Cypress Financial Planning, LLC

FOURTH QUARTER 2014

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Market Update

(all values as of 09.30.2014)

Stock Indices:

Dow Jones	17,042
S&P 500	1,972
Nasdaq	4,493

Bond Sector Yields:

2 Yr Treasury	0.58%
10 Yr Treasury	2.52%
10 Yr Municipal	2.23%
High Yield	6.16%

YTD Market Returns:

Dow Jones	2.81%
S&P 500	6.70%
Nasdaq	7.59%
MSCI-EAFE	-3.63%
MSCI-Europe	-4.17%
MSCI-Pacific	-2.83%
MSCI-Emg Mkt	.67%
US Agg Bond	4.19%
US Corp Bond	5.75%
US Gov't Bond	4.23%

Commodity Prices:

Gold	1,211
Silver	17.06
Oil (WTI)	91.54

Currencies:

Dollar / Euro	1.26
Dollar / Pound	1.62
Yen / Dollar	109.43
Dollar / Canadian	.89

Planning Across Generations

Successful financial planning is always a team effort—it requires open and honest communication and coordination between spouses, as well as with advisors. Financial issues are often sensitive subjects, and encouraging and facilitating difficult conversations is one of our most important roles as financial planners.

But our experience has taught us that conversations among different generations of a family are the most difficult ones to arrange and coordinate. That's too bad, because intergenerational planning often brings a variety of important and impactful factors into a long-term financial plan. From inheritances to long-term care considerations to education planning and even business succession plans, pro-active coordination and communication between generations can often prevent a significant amount of anxiety (and financial stress) down the road.

In general, we've found that intergenerational coordination is one of the most common "missing pieces" in an otherwise well-designed financial plan. Simply put, these kinds of conversations aren't happening with the frequency or depth that is necessary for either generation to make completely proper financial decisions. Here is a list of some of the most common intergenerational planning issues, and how they might impact both the older and the younger generations.

Inheritances

While inheritances are the most obvious (and typically most significant) consideration when it comes to estate planning and intergenerational coordination, even they are not commonly discussed or accounted for in financial plans. A recent study at the University of Texas found that among parents aged 59 to 96, more than 86 percent expected to leave some sort of bequest to their offspring; however, fewer than 45% of their children expected any inheritance, leaving a significant gap between expectations and reality. Worse yet, 2.4% of parent-child pairs studied revealed children who expected an inheritance even though none was forthcoming.

These disconnects can create problems, particularly for the younger generation. Children who are uninformed about a potential inheritance might take unnecessary risks with their investments as a result, incorrectly assuming that their incomes (and investment returns) will have to bear the full weight of satisfying their financial goals. Or, in the case that no inheritance exists, the children may end up in a situation where they are under-saving for retirement, counting on a financial windfall that never materializes. Once the error is discovered, it's often too late to take any substantial corrective measures.

Long-Term Care

While inheritance miscommunication often impacts the youngest generation most severely, some generational disconnects can weigh more heavily on the older generation. In recent years, long-term care has become an increasingly common issue for the aging baby boomer generation. According to government statistics, as many as 70% of retirees are expected to need some level of long-term care services in their latter years, with 20% needing more than five years of care.

For those who do require extended care, the effect on personal finances can be catastrophic. Costs for care can be exceedingly high (often in excess of six figures per person per year), and insurance coverage options are becoming more limited, while carrying very high premiums. Members of the older generation who have no long-term care insurance can easily find themselves rapidly draining their retirement accounts, leaving them in a difficult situation with no choice but to lean on the younger generation for support. But because of family considerations and financial restraints, children are often unable to provide any meaningful support—especially if they haven't expected or planned for it—leaving the older generation with nowhere else to turn.

With proper planning, that's a situation that can usually be avoided. If nothing else, asking the question of "what would we do if somebody needed long-term care?" is an essential step in planning for one's retirement years; it's a conversation that often requires input from multiple generations, since the impact can be so far-reaching.

Education Planning

Planning for college expenses is often a daunting task for young families with children, but it's also an area that presents a rare opportunity for generations to work together to meet common goals. For grandparents who are in a financial position to help, making contributions to education expenses can provide unparalleled opportunities for tax-efficient estate planning.

