GATEWAY
INVESTMENT MANAGEMENT
OF
RAYMOND JAMES®

THE COMMUNIQUE

JUNE 2017

MAJOR INDICES	CLOSE	MTD	QTD	YTD
S&P 500	2384.20	.91%	3.01%	8.71%
Dow Jones Industrials	20940.51	.83%	2.51%	7.19%
NASDAQ Composite	6047.61	1.99%	6.94%	17.44%

U.S. TREASURIES	YIELD
5-yr Treasury Note	1.76%
10-yr Treasury Bond	2.20%
30-yr Treasury Bond	2.86%

Information as of June 8, 2017 Source: Thomson Reuter's Thomson One

MARKET COMMENT

A Gateway Primer – Part II

As you may recall, I took a "detour" from our regular market commentary in last month's newsletter to discuss the "Who" of Gateway Investment Management (GIM). Today, I will explore the *"what and how"* we do what we do to create GIM's uniqueness.

I have often struggled over the years to describe what I do professionally when asked, "So, Jim, what do you do for a living?" What I discovered over the past 32 years was my answer was always changing and evolving from "well, I'm a stockbroker, registered rep, investment advisor, financial consultant, financial advisor, or portfolio manager." These changing titles came from a marketplace and regulatory climate that continually redefined the role of the "stockbroker." As our business has evolved from buying and selling stocks, bonds, and mutual funds, I saw clients desiring more comprehensive financial planning, a professional who places the client's interest first, and technology and regulatory changes that allow us to manage the client's assets more effectively and efficiently.

Let's take a look at the *"what"* we do for our clients. But, before I discuss the **nuts and bolts** of our process, we have to understand that our "what" is undergirded by last month's discussion of *"who"*

we are. It is the extended trust and confidence of our clients that allows our *"what"* to be effective, and we believe that this extension is a result of a **client first approach** to our business.
In today's marketplace it is imperative that our team provide a balance of **counseling, education, planning, and portfolio management.** Each of these elements are important, and widely used in the marketplace, but it is the unique process of our portfolio management (how we invest your money) that we believe creates an originality seldom seen in the financial service industry. The other critical element of *"what"* we do is the counseling or, as we say, **hand-holding**. This is the client discussions of why the stock market has declined and will it keep declining? Or why isn't my portfolio growing as fast as the stock market indices? Or why too large of an account withdrawal will affect the longevity of my assets? Or should I purchase that "fill in blank," and how will it affect my assets? I could continue, but my point is that GIM is a soundboard for many of our valued clients, and this valuable service is an important part of our business model.

Well, *"how does that work?"* The actual working of our process is based upon systems we have established with the help of our many partners, such as Raymond James, third-party research sources, and our own extensive research and discovery. The **management** we use for our portfolios models are based upon a time-tested method of using fundamental research and technical trend-following. The **planning** used for our clients is developed by a Raymond James program available on our computers at the office or remotely on our mobile devices. And, the **education** and **counseling** is centered from the many years of experience, education, and moral training our team offers.

I hope this month's commentary doesn't sound to "salesy or self-serving," but it is my desire to provide a **"primer"** that you can use to measure GIM (or anyone in the marketplace). If I were the client (which I am with my accounts), how would I go about choosing a professional to assist me in my most important financial decisions? Next month, we will complete our **"primer,"** and finish with *"why."*

As always, we welcome your comments and questions, and appreciate your continued trust.

PLANNING STRATEGY

Raymond James "Point of View" article. M17-027620

Investing in Potential

Many parents and grandparents start investigating their college savings options before a new addition to the family is even born. Why? Possibly because education is a top priority for their families, and already-expensive tuition increases almost 5% every year, according to The College Board. A child born in 2016 can expect to pay anywhere from $94,800 (public) to $323,900 (private) in tuition and fees for a four-year education in 2034, when he or she turns 18. However, saving toward that goal is much more achievable if you use the tools at your disposal wisely, particularly tax-advantaged college savings vehicles.

Not everyone is in a position to set aside money for the next generation without jeopardizing their own goals, but if you're fortunate enough to do so or if you can start early and save over time, it is worth looking into your options. Specialized savings accounts, informally referred to as 529s, should be at the top of your list because they offer preferential income and/or estate tax treatment. In fact, according to Sallie Mae's "How America Saves for College 2015," parents with a 529 plan save 89% more than those simply using a savings account. Here are a few advantages that parents and grandparents may want to consider.

