Financial Perspectives

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The Value of a Financial Advisor

Mark P. Fellows
Senior Vice President
Regional Manager
Western & Florida Regions

6300 S. Syracuse St.
Suite 210
Greenwood Village, CO 80111

Telephone 303-770-6621
Toll Free 855-620-6621

A 2016 study by Northwestern Mutual found that 85% of adults in the United States feel financial anxiety – and the level of anxiety has gone up for more than a third of Americans over the past three years. Maybe all the anxiety is caused by our lack of success in this area. According to a Google Consumer survey, 62% of Americans have less than $1,000 in their savings accounts and around one fifth don't have a savings account.

If we do need financial help, does it have to be from a financial advisor? With all of the increased automation in recent years in the banking industry, many of us never set foot inside of a bank these days – so can't that carry over to all of your financial matters? Can you get all of your financial needs covered without having to talk to a human? The answer is no, you can't. Not if you want the job done right.

The decision to self-advise on your finances involves taking on a significant role and presents many challenges, notwithstanding recent technological advances. Even if you are somewhat knowledgeable about finances, you may not want to devote the time necessary to deal with this responsibility yourself. As pensions go the way of the dinosaur, we are more responsible for our own financial security and we are living longer, which increases that responsibility. Building financial security isn't a simple or short-term endeavor and the costs of making mistakes are significant and sometimes irreversible, with serious implications – like having to work longer or having to live a more simple lifestyle.

In addition, your life is changing all of the time and these changes have impacts on your finances. You may get married, support dependents, decide to go back to school or move to a different state. And life will probably also present you with unexpected events, like: divorce, death, sickness, job loss or disability. During these times, the last thing you want to have to worry about is your finances.

What can a financial advisor do for me?

A good financial advisor provides more than advice on whether to buy a mutual fund, stock or an exchange-traded fund. An advisor can help you get organized, prioritize your long-term goals and craft a tax-efficient savings plan. He or she can help determine if you can afford to buy that new boat or vacation home. An advisor can help you decide the best place from which to take income

and help prepare you for unexpected emergencies. An advisor can keep an eye on things when you are busy living your life, and can let you know when something needs to change. And most importantly, he or she can also give you peace of mind that your savings plan is on track and that you are doing what is necessary to meet your family's goals.

Can you use the internet as an alternative approach? The internet provides a vast array of free information, but the challenge is getting to the answer that is tailored to your circumstances. When you search for "retirement income" in Google, you'll get more than six million hits. Sorting through all that information can be intimidating. We are all unique, and that individuality demands personalized solutions and advice. The bottom line is that computers aren't good at handling all of the messy, complex times that life hands us, but financial advisors are.

The benefit of working with an advisor builds over time and has as much to do with avoiding bad mistakes as it does with encouraging good behavior. Is there evidence to support this? A 2014 study by Vanguard suggests something called advisor alpha.[1] The research indicated that an advisor can add around 3% in net returns through a robust value-add practice. This is outside of investment return and includes services like providing the client guidance on asset location, behavioral coaching, spending strategies and asset allocation. Another study by management consulting firm Oliver Wyman found that small businesses that work with an advisor are 50% more likely to set up a retirement plan.[2] Advised individuals have a minimum of 25% more in assets than non-advised individuals. The study found that these investors also have more diversified portfolios and make fewer mistakes. A separate study in 2011 by the Department of Labor suggests that those mistakes cost investors $114 billion annually.[3]

So, does the future of financial advice involve a financial advisor? How can it not? While it can take some time to find the right professional, it is worthwhile to build that relationship. Getting good advice doesn't have to involve regular office visits. It can be delivered via phone, e-mail or video. Finding a financial advisor you trust and committing the time to work with them is key to arming yourself with the expertise you need to achieve financial security.

[1] *"Putting a Value on Your Value: Quantifying Vanguard Advisor's Alpha." March 2014, Vanguard Research.*

[2] *"The role of financial advisors in the U.S. retirement market." 2015, Oliver Wyman.*

[3] *NERA Comments on the Department of Labor Proposal and Regulatory Impact Analysis; National Economic Research Associates (NERA), 2011.*

What is Your Long-term Care Plan?

According to the U.S. department of Health and Human Services, individuals who are aged 65 and older have a 70% chance of needing care at some point in their lives.[1] Also, it currently costs $102,930 annually for a private room in a nursing home in the United States, and those costs have risen 3.1% annually over the last 8 years.[2] These potential expenses can be devastating to a legacy and/or a spouse, so it's important to put a plan in place to address how you will protect your assets from this risk in retirement.

