Cypress Financial Planning, LLC

FIRST QUARTER 2016

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Q4 Market Update

(values as of 12/31/2015; % changes for Q4, not YTD)

U.S. Stock Indices

S&P 500	2,044 (+6.45%)
Dow Jones	17,425 (+7.00%)
Nasdaq	5,007 (+8.38%)
Russell 2000	1,136 (+3.20%)

Global Stock Indices

FTSE (London)	6,242 (+2.98%)
DAX (Germany)	10,743 (+11.21%)
CAC (France)	4,637 (+4.08%)
Nikkei (Japan)	19,034 (+9.46%)
Emerging Mkts	794.14 (+0.26%)

Bond Indices (Bloomberg)

U.S. Gov't.	122.88 (-0.96%)
U.S. Corporate	135.63 (-0.56%)
U.S. Hi-Yield	144.61 (-1.51%)
Eurozone	136.09 (+0.49%)
Emerging Mkts	144.38 (+0.60%)

Commodities

Gold (per oz)	1,061 (-4.85%)
Silver (per oz)	13.84 (-4.44%)
Oil (WTI, barrel)	37.13 (-16.37%)

Fixed Income Yields

U.S. 2-Year Treasury	1.06%
U.S. 10-Year Treasury	2.27%
U.S. 30-Year Treasury	3.01%
U.S. High-Yield Index	8.76%

Currency Exchange Rates

Euro/Dollar	1.09
Pound/Dollar	1.47
Dollar/Yen	120.32

529… or IRA?

As a new year dawns, many of us are taking a fresh look at our household budgets, determining where and how we plan to save money over the next twelve months. During that process, we'll inevitably face tradeoffs between various financial goals—should we pay down debt, or build up our emergency fund? Is it better to refinance our mortgage to a shorter term (and higher monthly payment), or keep flexibility within our budget to cover unexpected expenses?

But of all the various tradeoffs we face, one of the most difficult—especially for those of us with young children or grandchildren—is whether to save for retirement or for future college expenses.

As parents, we generally want to do everything we can to secure a better future for our children, and with college tuition costs continuing to soar, it's a natural desire to want to help cover those costs. After all, we don't want to leave our kids saddled with mountains of student loan debt, forcing them to face their own difficult decisions about which jobs to take, and when (or if) to get married or have children or buy a house.

So, does it make sense to prioritize college savings ahead of retirement savings? Which one should be secured first, or can both goals be met simultaneously? In the following paragraphs, we'll provide a quick summary of the major considerations.

"Skin in the game"

The first step in solving the dilemma is determining whether or not it is, in fact, a good thing for parents to help cover tuition expenses in the first place. On its surface, that doesn't seem like much of a question at all—of course parents should try to help, why shouldn't they? But some recent research would disagree.

A widely-cited study conducted by University of California-Merced professor Laura Hamilton found that the more parents contributed to their children's college costs, the worse those students' academic performance became. In other words, if the students had little or no financial "skin in the game," they tended not to take their studies seriously, and they focused instead on some of college's more "social" aspects.

For children whose parents were more affluent, the long-term impact on career outcomes was muted, presumably because the parents' other connections and relationships were strong enough to overcome their kids' subpar academic performance, helping them to earn jobs they may not otherwise have been able to land. But for the kids from lower-income or middle-income families—those families whose financial sacrifices to help with tuition were likely the most acute—the academic underperformance had significant long-term consequences. That's a particularly ironic side effect of an otherwise well-intentioned parenting decision.

So, if it's advisable for our kids to pay at least a portion of their college tuition, but we don't want them emerging with a degree and an anchor of debt, what's the best answer?

In general, it's best to involve them in the financial conversation early. Don't just tell your kids to pick out their dream school, with cost being no object—encourage them to think about their college choice in its totality, including the costs and the expected "value" received. The sooner they begin to personalize the financial impact of their college decision, the better it will be for all parties.

