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Baseball is back, school nearly finished, the '69 Mustang is out of the garage and Danny is riding his Volusia with the "gang" on Sundays. Yeah! Spring!

Thanks to you, we've added 2 new members to our team. Dave Marcoccia comes out of semi-retiremeent and Angela Aston gets ready to say good-bye to Rutgers. Both are smart, client-focused and ready to serve you.

John is enjoying Nashville though making frequent (too frequent for his liking) adventures to NJ. If you find yourself in the Music City, he is ready to take you "boot scootin".

Thank you for allowing us to serve you, John and Dan.

Spring 2015

Stuck in Sideways?

A Tired Bull?

Despite a lot of drama, the U.S. stock market has been stuck in neutral so far in 2015. **A pause in the market, or even a decline, should not be a surprise since the current bull market is getting a little long in the tooth.**

Since 2009 (except for 2011), the S&P 500 has been kind to investors for six years. With the average bull market lasting 2.5 years (Standard & Poors), this one looks downright jurrasic.

Does that mean we're headed for a “bear” market with a decline of 20% or more? There are no shortage of “experts” on TV telling us what is surely going to happen. And sadly there are plenty of “advisors” taking full advantage of investor concerns as a way to push products such as REITs, exotic annuities, managed futures, “liquid alt funds”, etc. **Never underestimate the power of fear when it comes to expanding the size of a salesman's wallet.**

We must not be that smart since we have no clue where the US market is headed. And we must really be dumb since we're also clueless about the direction of Japanese stocks, German bonds, Russian ruble, Swedish warrants, Euro options, British gilts, copper, gold, etc.

But we are smart enough to know this: ?

· Irrespective of short term market gyrations, dividends are important.

· Over the long term, dividends can be incredibly rewarding. How rewarding? Since 1930, the S&P 500 achieved an annual average return of 9.3%. Dividends comprised a whopping 42% of that return (Morgan Stanley research 1/10/13).

Our Strategy

As you know, we adhere to a strict investment discipline. Our **primary focus is on asset allocation** rather than gambling your money on the investment du jour. Studies have shown that asset allocation, while not preventing portfolio losses, is the primary determinant of portfolio returns (Brinson, Hood, and Beebower).

So we spend most of our effort constructing, measuring and changing your asset allocation. Okay, so it's not as sexy as trying to pick the next Apple. But we've never been accused of being sexy.

When it comes to the stock part of our strategy, we stick with companies that pay dividends. Regardless of the market cycle, **we want to own stocks that “pay rent”.** As a client, you know we tend to over-weight certain sectors like utilities, energy, pharmaceuticals and telecom. Historically, these sectors tend to be more generous with sharing their profits with investors via dividends.

As a group, these fall into the **“value”** category (a Wall Street term for boring). Of course, there are no guarantees, dividend stocks can lose value and or cut their dividend payout.

But especially in a “sideways” market, we love dividends. So along with the other components of our investment strategy, dividend paying stocks – as they always have - play a key role in our portfolios.

Besides, there is something very cool knowing that some of the money you pay to your electric company or cell phone company may be coming back to you in the form of a dividend!

Special Needs Trusts

In 1993, Congress officially approved the use of SNTs to maximize the use of all available resources, both private and governmental, to provide more fully for the needs of the disabled.

For tax years beginning after December 31, 2014, states can establish and operate ABLE programs, allowing the establishment of ABLE accounts, which are intended to help pay for the qualified disability expenses of eligible individuals. These accounts won't replace SNTs but may be used as part of an overall strategy.

A special needs trust* (SNT), sometimes referred to as a supplemental needs trust, is a trust that is established to benefit a disabled person or a person who has special needs, while still allowing that person to qualify for and receive government health-care benefits.

*There are costs and expenses associated with the creation of a trust.

Background

Some government programs aimed at assisting the disabled, such as Medicaid and Supplemental Social Security Income (SSI), are needs-based. That means if the disabled individual has access to more than a specified level of resources (generally $2,000), he or she will not be eligible to receive such benefits. In 1993, Congress officially approved the use of SNTs to maximize the use of all available resources, both private and governmental, to provide more fully for the needs of the disabled.