Traditional long-term care (LTC) insurance can provide valuable protection that will pay an income tax-free benefit to be used for care in a facility or for care in the home. However, these

products offer no cash value or death benefits (i.e. "use-it-or-lose-it"). As a result, if care is not needed prior to death, the premiums paid into the plan are lost. Most traditional LTC products have also imposed substantial price increases in recent years that have made these products less attractive than in the past. Consequently, many retirees and pre-retirees are forgoing coverage, and are using their own assets to self-insure. Individuals that decide to self-insure with their own assets may not fully understand the risks, assuming they will likely not need care, or they may underestimate what the costs would be if care is needed.

As an alternative to the "use-it-or-lose-it" aspect of traditional LTC insurance, and the uncertainty associated with self-insurance, the insurance industry has developed another type of protection to address long-term care risk. These contracts are called "asset based" or "hybrid" policies that combine long-term care (LTC) coverage with a life insurance or annuity contract. Subject to medical underwriting, these policies are often paid with a single lump-sum premium, and they offer an LTC benefit if facility or home care are needed, or a death benefit if care is not needed. In addition, some of these policies offer a return-of-premium feature, that allows the policy owner to have the original premium returned if he or she decides to cancel the coverage. By ensuring that a benefit will be paid (either LTC, death benefit, or cash) these additional features often make these types of products more attractive than traditional LTC insurance, for certain individuals.

It's important to have a plan in place to protect you and your family – and your legacy – from the potential high cost of care, so ask for an estimate of your potential LTC costs and an analysis of various long-term planning solutions for you and your family in retirement.

[1] *2013 U.S. Department of Health and Human Services, National Clearinghouse for Long-term Care Information*
[2] *John Hancock 2016 Cost of Long-term Care Survey.*

Two Types of Protection for Your Money

Whether you deposit money into a bank account (checking or savings) or you add to the investments in your brokerage account, you want to know that your assets are protected. Insurance coverages can't guard customers against market losses, but they do provide peace of mind knowing you'll be protected from the risk of failing financial institutions. As a refresher, let's take a look at the two major types you depend on – FDIC and SIPC.

The Federal Deposit Insurance Corporation is a government agency that protects customers against the loss of deposit accounts in FDIC-insured banks. The basic FDIC insurance limit is currently $250,000 per account holder per insured bank for deposit accounts, and $250,000 for certain retirement accounts deposited at an insured bank. It's worth noting these insurance limits include both principal and accrued interest. The FDIC does not insure money invested in stocks, bonds, mutual funds, life insurance policies, annuities, municipal securities, or money market funds – even if these investments were bought from an insured bank. But whether it's an emergency fund or just short-term cash, make sure you put your money in an FDIC-insured bank.

The FDIC insurance limit applies to each account holder at each bank. As an example, single accounts are deposit accounts (such as checking, or savings) owned by one person. FDIC insurance covers up to $250,000 per owner for all single accounts at each bank. Joint acounts are deposit accounts owned by two people, and FDIC insurance covers up to $250,000 per owner (or $500,000 total) for all joint accounts at each bank. Certain retirement accounts, such as IRAs and self-directed defined contribution plans, are covered by FDIC insurance up to $250,000 for all deposits in such retirement accounts at each bank.

The Securities Investor Protection Corporation is a nonprofit membership corporation that was created in 1970 by federal statute. Unike the FDIC, SIPC does not provide blanket coverage. It does, however, protect customers of SIPC-member broker-dealers if the firm fails financially. Coverage insures up to $500,000 per customer for all accounts at the same institution, and this includes a maximum of $250,000 for cash. SIPC does not protect investors if the value of their investments falls. Remember – market losses are a normal part of the risk of investing. But it's still good to know you have coverage for your investment funds.

You Can Donate Your Required Minimum Distributions to Charity

If you are age 70½ or older, you don't need the income from your IRA Required Minimum Distributions (RMDs), and charitable giving is important to you, you might benefit from donating your RMD to charity. Qualified Charitable Distributions (QCDs) are income tax-free and also satisfy your RMDs. Since QCDs aren't factored into your Adjusted Gross Income (AGI), they also won't impact the taxation of Social Security benefits or affect other deductions and credits on your tax return like regular RMDs can. Keep in mind, a distribution from your IRA is not a QCD unless all of these five key requirements are met:

1. **You must be 70½ or older** – If you reach 70½ in the later part of the year, you will need to wait before requesting your QCD; you must be 6 months past your 70th birthday to be eligible.

