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THIRD QUARTER 2017

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Q2 Market Update

(values as of 6/30/2017; % changes for Q2, not YTD)

U.S. Stock Indices

S&P 500	2,423 (+2.57%)
Dow Jones	21,350 (+3.32%)
Nasdaq	6,140 (+3.87%)
Russell 2000	1,415 (+2.12%)

Global Stock Indices

FTSE (London)	7,313 (-0.14%)
DAX (Germany)	12,325 (+0.10%)
CAC (France)	5,121 (-0.04%)
Nikkei (Japan)	20,033 (+5.95%)
Emerging Mkts	1,011 (+5.47%)

Bond Indices (Bloomberg)

U.S. Gov't.	126.47 (+1.18%)
U.S. Corporate	149.14 (+2.51%)
U.S. Hi-Yield	178.37 (+2.06%)
Eurozone	139.30 (+0.71%)
Emerging Mkts	167.55 (+2.03%)

Commodities

Gold (per oz)	1,241 (-0.62%)
Silver (per oz)	16.59 (-9.11%)
Oil (WTI, barrel)	46.02 (-8.94%)

Fixed Income Yields

U.S. 2-Year Treasury	1.38%
U.S. 10-Year Treasury	2.31%
U.S. 30-Year Treasury	2.84%
U.S. High-Yield Index	5.71%

Currency Exchange Rates

Euro/Dollar	1.14
Pound/Dollar	1.30
Dollar/Yen	112.38

Do you need (more) life insurance?

The financial planning process is, by its very nature, an exercise in exploring sensitive and delicate issues. But perhaps no topic generates as much discomfort and anxiety among clients as life insurance. In general, most people—especially younger, healthier individuals with young children—find it difficult to confront the idea of their own mortality, and they subconsciously underestimate their own risk as a result.

Of course, the unfortunate fact is that no matter how healthy or cautious we may be—and regardless of our family health histories—there is a certain level of risk that is simply impossible to avoid. Sudden illnesses, car collisions, and freak accidents do sometimes happen, and any responsible financial plan must take those risks into account.

The good news is that despite their natural discomfort, most Americans seem to understand the importance of life insurance in managing financial risks. According to a 2016 study from the research association LIMRA, 70% of American households carry at least some life insurance, a figure that climbs to 80% for households with minor children. Rates of life insurance coverage are on the rise, and they now stand at an all-time high, perhaps thanks to an increasing number of employers who provide group-based insurance plans to their workers. Unfortunately, however, even as the number of insured Americans has risen, the quality of that coverage has declined—LIMRA found that the average insured household carried enough insurance to replace just 3 years of income, down from 3.5 years in 2010.

But is that 3 years of income replacement enough, too much, or just right? Just how much life insurance should we aim to have? And when should we think about getting more, or perhaps less? While navigating the life insurance landscape remains at least as much an art as a science, it's important to at least know the right questions to be asking.

Multiple approaches to insurance sufficiency

The first step in determining how much insurance is sufficient is taking inventory of your family's expected future financial needs (in other words, projected future expenses). Because these needs can vary so widely from one family to another, a number of shortcuts have become commonplace in order to generate basic "life insurance need" estimates without having to engage in a full-blown financial planning process.

Most commonly, advisors or insurance salesmen will simply apply a standard multiple to the insured person's annual income: a factor of between 6 and 10 times annual income is typical. This rule of thumb is essentially a simplified version of what is known as the "human life value" approach to life insurance sufficiency. The human life value method, as its name suggests, tries to determine how much an individual's life is "worth", in terms of some discounted amount of future earnings potential.

While the "human life value" approach is intuitive and easy to apply, it also comes with a number of shortcomings, and it often overestimates an individual's actual insurance need. For people whose income far outstrips their annual expenses, a 100% income-replacement ratio might not be necessary. Covering basic living expenses might be possible with just half of the insured person's annual income, or even less.