For persons of limited means, government programs may constitute the primary, if not the only, source of funding for their current and future needs. However, government assistance may also be available to families who have resources available to meet their loved one's basic needs. These families may be fortunate enough to be able to use their personal resources to provide for non-basic needs as well. With an SNT, the disabled person is able to first tap into any government benefits to which he or she is entitled, and then can spend personal resources as a secondary source for additional support and comfort.

Types of SNTs

There are three types of SNTs: a self-settled or first-party SNT, a pooled SNT, and a third-party SNT.

Self-settled or first-party SNT

A self-settled or first-party SNT is created for the sole benefit of a disabled person who is under age 65. The trust must be established by the disabled person's parent, grandparent, or guardian, or by the court, but it cannot be created by the disabled person. However, the disabled person can fund the trust. For example, the disabled person could fund the trust with money that has been inherited or received in settlement of a lawsuit, or as a result of a divorce.

As previously stated, in order to qualify for Medicaid or SSI, the person who is enrolling must have a limited amount of income and resources. Generally, Medicaid and SSI will look back 60 months to see if assets have been transferred to someone else in order to qualify for benefits, and if so, a penalty is imposed. The penalty will be that the person who is enrolling won't be able to receive benefits for a certain amount of time. Transferring assets to an SNT, however, does not trigger these look-back provisions.

The other benefit of this SNT, of course, is that assets in the trust will not be countable as resources for eligibility purposes.

One disadvantage, however, is that upon the disabled individual's death, any money or assets remaining in the trust must be used to reimburse the government for Medicaid benefits extended to the individual during his or her lifetime.

Pooled SNT

A pooled SNT is a trust that is managed by a nonprofit organization. Funds are pooled for investment purposes, but separate subaccounts are maintained for each disabled beneficiary. A pooled SNT works in the same way as a self-settled or first-party SNT. However, with a pooled SNT, the disabled individual can create the account for himself or herself.

Furthermore, any funds remaining in the account upon the individual's death can be used to pay back Medicaid, or they can remain in the pooled SNT to help others in the pool, depending on state law.

Third-party SNT

A third-party SNT is a trust created by a disabled person's parent or other third party, but this type of SNT has no payback requirement. The person establishing the trust must not have a duty to support the disabled child, so the child must be age 21 or older, depending on state law. There is no requirement that the disabled person be under the age of 65. However, transfers to a third-party SNT may or may not trigger the Medicaid or SSI penalty period. Again, it depends on state law.

Conclusion

An SNT requires careful drafting and administration to avoid disqualification for government benefits. Be sure to consult a specialist.

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Saving for College: 529 Plans vs. Roth IRAs

529 plans reach the $200 billion mark

As of June 2013, assets in 529 plans totaled $205.7 billion. Virginia has the largest 529 plan, with 19% of the total assets. (Source: The College Board, Trends in Student Aid 2013).

Note

Investors should consider the investment objectives, risks, charges, and expenses associated with 529 plans before investing. More information about 529 plans is available in each issuer's official statement, which should be read carefully before investing. Also, before investing, consider whether your state offers a 529 plan that provides residents with favorable state tax benefits. As with other investments, there are generally fees and expenses associated with participation in a 529 savings plan. There is also the risk that the investments may lose money or not perform well enough to cover college costs as anticipated.

529 plans are vehicles tailor-made for college savings. But some parents like the flexibility of using Roth IRAs. So how does a favorite of the college savings world stack up against a favorite of the retirement savings world when it comes to putting money aside for college?

Contributions

529 plans: People at all income levels can contribute to a 529 plan. Lifetime contribution limits are high, typically $300,000 and up. And if certain requirements are met, 529 plans let you gift large lump sums gift-tax free--up to five years worth of the $14,000 annual gift tax exclusion, which would be up to $70,000 for single filers and $140,000 for married joint filers (in 2014).

Roth IRAs: Not everyone is eligible to contribute to a Roth IRA. Income must be below $129,000 for single filers or $191,000 for joint filers (in 2014). In addition, Roth IRAs have annual contribution limits--$5,500 per year, or $6,500 if you're age 50 or older (in 2014).

Bottom line: Only 529 plans offer unlimited eligibility and the ability to make large lump-sum gifts in a single year.

Federal tax benefits

529 plans: Earnings accumulate tax deferred and are tax free if account funds are used to pay the beneficiary's qualified education expenses (a broad term that includes tuition, fees, room, board, and books). States generally follow this tax treatment, and some offer an additional tax benefit: a deduction for 529 plan contributions.