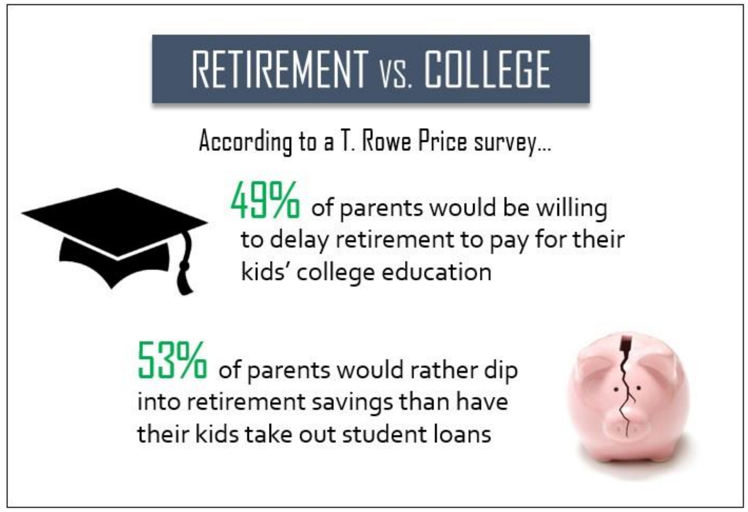
<u>*Maximizing flexibility*</u>

Regardless of the advisability of actually *paying* for our kids' college tuition, there are also other considerations with respect to *saving* for it that must be evaluated. As a general rule, if there's ever any question as to whether you should save for college or for retirement, retirement should be a slam-dunk winner every time. Here's why:

There are no "retirement loans". Student loans may come with a host of problems and stigmas, but they at least exist as a funding option for college. When it comes to paying for retirement, though, there is no such thing as a retirement loan—if you arrive at your retirement years (or deep into them) without enough assets to cover your expenses, there are few options available to you to make ends meet. One of the few tools available is a reverse mortgage, which comes with its own set of issues and drawbacks (also, you'll need to own a home in order to even have it as an option, and not all retirees are homeowners).

Your kids can work during college. In addition to taking out loans, your kids can always choose to work during college (or college summers) in order to help pay for a portion of their tuition. While you *can* choose to work through retirement (assuming you're still healthy enough to do so), a working retirement isn't really a retirement, is it? You don't want to work hard to put your kids through college and then find that you're never able to retire as a result.

IRA savings can pull "double duty". Perhaps the most compelling reason to prioritize retirement over college is the one we've saved for last: your retirement savings can ALSO serve as college savings! While there are certain rules and restrictions, you can generally make withdrawals from an IRA in order to pay for qualified college expenses—income tax will apply to those withdrawals, but early withdrawal penalties should not.



Furthermore, assets saved in Roth IRAs can pull an even more powerful daily double, since contributions (though generally not investment earnings) can typically be withdrawn without penalty and used for any purpose you choose. So, if you've saved for retirement in a Roth, you can withdraw the contributions to pay for college, leaving the portion representing "earnings" in the account to further accumulate until retirement.

Therefore, funds directed to IRAs can typically be used to save for *both* retirement *and* college tuition, something that is rarely true about 529s or other college savings vehicles. That flexibility and freedom of choice makes the decision between saving for retirement or college an easy one; save for retirement, and you could kill two birds with one stone.

If, of course, you've already exhausted your tax-deferred retirement account options (including maxing out your Roth IRA), or if you're simply already on target to save more than enough to cover your retirement expenses, then saving money for college could absolutely be a viable option. At Cypress, our comprehensive planning approach and long-term projections can help you determine whether you're saving enough for retirement, and whether saving for college might actually be a good idea. But if in doubt, satisfy the retirement goal first, since there are many more ways to pay for college than there are to pay for retirement.