Most importantly, though, the human life value approach fails to consider other factors that will impact a family's ability to cover its financial needs in the event of an untimely death. First, it generally does not consider any other assets—investments, houses—that might be available to help cover expenses. In other words, a family that has already saved a significant amount of money might not be as dependent on ongoing income as the human life value approach assumes. The method also often fails to consider the ability of a surviving spouse to earn income of his or her own. Some spouses are more vulnerable than others, whether because of health or low job skills, while others may be able to benefit from Social Security survivor benefits (especially those with minor children). Finally, the human life value approach fails to account for flexibility on the expense side of the ledger. Some families have very rigid expenses (e.g. high levels of debt repayment), while others might have large discretionary expenses that could fairly easily be curtailed if necessary. A full financial needs analysis will consider all of these factors and then some, and we therefore recommend that any insurance sufficiency analysis be performed as part of a broader financial planning process.

How much insurance is enough?

This amount of life insurance:	$50,000	$100,000	$500,000	$1 million	$2 million
Can generate this much annual income for 10 years:	$4,661	$10,486	$57,092	$115,349	$231,862
Can generate this much annual income for 20 years:	$2,659	$5,983	$32,571	$65,807	$132,280
Can generate this much annual income for 30 years:	$2,009	$4,521	$24,613	$49,729	$99,960

* Assumes capital liquidation w ith 4% investment return, 28% tax rate, $10,000 funeral/final expenses

Other factors

Ultimately, the decision on an appropriate level of insurance coverage will require some fairly in-depth conversations and questions. If something did happen to a primary wage-earner, what would the surviving spouse do? Would they continue to work (or go back to work), or perhaps consider moving to a new house, new city, new state? Would they still want (or expect) to make the same levels of contributions to their children's college tuition? Would additional child care expenses be necessary?

Also, how many years of expenses need to be covered? Are we simply trying to generate enough money to smooth things out for a few years until other arrangements can be made? Or will we be counting on insurance to cover multiple decades worth of expenses? Of course, the longer the horizon in question, the more the investment strategy with the insurance proceeds will begin to matter—how much risk the surviving spouse is comfortable taking (and what the prevailing market interest rates might be) can start to impact the necessary amount of life insurance coverage.

As should be clear by now, the process of determining an appropriate level of insurance coverage is less a mathematical equation and much more a qualitative discussion about lifestyles and desires. Like so many things in the financial planning world, acquiring life insurance is a process of finding the right balance between the art and the science.

Life insurance is complicated, and deciding how much coverage to obtain is only one part of the decision. Choosing between term life and whole life, how long a term policy to select, what types of riders to add to a standard policy, or even certain tax considerations (remember, insurance death benefits are paid out *tax-free*) are all important decisions that require thoughtful planning. At Cypress, we take pride in helping our clients think through their life insurance decisions, and how their insurance fits into a broader financial plan. If you have no insurance, or you don't know if your current policy is a good one, we're happy to help out.

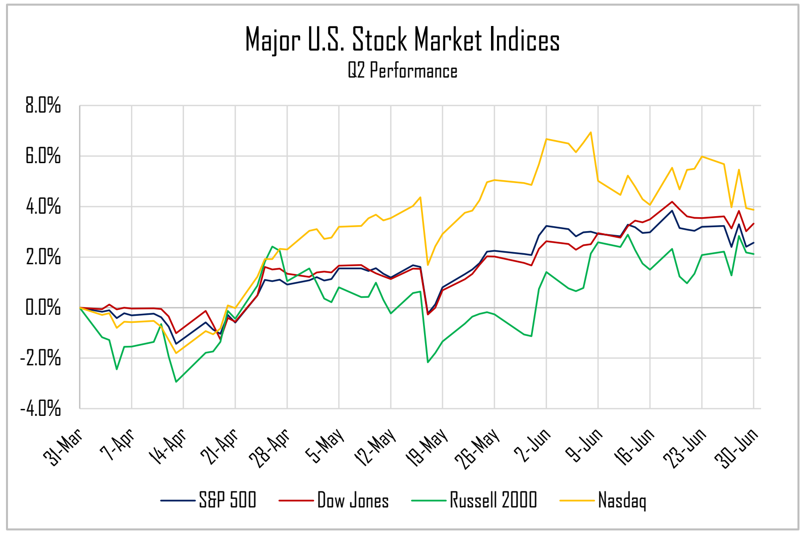
Both Amazon and Google Traded Above $1,000 Per Share During Q2

