bonds and Interest Rate Changes

With interest rates at such low levels, you might be wondering what could happen to your bond portfolio if interest rates rise. Basically, interest rate changes affect bond prices as follows:

- **Interest rates and bond prices move in opposite directions.** The price of a bond will decrease in value when interest rates rise and increase in value when interest rates fall. The price of an existing bond changes to provide the same return as an equivalent, newly issued bond at prevailing interest rates. If interest rates are higher than the rate on an existing bond, that bond becomes less valuable because of the lower interest payments, causing the price to decrease. Since you'll receive the full principal value at maturity, holding a bond until maturity eliminates the impact of interest rate changes.
- **Interest rate changes have a more dramatic effect on bonds with longer maturities.** Since long-term bonds have a longer stream of interest payments that don't match current interest rates, their prices must change more to compensate for those interest rate changes.
- **Bond price changes are less significant for bonds with higher coupon rates.** Bonds with coupon interest rates near or above current interest rates will experience the least amount of price fluctuation.

By understanding the effects of interest rate changes on bond prices, you can make more informed decisions regarding your bond portfolio. Please call if you would like help with your bond portfolio. ❍❍❍

FR2015-0811-0002

FINANCIAL DATA

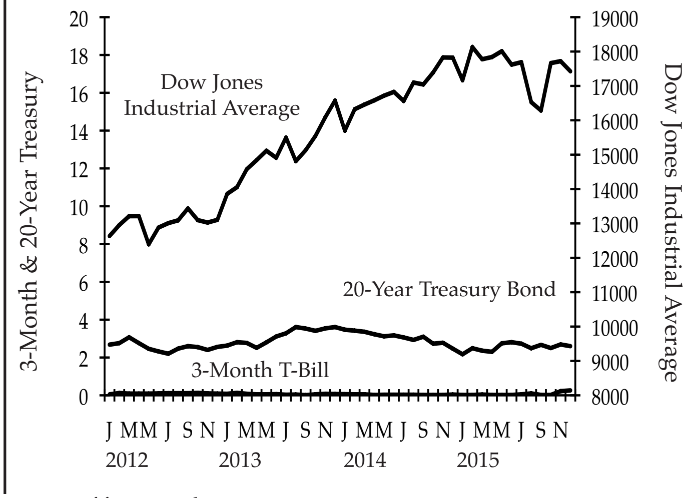
Indicator	Month-end Oct-15	Nov-15	Dec-15	Dec-14	Dec-13
Prime rate	3.25	3.25	3.50	3.25	3.25
Money market rate	0.30	0.28	0.27	0.43	0.43
3-month T-bill yield	0.02	0.22	0.26	0.04	0.07
20-year T-bond yield	2.50	2.69	2.60	2.47	3.61
Dow Jones Corp.	3.30	3.37	3.43	3.08	3.11
30-year fixed mortgage	3.43	3.54	3.58	3.47	4.21
GDP (adj. annual rate)#	+0.60	+3.90	+2.00	+2.20	+2.60

Indicator	Month-end Oct-15	Nov-15	Dec-15	% Change 2015	2014
Dow Jones Industrials	17663.54	17719.92	17425.03	-2.2%	7.5%
Standard & Poor's 500	2079.36	2080.41	2043.94	-0.7%	11.4%
Nasdaq Composite	5053.75	5108.67	5007.41	5.7%	13.4%
Gold	1142.35	1061.90	1062.25	-11.4%	-0.2%
Consumer price index@	237.90	237.80	237.30	0.5%	1.3%
Unemployment rate@	5.10	5.00	5.00	-13.8%	-17.1%
Index of leading ind.@	123.30	124.10	124.60	3.4%	21.3%

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

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

JANUARY 2012 TO DECEMBER 2015



Past performance is not a guarantee of future results.

NEWS AND ANNOUNCEMENTS

PROTECT YOUR 401(K) PLAN WITH ANNUAL REVIEWS

Reviewing your 401(k) plan on an annual basis helps you make sure your plan is on the proper course. Here are three steps to use when reviewing your plan:

❍ **CONSIDER YOUR GOALS** — Keep your financial goals in mind as you review your 401(k) plan. Have you experienced life changes that affect your goals? Has your income or family situation changed? Do any of these changes require adjustments to your 401(k) plan?

❍ **CONSIDER YOUR CONTRIBUTIONS** — If your company offers matching contributions, one of the biggest mistakes you can make is not to contribute enough to take advantage of the full matching amount. As part of your review process, create a detailed annual budget and actively look for ways to contribute more income to your 401(k) plan. Or resolve to put any pay increases directly into your plan, before you find ways to spend the additional money.

❍ **CONSIDER REBALANCING** — Most 401(k) plans have a wide variety of investment options, so you should be able to broadly diversify your holdings. Don't invest too much in your company stock. Take a look at all of the plan's investment options, reviewing their historical performance. Compare that to your investments and decide whether any changes are needed. There are no tax consequences to making investment changes within your 401(k) plan.

Please call if you'd like help reviewing your 401(k) plan. ❍❍❍

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