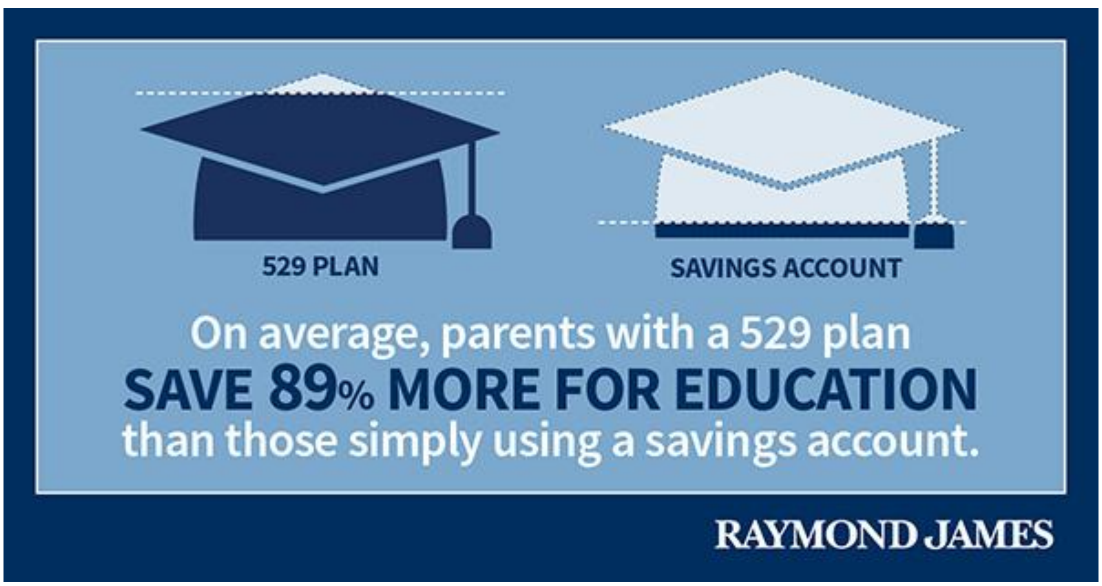
57% of parents save for college, but most of that money is held in general savings accounts, not tax-advantaged educational savings vehicles.

Source: Sallie Mae's “How America Saves for College 2016”

Capitalize on Federal and State Tax Savings

Assets contributed to a 529 on behalf of your designated beneficiary grow tax-free. Even better? The withdrawals are tax-free as long as they're used for a qualified education expense, such as tuition, room and board, and supplies, and don't exceed the actual costs.

Most 529s are state-sponsored, which could provide additional tax savings. For example, some states offer a tax benefit to residents who invest in their state's plans. Others allow a state income-tax break if you contribute to any state's plan. It's important to understand which tax deductions or tax credits may be available– especially if you reside in a state with income tax. We can help you compare potential deductions.



Take Advantage of Flexibility

Many people worry that gifting large chunks of money to a 529 means they'll irrevocably give up control of those assets. Hard to swallow, when you've worked hard to build your net worth and can't predict if you'll need that money later. The good news is that 529s allow quite a bit of control, especially if you title the account in your name. At any point, you can get your money back. Of course, that means it becomes part of your taxable estate again, subject to your nominal federal tax rate, and you'll have to pay an additional 10% penalty on the earnings portion of the withdrawal if the money isn't used for your designated beneficiary's qualified higher education expenses.

What if your beneficiary receives a scholarship or financial aid? Well, you've got options here, too.

- First, you can earmark the money for other types of education, like graduate school.
- Second, you can change the beneficiary, as many times as you like, since most 529s have no time limits. You just need to do so before the new recipient actually heads to college. This option is particularly helpful if your designated beneficiary chooses not to go to college at all.
- Third, you can take the money and pay the taxes on any gains. Normally, you'd expect to pay a penalty on the earnings, too. But that's not the case for scholarships. The penalty is waived on amounts equal to the scholarship as long as they're withdrawn the same year the scholarship is received. Of course, you can always use the funds to pay for other qualified education expenses, like room and board, books and supplies, too.

Plus, many plans offer you diversified portfolios allocated among stocks, bonds, funds, CDs and money market instruments, as well as age-based portfolios that are more growth-oriented for younger beneficiaries and less aggressive for those nearing college age.

