



Cypress

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SECOND QUARTER 2013

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Market Update

(all values as of 3.29.2013)

Stock Indices:

Dow Jones	14,578
S&P 500	1,569
Nasdaq	3,267

Bond Sector Yields:

2 Yr Treasury	0.25%
10 Yr Treasury	1.87%
10 Yr Municipal	1.96%
High Yield	5.81%

YTD Market Returns:

Dow Jones	11.25%
S&P 500	10.03%
Nasdaq	8.21%
MSCI-EAFE	4.38%
MSCI-Europe	2.05%
MSCI-Pacific	8.81%
MSCI-Japan	10.73%

Commodity Prices:

Gold	1,597
Silver	28.30
Oil (WTI)	97.23

Currencies:

Dollar / Euro	1.28
Dollar / Pound	1.52
Yen / Dollar	94.12
Dollar / Canadian	.98

Healthcare In Retirement

Retirement healthcare is a topic that most Americans ignore until retirement, at which point they find themselves forced to navigate the complexities. This leaves many individuals frustrated with the process and overwhelmed with the cost. For this reason, we thought it prudent to provide a short education on one of the most important retirement healthcare resources, Medicare. In this article, we will first discuss the cost of Medicare, particularly from the perspective of individuals while still working and prior to participating in the system. Second, we will discuss the basics of the Medicare system and how it works. Hopefully this article provides a deeper understanding of retirement healthcare and encourages you to further explore how you should approach healthcare in retirement.

The Cost of Medicare While Still Working
 Most workers pay a 1.45% tax on earnings into the Medicare trust fund. Business owners and self-employed individuals pay twice that amount, the combination of the 1.45% tax on employees and the 1.45% tax contributed by employers. Furthermore, as of 2013, individuals that earn more than \$200,000 (couples earning more than \$250,000) pay an additional 0.9% on earnings above that threshold. If that is not enough, all Americans with net investment income will also contribute even more to the Medicare trust fund, paying yet another tax of 3.8% on the lesser of net investment income or the difference between earned income and the same income thresholds.

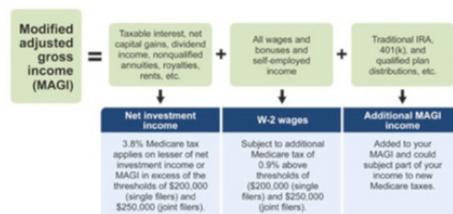
The costs of funding Medicare are substantial for all workers. Those costs only increase as individuals find themselves surpassing the income thresholds discussed, earning self-employment income of any amount, and/or capturing substantial net investment income. Understanding the cost to you personally, while working, may provide some insight into tax and financial planning strategies today.

The Basics of Medicare

Most Americans know that Medicare is a healthcare program for retirees. However, few people understand even the basics of the system before they are forced to navigate the program personally or in helping a parent or family member. It helps to research Medicare early on so you can get a better sense of the programs sufficiency and what other resources you may seek to ensure adequate coverage.

Medicare is a federal health insurance program created in 1965. Medicare primarily assists those who are 65 or older, but if you are disabled or have kidney disease, you may be eligible for Medicare coverage no matter what your age. Medicare currently consists of the following "parts" and each part has its own distinct eligibility requirements. Americans should apply for this and other parts starting at three months before their 65th birthday and three months after or risk high premiums permanently. If you are still working and covered by an employer health plan at 65, you are provided a short eight month timeframe to apply after leaving your job. Again, it is critical to understand eligibility requirements and program administrative rules.

How the New Healthcare Tax Works*



- Part A Hospital Insurance – typically provided at \$0 premium.
- Part B Medical Insurance – typical premium for 2013 is about \$105 monthly but participants with earnings above \$85,000 annually (couples above \$170,000) pay higher premiums.



Medicare usually requires a coinsurance paid by the participant (perhaps 20% of Medicare-approved expenses) and there is no limit to total out of pocket expenses for a participant. The plan includes deductibles, copays, and coinsurance and the 2013 deductible is \$147.