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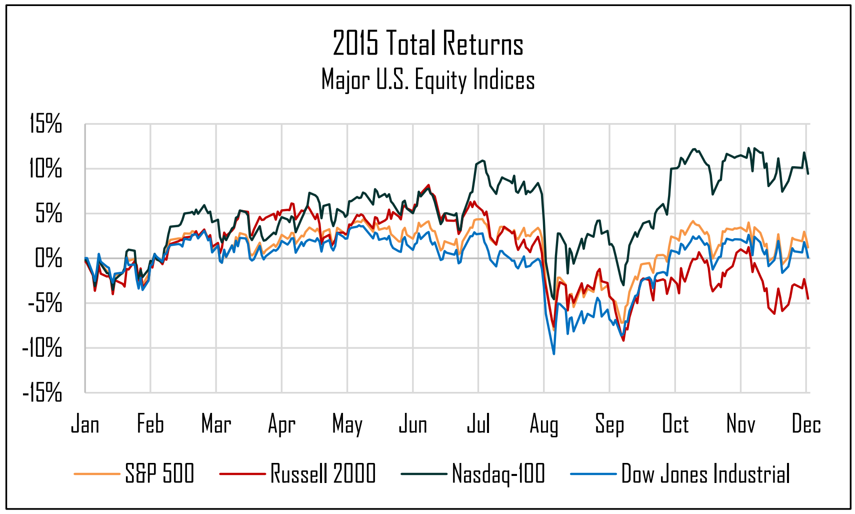
ASSET ALLOCATION STRATEGIES EXPERIENCED THEIR WORST RETURNS SINCE 2008

Equity Overview – Domestic Equity Markets

After posting their worst quarterly returns in four years in Q3, U.S. stock indices recovered strongly during the final three months of 2015, mostly shrugging off concerns about the Federal Reserve's decision to increase its benchmark interest rate for the first time since the financial crisis of 2008-09. After once again flirting with all-time highs in November, the S&P 500 index finished the quarter with a 6.45% gain, ending the year essentially flat (with a small gain due to dividends).

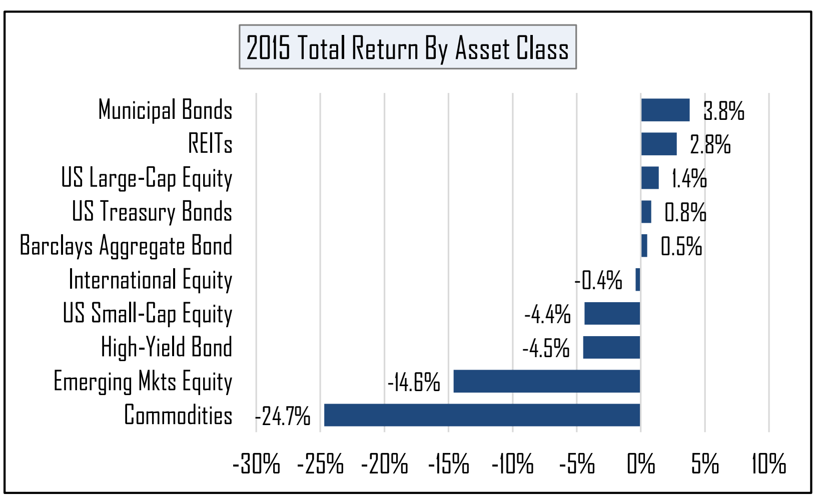
However, despite mostly benign overall returns, there were some clear cracks beneath the surface, setting investors up for a potential disappointment as the calendar flipped to January. For one, small-cap stocks (as represented by the Russell 2000 Index) continued to underperform throughout the year, with an annual decline of 4.48% standing in stark contrast to its large-cap peers. That small-cap underperformance was indicative of a broader lack of "leadership" within the market, as fewer and fewer stocks have participated in each subsequent rally. After stripping out dramatic rallies in the so-called "FANG" stocks (Facebook, Amazon, Netflix, and Google, which managed an average gain of nearly 82%), the remainder of U.S. companies saw their share prices languish, as the 6-year-old bull market was clearly beginning to tire.



Source: Yahoo! Finance

"The Year Nothing Worked" – Global Markets

According to JPMorgan Asset Management research, 2015 was the first year this millennium in which no major asset class was able to manage a return of greater than 5%. By comparison, 11 of the previous 15 years had seen at least one asset class register a return in excess of 20%, and even 2008's broad-based market swoon was salvaged by a gain of nearly 15% for U.S. Treasury bonds. The low-return anomaly led Bloomberg to dub 2015 as "The Year That Nothing Worked", as traditional portfolio management strategies continually struggled. Indeed, JPMorgan's model "asset allocation" portfolio registered a loss of 2.0% for the year, marking the worst performance for the diversified portfolio since the 2008 crisis.



So, despite generally tame headlines, many markets continued to show stress beneath the surface, stress that weighed on portfolio managers everywhere. It remains to be seen which asset classes will lead the pack in 2016, but 2015's across-the-board frustration is unlikely to be repeated.