2. **Distributions from Employer-Sponsored Retirement Plans Don't Qualify** – Tax-free QCDs are limited to IRAs.[1] Plans like 401(k)s or 403(b)s, SEP-IRAs, SIMPLE IRAs, or other employer-sponsored retirement plans are not eligible.

3. **Direct Gifts Only** – The contribution to the qualified charity must be made directly from the IRA; you cannot make the gift on behalf of your IRA by having the distribution paid to you first.

4. **Most, But Not All Charities Qualify** – Public charities qualify; private foundations, charitable trusts and donor-advised funds do not.

5. **$100,000 Annual Limit** – No more than $100,000 per person can be withdrawn from your IRA (or IRAs if you have more than one) as a QCD each year.

Contact your tax advisor to see if a QCD will benefit you.

[1]QCDs may only be made from taxable amounts in your traditional or Roth IRAs. Because qualified distributions from Roth IRAs after 5 years and age 59 ½ are income tax free, QCDs from Roth IRAs would be limited to taxable earnings from non-qualified distributions for individuals older than age 70 ½. Therefore, traditional IRAs are typically the only source of QCDs.

Market Recap

Market Summary (As of August 31, 2017)

	Year-to-Date	Trailing 12-Months	3-Year Annualized	5-Year Annualized
DJIA	11.06%	19.28%	8.68%	10.89%
Nasdaq	19.42%	23.31%	11.96%	15.95%
Russell 2000	3.55%	13.34%	6.17%	11.59%
S&P 500	11.68%	14.99%	8.01%	11.05%

Sources: Benjamin F. Edwards & Co. and Bloomberg

	U.S. Treasury Yields
Two-year	1.34%
Five-Year	1.74%
10-year	2.16%
30-Year	2.78%

Source: Bloomberg (as of September 1, 2017)

U.S. Stocks

Performance of S&P 500: Index Price Returns
for Periods Ended August 31, 2017

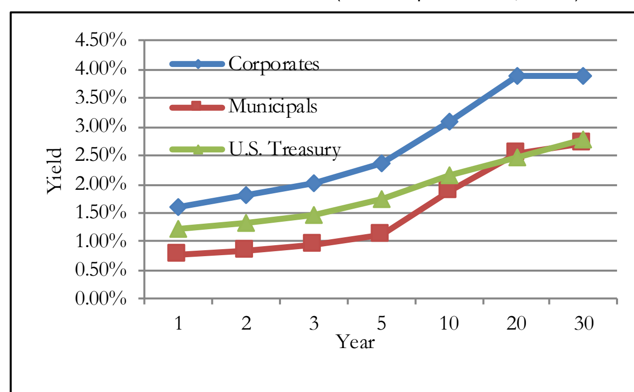
Sector	Weightings	Year-To-Date	Trailing 12-Months	Five-Year Annualized
Info. Technology	23.50%	25.27%	29.28%	15.67%
Health Care	14.70%	17.74%	11.80%	15.92%
Financials	14.20%	5.67%	23.67%	14.96%
Cons Discretionary	12.10%	9.93%	11.51%	14.67%
Industrials	10.10%	8.17%	14.96%	13.10%
Cons Staples	8.50%	5.65%	1.00%	8.95%
Energy	5.70%	-16.75%	-8.67%	-2.85%
Utilities	3.30%	12.34%	11.59%	8.63%
Real Estate	3.00%	6.70%	-0.75%	6.36%
Materials	2.90%	10.41%	13.24%	8.91%
Tele. Services	2.10%	-11.19%	-8.92%	0.72%

Ranked by highest to lowest index weightings; Weightings may not equal 100 due to rounding.
Source: S&P®