- Part C Private Insurance Company Medicare – This is an option for Medicare participants to benefits administered by a private insurance company. This often times allows for lower costs for the participant and in some cases benefits not provided by Parts A and B. It is important to know that Medigap insurance (discussed later in this article) is often times rendered useless for participants that opt for Part C coverage.
- Part D Prescription Drug Coverage – Medicare participants are able to choose from various prescription drug plans. The cost and benefits from plan to plan vary, and my experts advise participants to shop around each year to ensure one receives the best cost available.

You may qualify for one or more parts, or you may choose to accept or decline coverage if you are eligible. Many health policies limit coverage for Medicare-eligible individuals regardless of whether they have accepted Medicare coverage. Under certain conditions, the disabled are eligible to enroll in Medicare before age 65. There are also other related programs that have somewhat less restrictive eligibility requirements.

Current Environment - [Macro Overview](#)

The first quarter of 2013 was marked by newly achieved equity market highs, fiscal debates in Washington, and a revisit to worries in Europe with the Cyprus bailout.

Congress passed a bill to extend funding for the government through the end of this fiscal year ending in September, thus averting a looming shutdown. The market was looking for economic clues to help elucidate the consequences of the sequester which took effect March 1st, with no significant validations as of yet.

The Federal Reserve issued passing grades for 17 of the 18 largest US banks in the most recent stress tests, paving the way for stock buybacks and dividend increases.

The stress tests are an annual requirement of financial institutions where they are subject to various hypothetical economic downturns including a severe recession, a 50% drop in the stock market, a 20% plus decline in the housing market, and an unemployment rate of 12.1%. The results of the most recent stress tests is the fact that even if these banks are larger today than

Medigap is supplemental insurance specifically designed to cover some of the gaps in Medicare coverage. Although the name might lead you to believe otherwise, Medigap is provided by private health insurance companies, not the government. However, Medigap is strictly regulated by the federal government.

There are 10 standard Medigap policies available (Plans E, H, I, and J are no longer available for sale, however, if you already have one of these plans you can keep that plan). All plans may not be offered in your state, yet all are standardized and certified by the U.S. Department of Health and Human Services so that each plan provides exactly the same kind of coverage no matter what state you live in (except for Massachusetts, Minnesota, and Wisconsin, which have their own standardized plans). Every Medigap policy offers certain basic core benefits, such as coverage of certain Medicare Part A and B coinsurance and co-payments. Other plans offer additional benefits, such as coverage of Medicare Part A and B deductibles, and charges that result when a provider bills more than the Medicare-approved amount for a service.

If you are a Baby Boomer approaching 65, we encourage you to use these basic to begin deeper planning. If, rather, you are a Generation X or Millennial you may be well served to begin planning early. Perhaps this education can help you help your parents as they begin planning.

they were going into the financial crisis of 2008, they are much better capitalized today than they were then.

The Federal Reserve released data in mid March showing that the housing recovery helped raise household net worth by \$1.1 trillion in the fourth quarter of 2012, to \$66 trillion, the highest level since 2007, just before the housing market meltdown. Rising net worth tends to stimulate consumer sentiment throughout the country. The latest orders for U.S. durable goods as reported by the Department of Commerce increased the most since September 2012. Orders propelled for automobiles, machinery, and commercial aircraft.

The U.S. economy grew at a faster pace than previously estimated for the fourth quarter of 2012 reflecting greater business spending and a smaller trade gap. The Commerce Department report also showed that companies continue to invest in new equipment and rebuild depleted stockpiles while consumers continued to spend. Consumer spending, which makes up 70% of the nation's GDP (Gross Domestic product), increased at a 1.8% rate last quarter.



On March 15th, former Fed Chairman Alan Greenspan said “there is no irrational exuberance in equity markets and that stocks are significantly undervalued”.

In a March 20th statement, the Federal Open Market Committee (FOMC) said that they see signs that the economy is positioned for a pick up later in 2013, with data in the

labor market, consumer spending and business investment suggesting a return to moderate economic growth.