Bypass Gift Taxes for Five Years

A grandparent, or anyone really, can contribute up to $14,000 a year per person ($28,000 if married filing jointly, for 2017) with no gift tax consequences. Better yet, if you can swing it, you can "super fund" your 529 using the five-year accelerated gift election, a lump sum gift of $70,000 per contributor ($140,000 for married couples). The catch here is that you can't make additional gifts for the next five years, but your larger gift now has the opportunity to compound tax-free over a longer time.

Minimize Potential Estate Taxes

Estate tax benefits can be significant, especially if you have a large number of kids or grandkids you want to benefit. Once a 529 plan is funded, it is considered a completed gift to the beneficiary for federal estate tax purposes even though the owner retains full control of the account. It shifts assets out of your estate (unless you make yourself the beneficiary) and can grow tax-free until needed. If opting for a five-year election, the contributor must outlive the election or it will be prorated back on a calendar year basis.

Give Generously

Lastly, it doesn't matter how much you make, you can contribute to a 529 for anyone of any age, including yourself if you plan to go back to school. And lifetime contributions are generous as well. Depending on the state, you can contribute more than $200,000 to help your future learner avoid or minimize student debt.

What About Financial Aid?

Most Americans supplement their contributions to college expenses with financial aid of some sort, but aren't quite sure how college savings could affect future aid. There are some things to consider with 529s. You have to decide how to title the account – who will own it and who will be the beneficiary. Is it better to own the 529 plan and make your child or grandchild the beneficiary or to put the 529 plan in the beneficiary's name outright? Another option for grandparents and aunts and uncles is to contribute to an existing 529, opened and owned by the child's parents.

- **Did you know?** *You can avoid gift taxes altogether if you make tuition payments directly to a higher education institution even after you've reached your annual federal gift-tax exclusion limits. Doing so doesn't chip away at your lifetime gift exemption either, but it is likely to adversely affect financial aid applications.*

The difference is how the distributions will be treated when it comes to seeking financial aid using the common Free Application for Federal Student Aid (FAFSA) form. The FAFSA form is the key to unlocking some portion of $150 billion in available federal tuition assistance. No reason to leave money on the table if it could be better deployed to achieve your own goals, right? These decisions can be complicated, and we are happy to offer some helpful advice beyond the basics offered below.

If the 529 is owned by the parents

In this case, 5.64% of the assets in the 529 plan will be counted toward something called the Expected Family Contribution (EFC). That amount is recalculated each year based on the end value of the account, which will steadily decline since funds will be used to pay for education expenses. If the student owns the account, 20% of the balance counts toward the student's expected contribution. That's the case for any student-owned assets, so it's important to title assets appropriately.

If the 529 is owned by anyone but the beneficiary

Technically, if the account is owned by someone other than a custodial parent or student, such as a grandparent, it is not counted for financial aid purposes. However, the distributions are. FAFSA treats the distributions as the student's income – even if it's a qualified tax-free distribution for income-tax purposes, so this has the potential of limiting the value of your gift. However, this may be avoided by delaying 529 distributions until after the student has completed his or her FAFSA application for their junior year or later. FAFSA calculations consider income from what's called the prior-prior year – for the 2017-2018 FAFSA that would mean using your 2015 tax return – so the income from distributions won't be a factor toward the end of a college career.

Not every institution relies on the federal financial aid form. Some use the CSS/Financial Aid Profile from The College Board instead, which reports and treats 529 assets as available assets, regardless of how they're owned.

The Free Application for Federal Student Aid, known as FAFSA, is the first step to receiving your share of $150 billion in loans, grants and work-study funds for college or career schools.

Set Your Course Now

Saving for college doesn't have to be daunting, just disciplined. It helps to take advantage of investment vehicles designed to help you along the journey. Each has its benefits and considerations, so it's wise to talk to your professional advisor before making a years-long commitment. For example, 529s, like many other investments, come with fees and are subject to market fluctuations, unless you opt for a prepaid account. And you can only make changes to your asset allocation twice a year.

On the plus side, 529s have higher contribution limits, no income limits and a low impact on financial aid eligibility. They allow for tax- and penalty-free withdrawals of principal at any time and for any purpose. The earnings portion, however, must be spent toward qualified higher education expenses. Any leftover funds withdrawn will incur federal income tax and a 10% penalty.

LIFE & LEISURE

Raymond James "Point of View" article M17-023787

Small Steps to a Better You

What does it mean to invest in our health? While eating that apple a day is still a great idea, there are many factors, including things you already do and enjoy (like sleeping comfortably and spending time with family), that can nourish your mind, body and spirit. Some of the latest insights from science and research suggest that our DNA doesn't hold all the power when it comes to good physical, mental and, yes, even financial health.

