Investor Insights and Outlook

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Rethinking Risk—Common Barometers for Measuring Portfolio Performance

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If you are researching new investment avenues, chances are "evaluating risk" tops your check-list. Financial experts have developed many methods for measuring risk, but beta and standard deviation are two of the most popular and useful options.

Beta calculates how much (or how little) an investment's price varies relative to a specific benchmark. For stocks, the S&P 500 is often used.[1] For bonds, it might be the Barclays U.S. Aggregate Bond Index.[2] The mechanics of beta are fairly simple: The benchmark is always assigned a risk rating of 1.0. So, if a stock has a beta of 1.1, for example, it has been 10% more volatile than the general market. If the market has a return of 10%, an investment with a beta of 1.1 would be expected to return 11%.

Similarly, if the market declines 10%, the investment would be expected to drop by 11%. Since it is calculated in relation to a benchmark, beta may provide a more accurate risk reading for specific asset classes and certain types of mutual funds than for individual securities.[3]

Standard deviation measures how much an investment's return fluctuates from its own longer-term average. Higher standard deviation typically indicates greater volatility -- but does not necessarily indicate a greater risk of loss. How so?

While standard deviation quantifies the variance of returns, it does not differentiate between gains and losses. Consistency of returns is what matters most. For example, if an investment declined 2% every month for a specified period of time, it would earn a seemingly positive standard deviation of zero. Alternatively, an investment that earned 8% one month and 12% the next would have a much higher standard deviation, but by most accounts it would be the preferable investment. The lesson to be learned? Greater volatility in and of itself is not necessarily a bad thing.

One of the key strengths of standard deviation and the reason it is the most commonly used risk barometer, is its universal applicability across asset classes and types of securities.

While understanding the role that risk plays in your portfolio is important, no amount of knowledge can eliminate risk entirely. That's why it is important to manage risk through diversification and other strategies.[4] Contact your financial professional to learn more about managing risk in your portfolio.

Source/Disclaimer:

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Advisor Corner

Thank you for the opportunity to serve as your advisor.

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Delaying Retirement May Provide the Financial Boost You Need

Americans are living longer, healthier lives, and this trend is affecting how they think about and plan for retirement. For instance, according to the Employee Benefit Research Institute, the age at which workers expect to retire has been rising slowly over the past couple of decades. In 1991, just 11% of workers expected to retire after age 65. Fast forward to 2014, and that percentage has tripled to 33% -- and 10% don't plan to retire at all.[1]

Working later in life can offer a number of advantages. Many people welcome the opportunity to extend an enjoyable career, maintain professional contacts, and continue to learn new skills.

A Financial Boost

In addition to personal rewards, the financial benefits can go a long way toward helping you live in comfort during your later years. For starters, staying on the job provides the opportunity to continue contributing to your employer-sponsored retirement plan. And if your employer allows you to make catch-up contributions, just a few extra years of saving through your workplace plan could give your retirement nest egg a considerable boost, as the table below indicates.

Delaying Distributions

In addition to enabling you to continue making contributions to your employer's plan, delaying retirement may allow you to put off taking distributions until you do hang up your hat. Typically, required minimum distributions (RMDs) are mandated when you reach age 70½, but your employer may permit you to delay withdrawals if you work past that age.

Keep in mind that if you have a traditional IRA, you are required to begin RMDs by age 70½, while a Roth IRA has no distribution requirements during the account holder's lifetime -- a feature that can prove very attractive to individuals who want to keep their IRA intact for a few added years of tax-deferred investment growth or for those who intend to pass the Roth IRA on to beneficiaries.

A Look at Social Security

Your retirement age also has a significant bearing on your Social Security benefit. Although most individuals are eligible for Social Security at age 62, taking benefits at this age permanently reduces your payout by 20% to 30% or more. Waiting until your full retirement age -- between 66 and 67 -- would allow you to claim your full unreduced benefit. And for each year past your full retirement age you wait to claim benefits, you earn a delayed retirement credit worth 8% annually up until age 70.[2] Consider researching your options to continue working past the traditional retirement age. By remaining on the job, your later years may be more secure financially and more rewarding personally.

Source/Disclaimer:

[1]Employee Benefit Research Institute, 2014 Retirement Confidence Survey, March 18, 2014.

[2]Social Security Administration. The benefit increase no longer applies when you reach age 70, even if you continue to delay taking benefits.

A Few Extra Years Could Add Up

Year	Maximum Annual Contribution	Catch-Up Contribution for Workers Age 50 and Older	Total Annual Contributions
2015	$18,000	$6,000	$24,000
2016-2020	Indexed to Inflation	Indexed to Inflation	$??,???

Defined Contribution Plan Trends: Sponsors Focused on Improving Participant Outcomes

Defined contribution (DC) plan sponsors are rethinking ways to improve investment offerings in an attempt to elevate retirement outcomes for plan participants. The Towers Watson 2014 U.S. Defined Contribution Sponsor Survey revealed a few key themes.

Improving Portfolio Diversification

Historically, DC investment options have leaned heavily toward single, stand-alone actively managed funds, each with a style and market-cap bias. Realizing the inefficiency in this siloed approach, 40% of plan sponsors acknowledged that combining several investment strategies together in a custom-built, diversified investment structure offered a more efficient approach to active management. For plan participants, such an approach could maximize their buying power and simplify investment selection by offering fewer, more diversified options that may lead to better long-term outcomes.