Equity Overview – Domestic Equity Markets

The S&P 500 index registered a positive return for the seventh consecutive quarter in Q2, a stretch that has seen the broad-based measure rise by a cumulative 26% (almost 31% including dividends), from a level of 1,920 to above 2,423. Dating back to the beginning of 2013, the index has now had 17 positive quarters in the last 18, with only a 7% decline in the fall of 2015 breaking the streak. That is a run that is unparalleled since the heyday of the tech boom in 1999-2000, when stock valuations briefly seemed like they may never again experience a correction.

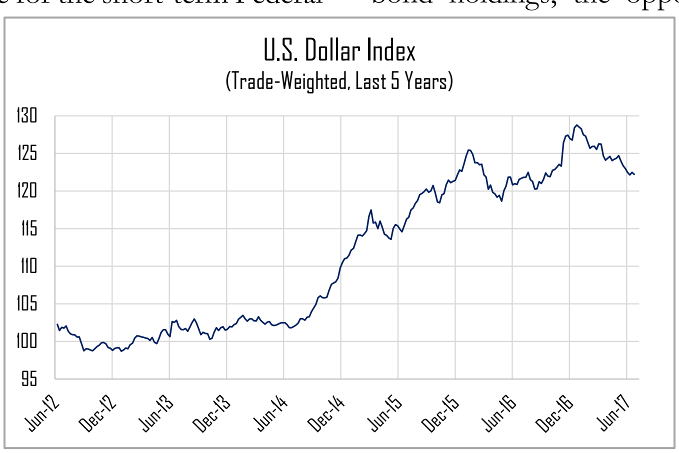
Once again in the second quarter, it was the high-flying technology stocks leading the way. By the end of May, the quintet of Apple, Amazon, Facebook, Netflix, and Google had risen by an average of 30.5% in 2017 alone, with all five stocks marking fresh all-time highs in the process. In early June, both Google and Amazon made headlines by each clearing the psychologically important $1,000 per share barrier for the first time. Shortly thereafter, however, tech stocks began to swoon, as a relatively quick correction brought the tech-heavy Nasdaq index down more than 5% in a matter of days.

But as has been the case so many times now over the last several years, the correction would be short-lived, and the major indices remained resilient. Overall earnings for the major large-cap companies have similarly rebounded after several quarters of declines (the declines were led mostly by energy companies, and those have stabilized as oil prices have recovered), and the short-term outlook for the market remains positive even as the Federal Reserve continues to raise short-term interest rates.



The Fed Keeps Hiking, But The Dollar Weakens – Currencies

At its June meeting, the Federal Reserve again voted to increase the target range for the short-term Federal Funds Rate by 0.25%, marking the second such increase this year and the fourth in the last 18 months. In general, market participants tend to expect the dollar to strengthen as rates rise, particularly as most other global central banks remain firmly in "easing" territory (more than $10 trillion in total outstanding sovereign bonds now boast negative interest rates, concentrated mostly in Europe and Japan).



But as the Fed continues selling off its short-term bond holdings, the opposite has happened. After surging to a 15-year high in the weeks following the 2016 election (leading President Trump to muse that it might in fact be "too strong"), the dollar has steadily weakened during 2017, falling more than 5% year-to-date. Of course, a weakening currency isn't necessarily bad news for the U.S. economy—for many large, export-heavy firms, earnings can actually increase as those companies' products become more competitive in international markets.