But if 529 plan funds are used for any other purpose, the earnings portion of the withdrawal is subject to income tax *and* a 10% federal tax penalty. Essentially, Uncle Sam is telling you to use the money for college.

Roth IRAs: Earnings in a Roth IRA also accumulate tax deferred and are tax free if a distribution is qualified. A distribution is qualified if a five-year holding period is met *and* the distribution is made: (1) after age 59½, (2) due to a qualifying disability, (3) to pay certain first-time homebuyer expenses, or (4) by your beneficiary after your death.

If your distribution is not qualified, the earnings portion is subject to income tax and, if you're younger than 59½, a 10% early-withdrawal penalty (unless an exception to the penalty applies). Again, Uncle Sam is encouraging you to wait and use the money for retirement. One exception to the early-withdrawal penalty is when a withdrawal is used to pay college expenses.

So it comes down to your age. Once you've met both the age 59½ and five-year holding requirements, money you withdraw from your Roth IRA to pay your child's college expenses is tax free. But if you withdraw funds before age 59½ to pay college expenses--the likely scenario for most parents--you might owe income tax on the earnings but not an early-withdrawal penalty. (Nonqualified distributions draw out contributions first and earnings last, so you could withdraw up to the amount of your contributions and not owe income tax.)

Bottom line: 529 plans offer more potential tax benefits *if* the funds are used for college. But Roth IRAs offer greater flexibility for parents over age 59½ who are paying college bills.

Investment choices

529 plans: With a 529 plan, you're limited to the investment options offered by the plan. Most plans offer a range of static and age-based portfolios (where the underlying investments automatically become more conservative as the beneficiary gets closer to college) with different levels of risk, fees, and management goals. If you're unhappy with the market performance of the option(s) you've chosen, you can generally change the investment options for your future contributions at any time. But you can change the options for your *existing* contributions only once per year (per federal law).

Roth IRAs: With a Roth IRA, you can generally choose from a wide range of investments, and you can typically buy and sell investments whenever you like.

Bottom line: The 529 plan rule of "one investment change per year" on existing contributions may restrict your ability to respond to changing market conditions.

Financial aid

529 plans: Under federal aid rules, 529 accounts are counted as parental assets (assuming the parent is the account owner), and 5.6% of parental assets are deemed available for college expenses each year. Colleges also consider the value of 529 plans when distributing their own institutional aid.

Roth IRAs: Under federal aid rules, retirement assets are not counted at all, so Roth IRAs don't impact federal aid in any way. However, colleges may consider retirement plan balances when distributing their own aid.

Bottom line: Only 529 plans count in both federal and college financial aid calculations.

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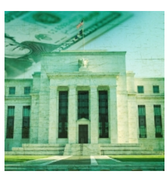

Should I be worried about a Federal Reserve interest rate hike?

After years of record-low interest rates, at some point this year the Federal Reserve is expected to begin raising its target federal funds interest rate (the rate at which banks lend to one another funds they've deposited at the Fed). Because bond prices typically fall when interest rates rise, any rate hike is likely to affect the value of bond investments.

However, higher rates aren't all bad news. For those who have been diligent about saving and/or have kept a substantial portion of their portfolios in cash alternatives, higher rates could be a boon. For example, higher rates could mean that savings accounts and CDs are likely to do better at providing income than they have in recent years.

Also, bonds don't respond uniformly to interest rate changes. The differences, or spreads, between the yields of various types of debt can mean that some bonds may be under- or overvalued compared to others. Depending on your risk tolerance and time horizon, there are many ways to adjust a bond portfolio to help cope with rising interest rates. However, don't forget that a bond's total return is a combination of its yield and any changes in its price; bonds seeking to achieve higher yields typically involve a higher degree of risk.

Finally, some troubled economies overseas have been forced to lower interest rates on their sovereign bonds in an attempt to provide economic stimulus. Lower rates abroad have the potential to make U.S. debt, particularly Treasury securities (whose timely payment of interest and principal is backed by the full faith and credit of the U.S. Treasury), even more attractive to foreign investors. Though past performance is no guarantee of future results, that's what happened during much of 2014. Increased demand abroad might help provide some support for bonds denominated in U.S. dollars.

Remember that bonds are subject not only to interest rate risk but also to inflation risk, market risk, and credit risk; a bond sold prior to maturity may be worth more or less than its original value. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.