Sources: Federal Reserve, Commerce Department, Eurostat

Equity Market Review - Domestic Equity Markets

The Dow Jones industrial average eclipsed its previous high set October 2007 as did the S&P 500, after a series of failed attempts throughout the quarter and finally managed to get past its previous closing highs on Thursday, March 28, the final trading day before the holiday.

For the quarter, the Dow industrials index returned 11.9% including dividends, and 13.4% total return for the past 12 months.

The S&P 500 index for the first quarter added 10.6% including dividends, bringing the twelve-month total return for the large cap stock index to 14%.

For the quarter small and mid capitalized stocks outperformed their larger capitalized counterparts, as the Russell 2000 index returned 12.4% for the first quarter and 16.3% for the past 12 months. Small and mid capitalized indices tend to represent more of US-exposed companies as opposed to the large-cap indi-

ces which represent more multi-national corporations.

When the Standard & Poor’s 500 breached 1469 in January of this year it was at the same level as it was 13 years ago, however this time earnings and dividends have doubled in the past 13 years slashing the market valuation from a (price earnings) PE of 32 to a PE of 14.7.

Historically, stocks tend to perform better than the rate of inflation over the long run, mainly because returns are driven by rising profits, which are essentially driven by real growth in the economy.

The S&P 500’s market capitalization and previous peak was \$13.8 trillion in October 2007. That figure fell to \$5.9 trillion at the bear market bottom and has now rebounded to \$13.9 trillion. Current market capitalization for all U.S. stock indices now exceeds \$15.5 trillion.

Sources: Bloomberg, S&P, Dow Jones, World Bank

Mortgage Rates Help Elevate Home Sales - Market Fact

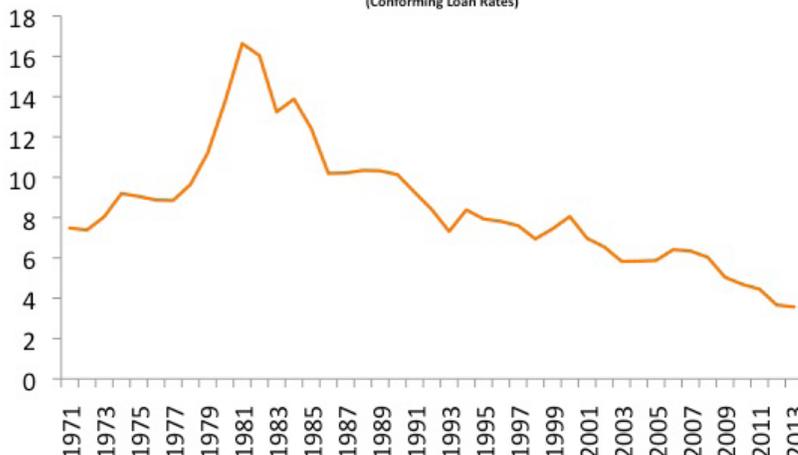
Sales of new U.S. homes in the United States increased in February with the best back-to-back months in four years, spurred primarily by record low borrowing costs, induced chiefly by the Fed’s bond buying programs.

Residential real estate prices in 20 cities across the country increased 8.1% in January from the same time last year, the biggest twelve-month gain since June 2006 according to data from the S&P Case Shiller index.

In addition, improving home values tend to improve consumer sentiment, with household net worth increasing which are primarily made up of housing values. This in turn builds on consumer sentiment nationwide.

Sources: S&P, Federal Reserve

30 Year Mortgage Rate History
(Conforming Loan Rates)





Fixed Income Review - U.S. Bond Markets

U.S. Treasury's continue to perform well towards the end of March as a growing concern regarding the bank situation in Cyprus pushed assets to safe haven destinations such as US treasuries.

The Federal Reserve's latest release of FOMC minutes, indicated once again that it intends to stick to its current quantitative easing programs with an estimated \$85 billion per month in purchases, eventually ending the year with roughly \$1 trillion in total purchases of treasury and agency securities.

The Federal Reserve continues to have internal deliberations regarding when the quantitative easing programs will cease. Dallas Fed President Richard Fisher said he'd like to see the Fed reduce its mortgage-backed

security purchases amid signs that the economy will probably grow more towards the end of the year.