- Third quarter earnings will be one key determinant of market performance as we move into the final months of 2017. Zacks is estimating about 3.1% year-over-year earnings growth for the S&P 500 on an approximate 5.1% revenue gain. For full-year 2017, Zacks projects earnings for the S&P 500 may be up about 7.4% on revenues that are up about 4.6%. Technology, Energy, Construction and Conglomerates may post stronger earnings results, with Autos, Basic Materials, Aerospace and Transportation contributing lower numbers. The heaviest week of earnings reporting will be October 23.
- Gross Domestic Product, inflation and employment will be drivers for Federal Reserve monetary policy, interest rate and stimulus-reduction policies. Recently, the Fed announced plans to begin winding-down its massive $4.5 trillion portfolio of bonds and other assets. While the program is expected to begin in October, it is likely to be modified as it progresses depending on economic data and market reaction, as this is "unchartered territory" for Fed decision-making. The Fed's preferred inflation monitor – Personal Consumption Expenditures – remained near 1.6% recently, still below its 2.0% target. Actual GDP growth for the remainder of the year is likely to be impacted by Hurricanes Harvey and Irma and a recent consensus estimate of 2.9% for the third quarter could be lower. Looking ahead, and barring any additional unexpected events, estimates for 2018 GDP growth are around 2.4%. If the Fed raises interest rates by 0.25% one more time in 2017, short-term interest rates would then be in a range of 1.25% to 1.5% as we start 2018.

Fixed Income

Fixed Income Yield Curves (As of September 1, 2017)



Sources: Bloomberg, Bloomberg US Corporate (A) Fair Value Index, Thomson Reuters MMD,

- In June of 2017, the Federal Open Market Committee (FOMC) mentioned that they were looking at options and ways to reduce some of the holdings on the Federal Reserve balance sheet. At the FOMC meeting on September 20, the reduction became official with the announcement of a $10 billion monthly decrease, with the intention to accelerate the reduction over the next several months. The bond market will be watching these developments quite keenly over the next few months as the reduction ramps up.
- The municipal market continues to see a lot of demand, primarily in the short end of the market. When looking at the yield spread between the 2-year bond and 30-year bond in the muni market, that differential is 191 bps (bps = basis point; basis point is 1/100 of 1%). Conversely, the spread in the treasury market is 136 bps. Per the graph to the left, you see that the 30-year municipal and Treasury are yielding comparable yields; this information shows there is strong demand for short duration and capital preservation.

CONTRIBUTING AUTHORS Kortney Christensen; Executive Vice President, Director of Sales & Marketing | Byron Goodrich; Associate Vice President, Marketing Associate | Theresa Fry; Senior Vice President and Manager, IRAs and Retirement Planning | Dan Schulte; Vice President and Manager, Annuities and Insurance | Bruce Buerkle, CFA; Senior Vice President and Manager, Securities Research Support | Joel Wiesehan; Vice President and Manager, Fixed Income

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Diversification does not guarantee a profit or protect against loss.

Investing in securities entails certain risks, including the potential loss of all or a portion of the proceeds invested. Individuals should consider their specific financial needs, investment objectives and risk tolerance before making an investment.

Equity investments refer to buying stocks of U.S. companies as well as companies outside of the U.S. The market capitalization of U.S. companies is used to group large, medium (mid) and small companies. The investment return to the owner of stock (shareholder) is in the form of dividends and/or capital appreciation. Shareholders share in both the upside potential and the downside risk. Dividends are not guaranteed and are subject to change or elimination.

Mutual funds and ETFs are sold by prospectus. Investors should carefully consider investment objectives, risks, charges and expenses. This and other important information is contained in the fund prospectuses and summary prospectuses, which can be obtained from your financial consultant and should be read carefully before investing.

There are special risks associated with an investment in real estate, including credit risk, interest rate fluctuations and the impact of varied ecomonic conditions.Distributions from REIT investments are taxed at the owner's tax bracket.

An investment in a 529 plan will fluctuate such that an investor's shares when redeemed may be worth more or less than the original investment. Investors should carefully consider a 529 plan's investment objectives, risks, charges and expenses before investing. This and other important information can be found in the 529 plan issuer's official statement, which should be read carefully before investing.

The return of principal for bond funds and funds with significant underlying bond holdings is not guaranteed. Fund shares are subject to the same interest rate, inflation and credit risks associated with the underlying bond holdings. Lower rated bonds are subject to greater fluctuations in value and risk of loss of income and principal than higher rated bonds.

Bond prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can result in the decline of the value in your investment.

An index is not managed and is unavailable for direct investment. The Dow Jones Industrial Average (DJIA) is an index that shows how 30 large, publicly owned companies based in the United States have traded during a standard trading session in the stock market. The Nasdaq Composite Index measures over 5,000 NASDAQ domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market. The Russell 2000 is a stock-market index measuring the performance of 2000 small-capitalization stocks. The S&P 500 Index covers 500 industrial, utility, transportation and financial companies in the U.S. markets. S&P®, Standard & Poor's® and S&P 500® are registered trademarks of the Standard & Poor's Financial Services LLC.

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