Assessing Custom TDFs

Plan sponsors are beginning to see the value in "thinking outside the glidepath" when it comes to their target-date fund offerings. They fully recognize the value of TDFs as default investments and the role they play in anchoring participant accounts. As a result, many want to have more control over the structure and implementation of their TDF offerings. The 2014 study found that 49% of plan sponsors see the value of featuring a custom TDF series. Of those, 22% have already implemented a custom TDF solution, while 27% are exploring the possibility of doing so.

Reevaluating TDF Selection Criteria

Interest in customization aside, plan sponsors' criteria for selecting TDFs currently are driven largely by standard investment metrics -- e.g., the glide path roll-down of equity exposure (71%), active versus passive management (47%), and portfolio construction (47%) -- rather than the more holistic assessments of how successful the TDF is at improving the retirement outcomes of plan participants as measured by improved income replacement ratios (12%) and retirement success rates under various drawdown scenarios (8%).

Outsourcing DC Plan Oversight

Recognizing a) the heightened complexity of investment approaches and governance requirements and b) the ever-increasing pressure to facilitate successful retirement outcomes for plan participants, a third of DC plan sponsors surveyed are currently taking advantage of outsourcing solutions or considering delegating all or a portion of their investment oversight to a third-party provider.

Considering Broader Investment Themes

When asked what types of investments/investment themes they are considering for the future, plan sponsors responded with a litany of options from expanding bond offerings and broadening equity exposure (to include more international and emerging markets opportunities), to inflation-protection offerings (e.g., diversified real return, Treasury inflation-protected securities, and real estate investment trusts) and lifetime income options, both in and out of plan. Plan sponsors were united in saying they would not be adding company stock to their plan lineups.

Source/Disclaimer:

Source: Towers Watson, "Plan Sponsors Raising the Bar: Investment Trend Highlights, 2014 U.S. Defined Contribution Sponsor Survey and Commentary," October 2014.

Hallett News

As April comes to a close so does our time with Stacey Mishler. Stacey will be leaving us to explore other opportunities as she continues her career in the financial services industry. Sulene Krause will continue to be your primary contact for all service needs. Feel free to call and ask for Sulene directly or email her at Sulene@hallettadvisors.us.

The ABLE Act: Helping Disabled Americans Save for the Future

Late last year President Obama signed into law legislation aimed at giving disabled Americans and their families the opportunity to save for education and other related expenses in a tax-friendly vehicle without jeopardizing their federal benefits.

What ABLE Offers

Modeled after 529 college savings plans, money invested in "Achieving a Better Life Experience" (ABLE) accounts can be withdrawn tax free to pay for qualified expenses including education and job training, transportation, health care, and housing.[1] Individuals can amass as much as $100,000 in such accounts without affecting their eligibility for Social Security Income (SSI) and other federal benefits. Further, Medicaid coverage will not be affected by how much money is accrued in an ABLE account.

This legislation marks a major departure from the financial constraints that -- up until now -- prevented people with disabilities from doing what the rest of us take for granted: setting aside money for future use. Prior to this law, to remain eligible for government assistance individuals had to report to the IRS any savings in excess of $2,000. (Assets placed in special needs trusts to be used for the benefit of the disabled person continue to be an exception, and do not disqualify that individual from receiving his or her government benefits.)

Not a Cure-All

Still, some restrictions apply. For instance, to qualify for an ABLE account, an individual must have experienced the onset of his or her disability prior to the age of 26. Each beneficiary can have only one account, and while there are no limits on how many family members and friends can contribute to the account, there are limits on how much can be contributed annually. For 2015, the total annual gifting limit allowed is $14,000, an amount that is adjusted for inflation each year. Any account accumulation totals in excess of $100,000 would trigger a suspension of the recipient's SSI benefits, but Medicaid benefits would continue.

States Must Get On Board

ABLE accounts can be set up starting this year, but as with 529 plans, individual states must take the lead in making them available to individuals and families. Some states, including California, Maryland, and Pennsylvania already have plans in the works.[2] Generally beneficiaries must belong to their home-state plan -- and spending of account assets can occur only in the individual's state of residence -- although exceptions (and individual state tax benefits) may apply.[2] If the ABLE account beneficiary dies, any funds remaining in the account may be claimed by the state to recoup expenses paid by Medicaid.

While the ABLE Act is by no means a cure-all, it does take a small, important step toward helping millions of disabled Americans live a more independent, fulfilling life.

Source/Disclaimer:

[1]Disability Scoop, "Obama Signs ABLE Act," December 22, 2014.

[2]AARP, "New 529 Plan Created for People With Disabilities," December 22, 2014.

Dealing With the Risk of Investing (continued from page 1)

[1]Investing in stocks involves risks, including loss of principal. Standard & Poor's Composite Index of 500 Stocks (the S&P 500) is an unmanaged index that is generally considered representative of the U.S. stock market. It is not possible to invest directly in an index. Past performance is not a guarantee of future results.

[2]Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and are subject to availability and change in price. The Barclays U.S. Aggregate Bond Index is considered representative of most U.S. traded investment grade bonds.

[3]Investing in mutual funds involves risk, including loss of principal. Mutual funds are offered and sold by prospectus only. You should carefully consider the investment objectives, risks, expenses and charges of the investment company before you invest. For more complete information about any mutual fund, including risks, charges and expenses, please contact your financial professional to obtain a prospectus. The prospectus contains this and other information. Read it carefully before you invest.

[4]There is no guarantee that a diversified portfolio will enhance overall returns or outperform a nondiversified portfolio. Diversification does not ensure against market risk.

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