The FOMC plans to continue buying \$40 billion of mortgage back securities as well as \$45 billion of treasuries each month until the unemployment rate reaches roughly 6.5%, as long as the inflation rate doesn't exceed 2 ½%. The Federal Reserve's current balance sheet now exceeds \$3.2 trillion, a record.

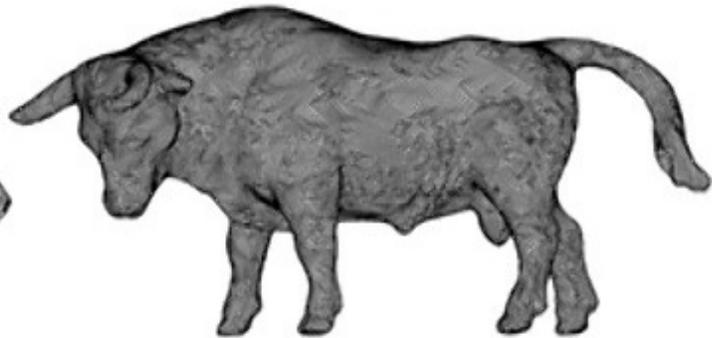
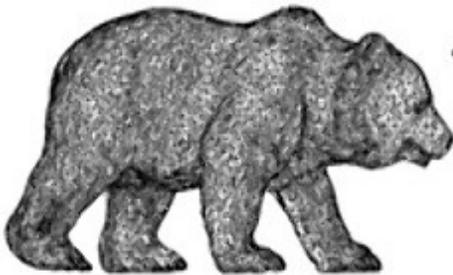
The rise in treasury yields was tempered by the Cyprus bailout in late March, as well as by political turmoil in Italy which resurfaced, with the appeal of U.S. government debt.

Sources: Federal Reserve, Bloomberg, U.S. Treasury

Origins Of The Bulls & The Bears - Historical Note

During the 1800's, bull and bear fights were a popular form of entertainment in California. Considered a blood sport, it was brought to California by the Spanish settlers and enjoyed by men, women and children. Inspired by cultural traditions, bull and bear fighting was widespread and lasted for years.

market as if there were an uptrend, when bulls were winning or if there was a downtrend, bears would be winning. It is believed that the metaphors derived were additionally inspired by the fur trades that bought and sold bearskins throughout the regions. Most traders would sell furs that they didn't have yet, and thus had to hopefully buy the



The fights illustrated distinctive methods of fighting by the animals, where bulls would thrust their horns up into the air in an upward motion, while bears would swipe down with their paws in a downward motion. These actions were taken metaphorically and incorporated into the movement of the

skins at a lower price in order to gain a profit. These profits came about from a spread, such as in the futures market.

Source: NYSE, California Historical Society

*Market Returns: All data is indicative of total return which includes capital gain/loss and reinvested dividends for noted period. Index data sources; MSCI, DJ-UBSCI, WTI, IDC, S&P. The information provided is believed to be reliable, but its accuracy or completeness is not warranted. This material is not intended as an offer or solicitation for the purchase or sale of any stock, bond, mutual fund, or any other financial instrument. The views and strategies discussed herein may not be appropriate and/or suitable for all investors. This material is meant solely for informational purposes, and is not intended to suffice as any type of accounting, legal, tax, or estate planning advice. Any and all forecasts mentioned are for illustrative purposes only and should not be interpreted as investment recommendations. Broadridge Investor Communication Solutions, Inc. does not provide investment, tax, or legal advice. The information presented here is not specific to any individual's personal circumstances. To the extent that this material concerns tax matters, it is not intended or written to be used, and cannot be used, by a taxpayer for the purpose of avoiding penalties that may be imposed by law. Each taxpayer should seek independent advice from a tax professional based on his or her individual circumstances. These materials are provided for general information and educational purposes based upon publicly available information from sources believed to be reliable—we cannot assure the accuracy or completeness of these materials. The information in these materials may change at any time and without notice.

*New healthcare tax chart sourced by "Medicare and You" Fidelity Insights, January 1, 2013