First, grandparents can use the benefits of 529 savings plans to bequeath money to later generations in a tax-advantaged manner. Anyone can contribute to these plans (parents, grandparents, or even non-family members), in any amount up to the annual gift exclusion (currently $14,000 per recipient). Similar to Roth IRAs, all investment earnings can be withdrawn tax-free by the recipient, as long as they are used for qualifying educational expenses. No other estate planning tool offers this kind of tax benefit to the younger generation. Also note that while there is no federal tax deduction for contributions to a 529, most states do offer state income tax deductions (a total of 9 states—including California, Delaware, Massachusetts, and New Jersey—do not, and another 7 have no state income tax).

Furthermore, for grandparents with particularly large estates, it is relevant to note that direct tuition payments to schools are not considered gifts for tax and estate planning purposes. In other words, making a payment directly to a college can present an opportunity to reduce one's taxable estate without having to navigate annual or lifetime gift limits. If other estate planning options have been exhausted, this can often be an attractive option for those on the higher end of the net worth spectrum.

Other Considerations

Regardless of financial benefits that may accrue, there are often emotional or psychological reasons that prevent these sorts of intergenerational conversations from happening. Some parents with large estates are concerned about motivational factors, wanting to guard against their children "counting on" an inheritance and therefore not applying themselves in their own careers—children, for their part, are often sensitive to the same dynamic. On the other hand, parents in a less comfortable financial situation can often feel vulnerable and ashamed, unwilling to admit any shortcomings to their children lest they be viewed as a burden.

As we all age, it is inevitable that the dynamics of our relationships with family members must change. Financial advisors cannot tell you how you should or should not approach your relationships, but they can help guide you through a thought process that leads to informed decision-making. Even if explicit conversations between generations do not occur (and they don't necessarily need to), thoughtful consideration of the relevant issues can help lead us all to a better financial place. And ultimately, that's the goal of all financial planning.

Equity Overview - Domestic Equity Markets

Volatility returned to the equity markets in September as macro economic events and the prospect of higher interest rates hindered any further elevation.

A decline in small capitalized stocks was particularly noticeable as some consider it an indicator of a possible larger market decline. Small cap stocks had an unusually strong 2013, stretching valuation levels to 5-year highs making those stocks susceptible to more rapid declines. During periods of rising interest rates and market turmoil, smaller stocks tend to underperform larger capitalization stocks.

A divergence between international and U.S. equity markets occurred in September, as emerging markets dropped by over 7% and larger developed equity markets fell by 4%. U.S. equity markets were less susceptible to the global downturn, with the Dow Jones Index fairly unchanged for the month, the S&P 500 Index off 1.5%, and the Nasdaq Index dropping 2.2%.

Sources: S&P, Bloomberg

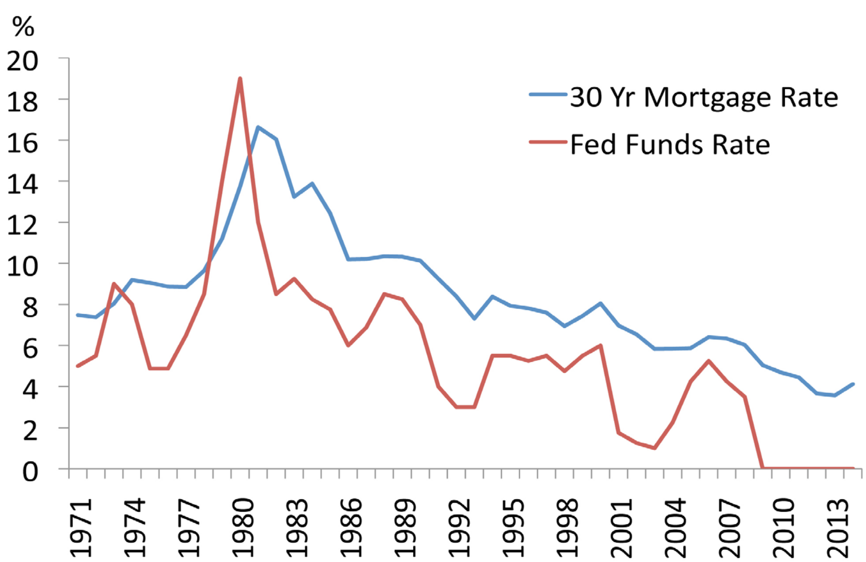
Why Short Term Rates May Go Up Faster Than Long Term Rates - Fixed Income

A unique dynamic has been occurring since the beginning of the year as short-term rates have slowly been rising, while long-term rates have slowly been decreasing. This dynamic is known as a flattening yield curve, interpreted as long-term inflation expectations having actually resided somewhat.

