Investor Insights and Outlook

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Let's Live 2016 Forwards

"Life can only be understood by looking backwards – but it must be lived forwards."
- Søren Kierkegaard

When I was (much) younger, I had a Magic 8 Ball. If you are old enough, you may remember these "fortune tellers." They were black, looked like the eight-ball used in pool, and had a display window on the bottom that promised to answer your questions and thus tell your fortune.

I always asked if I would get to kiss the girl I liked. Every time, the reply was "No, but don't give up!" *

This is the time of year for reflection: "How did we do in 2015?" and for expectation: "What will happen in 2016?"

The broad financial markets, using the S&P 500 Index as a measurement, finished about 1% below its value at the start of the year. For the first time in years, the Federal Reserve raised its interest rate (from zero to 0.25%). Market volatility made a comeback and the (long) presidential election campaign got underway (did it ever go away?).

What about 2016? As economist Brian Wesbury recently noted, "The intricacies of the religious, political, military and historical events taking place are enough to give any normal person a headache." Some might be inclined to stay in bed, pull the covers up, and wait this year out.

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Focus on the Forest, Not the Trees, of Investing

It's a message worth repeating. Investing is a matter of focus. Despite recent disappointments in stock market performance, investors who are willing to assess the whole universe of investment choices may find that the market continues to offer new possibilities. And those who keep their sights set on long-term investment goals may find that a "forest, not trees" approach to investing offers the greatest potential for success.

Focus is especially important for retirement savers -- those who are still in the accumulation stage -- as well as for retirees who need to keep the potential for growth alive in their portfolios.

Are You a Micromanager?

As a retirement saver, your employer-sponsored retirement plan gives you the freedom to make your own investment decisions. And because you can easily change plan investments, you may find yourself becoming a micromanager. That's an investor who changes investments frequently because of daily market movements instead of focusing on the big picture: a long-term investment strategy. But "chasing returns" by moving your money into whatever investment type or stock market sector happens to be doing well *at the time* rarely pays off in the long run.

The Unknowable Future

The problem with chasing returns is that it's virtually impossible to predict how long a particular investment or market sector will continue to be a top performer. Eventually, another investment or sector will probably take over the lead, and there will be little or no advance warning. That can leave you in the lurch if you changed the investment mix of your retirement plan account based strictly on recent performance.

The Solution: Keep a Long-term Perspective

You may be much better off by the time you retire if you use a "forest, not trees" perspective when you invest. Concentrate on your goal, and choose an investment mix with the potential to help you reach that goal over time.

Your retirement plan offers several investment options, allowing you to choose a well-diversified investment mix for your account. The idea behind long-term investing is to choose a mix that offers you a realistic opportunity to achieve gains while reducing the overall risk to a level you are comfortable with.

After you've chosen your investments, you shouldn't ignore market and economic developments. But you'll generally want to stay with your plan unless you decide that changes in your personal situation or risk tolerance make an adjustment necessary.

If you're a "forest, not trees" investor, you can be much less concerned with what the markets do on a day-to-day basis. You'll be free to switch your investments, but you won't feel compelled to make a move every time the markets zig or zag.

Source/Disclaimer:

How Might Rising Interest Rates Affect Your Stock Investments?

The Federal Reserve's actions can have a marked influence on the economy and financial markets. For instance, some market analysts believe that the Fed's massive, multi-year bond-buying program coupled with a record-setting period of near-zero interest rates fueled the six-year bull market for stocks. Now investors are awaiting news of when -- and by how much -- the Fed will raise short-term rates, and what that action might mean for stocks.[1]

While many market watchers have speculated about the effect of rising rates, history provides a window into how stocks have reacted to such policy shifts in the past.

A Look Back

Research that looked at the past 35 years (and six rate-hiking cycles) found that stocks don't necessarily follow a straight path up or down in reaction to a rate hike. Instead, they present a mixed bag of performance. For instance, analysis reported on *CNBC.com* found that in two of the six cycles, stocks, as represented by the S&P 500, were lower a year after the initial rate hike. Even so, the average gain for all six periods was 2.6%. And on average, a year and a half after the first rate hike in a cycle, the market was up 14.4%.[2]

What's Different This Time?

While heightened volatility is often a byproduct of the Federal Reserve initiating a rate hiking cycle, there are unique variables at play this time that may help to lessen the market's reaction.