Whether you're in retirement or still planning for it down the road, making healthier lifestyle choices could help you shave off added healthcare expenses and save those dollars for the things you care about most. Even small tweaks to established habits can reap significant benefits in terms of the length and quality of our lives. Here's what we mean.

Mind Over Genes

It would be perfectly understandable to assume that the physical characteristics and DNA you're born with reign superior, but science shows that's not necessarily true. We all know that healthy lifestyle changes – eating vegetables and exercising – can have a positive impact on our overall well-being. But did you know that lifestyle changes – including eating better, exercising, managing stress and devoting more time to loving relationships – could give you the power to change the way your genes are expressed for the better?

In his Ted Talk, Dr. Dean Ornish – a physician and founder of the nonprofit Preventive Medicine Research Institute – shares that in a study on men with prostate cancer more than 500 genes were favorably changed when participants made comprehensive lifestyle changes. That means they were able to "turn *on*" disease-preventing genes and "turn *off*" the disease-promoting ones. His research has shown that we may be able to stop or slow the progression of early prostate and breast cancer, slowing tumor growth by 70% in patients who made these changes.

80% of all heart disease, stroke and Type 2 diabetes, and up to 40% of cancer could be prevented if people quit using tobacco, ate more healthily and exercised more.

Source: World Health Organization

Brainy and Better Looking

It's also been found that when people lead a healthier lifestyle, the brain gets more blood flow and oxygen and actually grows in size. In a study published in *Nature Neuroscience*, participants who walked for just three hours per week over three months developed enough new neurons that the size of their brains measurably increased. Living healthy also increases blood flow to your skin and heart, reducing signs of aging and reversing heart disease.

Certain foods are actually proven to increase your brain cells, including chocolate, tea and blueberries. (Yes, chocolate!)

The Restorative Powers of Sleep

Truly a cure-all, sleep has been credited with a litany of beneficial side effects including improvement of short-term memory and better mood, relieving symptoms of anxiety and depression. In a study of more than 900 women, a bad night's sleep affected their happiness as much as pressing work deadlines and differences in income among the group.

Sleep is also proven to boost our ability to learn. In a study, participants were given a visual discrimination task and then required to stay awake for the next 30 hours. They then slept for two full nights before trying the task again. The result? No significant signs of improvement from their first try, despite having plenty of time to catch up on their sleep. It seems we're better able to retain information if we get proper rest after learning something new. Teenagers everywhere may already know this.

Starve a fever; rest a cold?

Those who sleep less than seven hours a night are three times more likely to catch a cold than those who get eight hours of sleep or more.

And it's not just in our heads. Sleep has a powerful influence on our physical health, as well. You might already be active, but a lack of sleep could keep you from building muscle. In a study of women published in *Clinical and Experimental Dermatology*, researchers also found well-rested skin was better able to recover from ultraviolent light exposure than participants who slept five hours or less.

Keep Your Friends Closest

There's a reason you've heard the phrase "support system" throughout your life. As social creatures, it's proven that we benefit from our relationships, be they romantic, familial or friendships – but exactly how important are they?

Just like sleep and healthy eating, quality relationships greatly influence our happiness and longevity. In one particular study of more than 300,000 people, researchers found that those lacking strong relationships faced an increased risk of premature death by 50%. This rate is roughly similar for those who smoke up to 15 cigarettes a day, and greater than obesity and a lack of exercise.

Even more impressive evidence can be found in the Harvard Study of Adult Development, where 700 men were studied over 75 years. When researchers looked at the well-being of the participants at age 50, the best predictor of their health at age 80 wasn't their cholesterol levels, but whether they had strong relationships with their spouses, friends or family.

If you're looking to boost your health and quality of life, no step is too small to incorporate, whether it's scheduling a family game night or going for walks around the block. And who knows? Taking those measures could even help you save healthcare dollars down the road, allowing you to put them toward the things you enjoy and care about most.

Quote of the Month: "Plans are nothing, planning is everything" – Dwight D. Eisenhower

For questions or additional information please contact:
Raymond James & Associates
9900 Clayton Road, Saint Louis, Missouri 63124

Jim Pohlman, CFP®
Senior Vice President, Investments
James.Pohlman@raymondjames.com
T 314-214-2122

Hunter Martiniere, J.D
Financial Advisor
Hunter.Martiniere@raymondjames.com
T 314-214-2152

Planning - http://www.raymondjames.com/pointofview/investing-in-potential
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