In addition to benefiting from subdued inflation expectations, international demand for long-term government bonds has also translated into higher prices and lower yields.

As a result, rates on the 2-year Treasury note have increased at a faster rate than long-term Treasury Bonds with a 30-year maturity. Longer dated bonds are driven more by inflation expectations than changes in Fed Fund rates, and it appears the Fed has kept inflation in check according to recent inflation data.

Economic growth in the U.S. is further ahead than other developed economies right now, therefore, rate hikes are generally expected as the economy gets stronger. In other developed economies such in Western Europe and certain Asian countries, the discussion will likely be about further easing and the need to fight deflation.



Of concern for many homeowners and would-be home buyers across the country is how the Fed's increase in rates affects mortgage rates. Long-term rates are what affect mortgage rates most, such as conforming 30-year rates. Historically, as the Fed has escalated the Fed Funds rate, which is a short-term rate, mortgage interest rates tend to lag, yet tied closer to long-term rates.

Sources: U.S. Treasury, Federal

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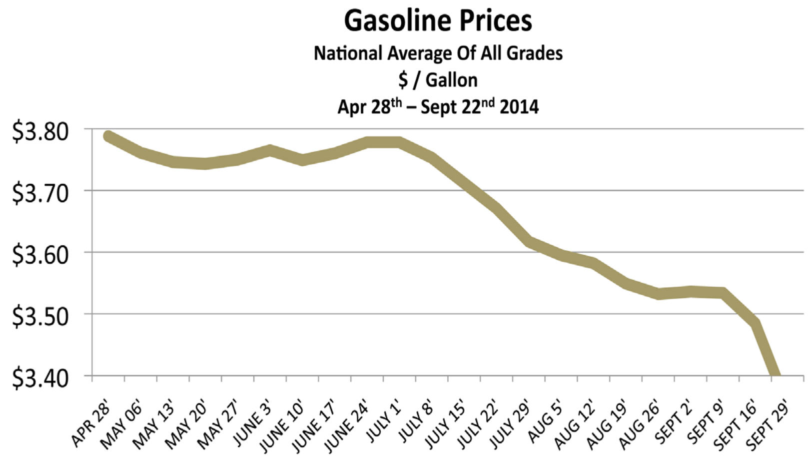
As Gasoline Prices Drop....Consumers Can Spend More On What They Really Want

Lower Gasoline Prices Bode Well For The U.S. - Commodities Review

A multitude of variables contributed to lower gasoline prices over the summer, helping to bring prices to their lowest levels in five months. The U.S. Energy Information Administration (EIA) issues weekly reports on gasoline prices nationwide. The national average price for a gallon of gasoline for the week ending September 29th was $3.35, down from $3.78 in April of this year.



Lower gasoline prices are extremely beneficial for the economy with less being spent on transportation costs, leaving consumers more disposable income to spend freely.

Gasoline prices have been dropping as U.S. production and inventories of oil have risen, leading to less demand for imported oil. Another factor minimizing gasoline and oil prices is a stronger dollar, since the majority of the world's oil and gasoline is traded in dollars.

Some analysts believe that domestic gasoline prices could even fall further as the U.S. continues to ramp up production and inventories. Such a dynamic would filter throughout the economy and translate into higher earnings for certain U.S. companies and increased spending cash for consumers.

Sources: Energy Information Administration

How The Financial Landscape Of Europe Might Change - International Politics

The people of Scotland voted to avoid a separation of Scotland from the United Kingdom and keep things as they've been for over 300 years. This was important not only for that particular region of the world but it had important ramifications for other separatist movements across the globe. The vote for independence failed on September 18th, but the issues that arose from this movement has not dissipated.

Confidence in Europe has now been undermined by rising separatist activity, such as what occurred in Scotland. As what was considered by Scotland is also being considered by other countries in Europe. Catalonia for some time has sought its independence from Spain, with an ongoing separatist movement throughout Northern Spain. Flanders also wants its own identity, separate from Belgium. In addition, come 2017, the United Kingdom will vote to whether stay part of the 28 member European Union or withdraw. Such an action would prove compromising for the remaining 27 members because of the UK's financial and banking contributions to the union.

Sources: EuroStat, Scottish Historical Society