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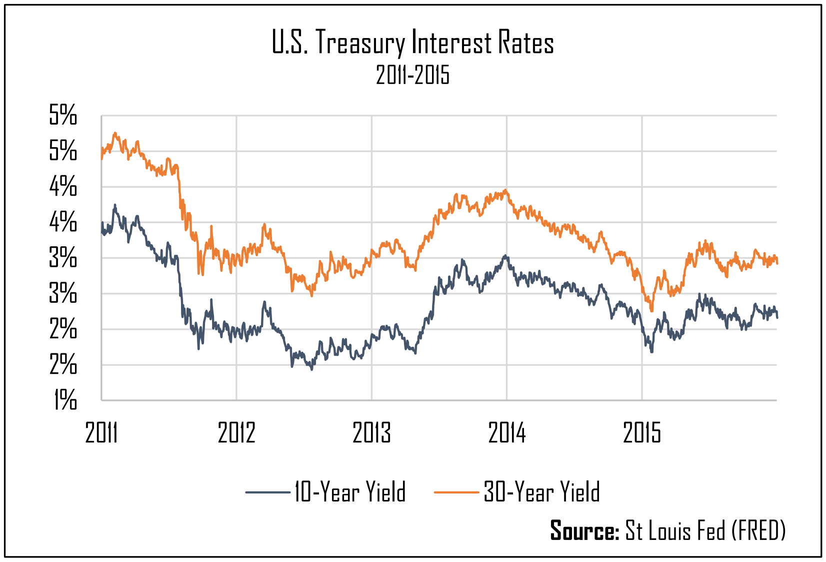
CHANGES IN LONGER-TERM INTEREST RATES HAVE REMAINED MUTED

The End of "ZIRP" – Fixed Income

As was widely expected, the Federal Reserve Board did decide to increase its target range for the benchmark Federal Funds Rate at its December meeting, moving the rate off its zero bound for the first time since 2009. The decision to raise rates by 0.25% officially marked the end of the Fed's zero interest rate policy ("ZIRP"), which extended for an unprecedented six years in response to the financial crisis and ensuing Great Recession.

Along with the small increase in rates came a fairly significant amount of concern with respect to the impact on the broader economy. Since the Fed Funds Rate stands as a benchmark rate to which all other interest rates respond, many investors and prospective homeowners were concerned that rising rates might have a negative impact on housing prices as mortgage rates crept higher. However, despite nudging slightly higher throughout 2015, longer-term interest rates (as measured by U.S. Treasury bond rates) remain at or near multiyear lows, indicating that any impact on the real economy is likely to be muted. Unless longer-term rates begin to suddenly spike higher—which they have shown no sign of doing as of yet—the Fed's moves on the short end of the yield curve can be expected to have more of an impact on financial markets than on the real economy.



Source: Federal Reserve Bank of St. Louis

Social Security "File and Suspend" Strategy Repealed – Personal Finance

While the dawn of a new year brought relatively few changes with respect to tax rules and policies—a few credits and deductions were made "permanent" instead of "temporary", but little else changed—there was one recent change to a government benefit program that could have a significant impact on married couples' retirement planning over the coming decades.

Hidden among the many provisions and riders in the most recent budget bill (passed by Congress in November and subsequently signed by President Obama) was language that forces a number of changes to the Social Security system, specifically to the claiming options available to married couples.

Gone for good is the popular "file and suspend" strategy, which formerly allowed married couples to coordinate their benefits in a way to maximize their combined lifetime Social Security income. Under the strategy, a high-earning spouse could file for Social Security upon reaching full retirement age, then immediately suspend benefits. The decision to file would enable that individual's husband or wife to begin drawing a spousal benefit, even as the claiming spouse deferred benefits, thus earning the 8% annual benefit increase until age 70. The file-and-suspend strategy was widely referred to as a "loophole" by critics, and its demise may mean that retiring couples will have to be more thoughtful (or creative) about their claiming strategies going forward.

For those couples who may qualify for—and be interested in—the file-and-suspend strategy, there are still a few months left to get in under the wire. The budget bill enacted a six-month "phase-out" period during which couples will still be able to avail themselves of the strategy, but that deadline comes in late spring of 2016, so time is running out.