First, with the federal funds rate set at 0% to .25% for nearly seven years -- far below its starting point for the previous several rate hiking cycles -- it is believed that the Fed has a lot of leeway to move rates up before creating a significant drag on the economy. Second, many economists and Wall Street analysts expect that when the Fed does begin raising rates for the first time since the Great Recession, it will do so slowly in an attempt to minimize market disruption.[3]

Considerations for Investors

Given the inevitability of an interest rate hike looming on the horizon, you may be cautious in your outlook for your stock portfolio. But don't let your emotions get in the way of potential investment opportunities. Consider discussing the following strategies with your financial advisor at your next meeting.

- Buy on the dips. If stocks do swoon when the Fed acts, many analysts feel the drop will be short-lived and may in fact prove to be a good time to selectively add to your portfolio. A systematic purchasing plan, also known as dollar cost averaging, can help in volatile times, as it provides for regular purchases over a period of time, taking the guesswork out of specific timing of purchases.[4]

- Consider high-quality dividend stocks. Equity investors looking to limit volatility may want to consider an income-producing strategy via dividend-paying stocks. Although a company can potentially eliminate or reduce dividends at any time, a dividend may provide something in the way of a return (i.e., income plus any potential price appreciation) even when stock prices are volatile.

- Review sector allocations. History supports the notion that Fed actions affect equity sectors in different ways. For instance, in a rate-hiking cycle, defensive sectors, such as utilities, energy, and consumer staples have tended to perform better, as these sectors produce necessary goods and services that have less reliance on consumer discretionary spending. In a rate-cutting cycle, leading sectors tend to be those that are more dependent on consumer spending, such as retail, autos, and construction.[5]

These are just a few of the strategies you may want to consider heading into a rate-hiking cycle. Work with your financial advisor to review your unique circumstances and make changes, as deemed appropriate, for your situation.

Source/Disclaimer:

[1]Investing in stocks involves risks, including loss of principal.

[2]*CNBC.com* and Nuveen Asset Management, "When the Fed raises rates, here's what happens," September 17, 2015.

[3]*CNBC.com*, "Wall Street history says stocks can survive Fed rate hike," September 15, 2015.

[4]Dollar cost averaging involves regular, periodic investments in securities regardless of price levels. You should consider your financial ability to continue purchasing shares through periods of high and low prices. This plan does not assure a profit and does not protect against loss in any markets.

[5]*Forbes*, "How Rising Interest Rates Will Affect The Stock Market And Your Investments," May 19, 2015.

Let's Live 2016 Forwards

Nevertheless, we remain positive about 2016. Of course, the Pouting Pundits of Pessimism (chaos and uncertainty are their friends) will have unlimited running room to make up whatever "end of the world" horror stories can be conceived.

But you and I know better. Yes, the financial markets will be challenging. Adjustments and market corrections are normal, and they most definitely will be with us in 2016. Yet they also present opportunities to review your financial plan. By staying focused on what matters (and this is not always easy) and following your financial plan, you enhance the probability of success, regardless of what the markets do.

So, maybe we can understand 2015 by looking backward – but we must live 2016 forwards. Let's take this journey together.

*By the way, I didn't give up. I got to kiss and marry the girl. So much for my Magic 8 Ball.

- James D. Hallett

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Special 2015 Tax Return Insert

Well, everyone's favorite time of year is here once again: tax season. To help you celebrate properly, please keep in mind these four key pieces of advice before completing your 2015 tax return. They will help ensure your tax return is filed in full so you can continue making the most of the new year!

1. 1099 Information – 1099 INT/DIV and 1099B

Most custodians and investment providers send 1099 information by early March. This year, some of your mutual funds may generate operating profits. These net profits are paid to shareholders as "capital gain distributions" and are shown on Form 1099DIV. Please wait to file your tax return until you have received all necessary information.

2. Investments Sold in 2015

If you sold any holdings during 2015 in a non-retirement account, you will receive a 1099B. This form shows the detail of the sale(s). We can assist you in calculating the net gain or loss. You will need to provide this information on Schedule D of your tax return.

3. K-1 for Limited Partnership and Charitable Remainder Trust (CRT)

As you gather information to prepare your tax return, please make sure you have received the Schedule K-1 from any direct placement program (limited partnership) or CRT. The K-1 is necessary in order to complete your tax return. The deadline for companies to complete the K-1 is typically March 15. However, some K-1 schedules may take until April, so be prepared to file an extension.

4. Cost Basis Reporting – NEW!!

Due to revised IRS regulations, custodians must begin reporting the cost basis of equities acquired on or after January 1, 2015 to the IRS. The new Form 1099B issued by your custodian will include gross proceeds and adjusted cost basis. With this information, you or your tax advisor can calculate your capital gains and losses.

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