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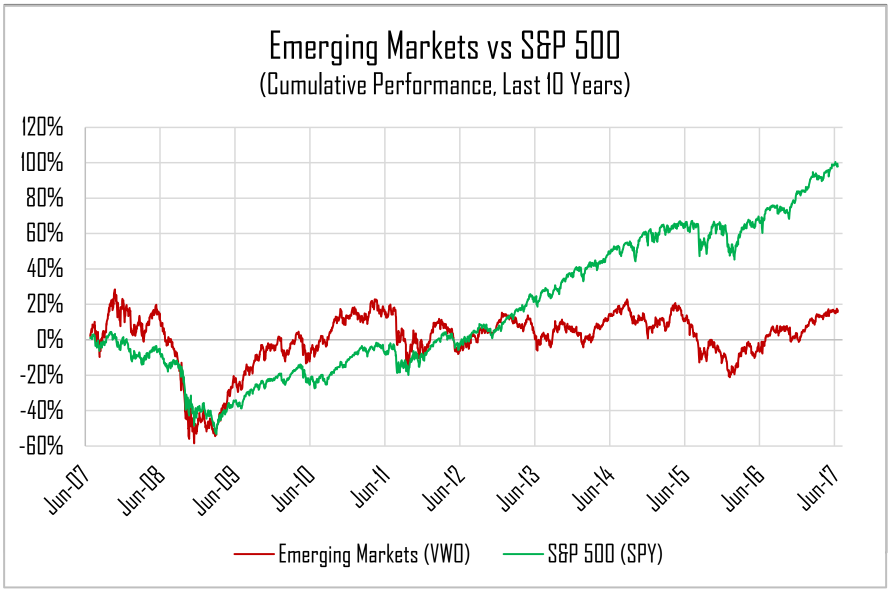
EMERGING MARKET EQUITIES HAVE BEEN THE STRONGEST ASSET CLASS IN 2017

Emerging Markets Gain A Foothold – International Equities

After several years of choppy sideways trading with little to no cumulative gains, emerging markets equities seem to have finally found some traction over the last 18 months. With year-to-date gains of roughly 15% (depending on your index of choice), emerging markets have been the best-performing asset class in the world so far in 2017, easily outpacing their U.S. and European counterparts. Combined with strong gains last year, the major emerging markets indices have now gained nearly 30% since the beginning of 2016, as compared to just 22% for the S&P 500.



Whether this is the start of a longer period of outperformance for emerging markets (and for international stocks in general) remains to be seen. While the recent gains in the sector have been strong, it's important to remember that the immediate reaction to the 2016 election result was swiftly negative for emerging markets, as concern about President Trump's protectionist rhetoric (and its potential impact on China) raised concern about the future of international trade, on which emerging market economies are heavily dependent. As the President has eased his tone with respect to international trade deals—choosing to focus on domestic issues like tax reform and health care instead—emerging markets have benefited. However, a shift in the administration's approach could bring risk back into the picture quite quickly.

For investors who do maintain an exposure to emerging markets, it bears mentioning that not all emerging markets funds are created equal—regional and national weightings can vary widely, which impacts risks and returns. For example, while both iShares' EEM fund and Vanguard's VWO fund have significant holdings in China, Taiwan, India, South Africa, and Brazil, the iShares fund gives South Korea a 15% weighting, while the Vanguard fund has no exposure at all (the FTSE index that Vanguard tracks defines South Korea as a developed market, not emerging). In most years, the difference in returns is fairly small—a percent or two difference—but it's always important to know what you own, and how your portfolio might react to global events.

The DOL Fiduciary Rule Takes Effect – Personal Finance

Despite much consternation from the Trump administration and some corners of the investment industry—and after a series of delays—the Department of Labor's new fiduciary rule finally took effect in June, significantly expanding protections to consumers and investors. While the rule still leaves room for improvement, advisors will now be required to act solely in the best interests of their clients in many more scenarios than was previously the case. The scope of the DOL rule is limited, though, and generally impacts only retirement accounts like IRAs and 401(k) plans. If you're confused about how this new rule does or doesn't affect you and your accounts, please call us and let us know. As a Registered Investment Advisor (RIA), Cypress has always worked in a fiduciary capacity with all its clients, and we will continue to do so. The impact of this rule on our clients should be minimal.

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