GATEWAY
INVESTMENT MANAGEMENT
OF
RAYMOND JAMES®

THE COMMUNIQUE

MAY 2017

MAJOR INDICES	CLOSE	MTD	QTD	YTD
S&P 500	2384.20	0.91%	0.91%	6.49%
Dow Jones Industrials	20940.51	1.34%	1.34%	5.96%
NASDAQ Composite	6047.61	2.30%	2.30%	12.34%

U.S. TREASURIES	YIELD
5-yr Treasury Note	1.82%
10-yr Treasury Bond	2.29%
30-yr Treasury Bond	2.96%

Information as of April 28, 2017 Source: Thomson Reuter's Thomson One

MARKET COMMENT

A Gateway Primer

As a nice change of pace, I thought it might be a worthy idea to take a break from my market comments – which you can hear *ad nauseum* from any 24-hour business news program – and discuss some distinctive characteristics of our team, Gateway Investment Management. This will be a multi-part series and, this month, I will focus primarily on the "who" of our business. The following weeks will cover the topics of "what, how, and why" we operate the way we do.

The "Who": The obvious answer is Jim and Hunter, but names are easily replaceable and interchangeable. As such, I think the key component to any name is the *character, experience, knowledge, motives, and core beliefs* of the actual individual. And that's exactly what I want to focus on in this article – what are the Gateway Group's core beliefs?

Now, I have to admit, the initial reason I entered this business some thirty-plus-years ago was the earnings potential. While this is certainly not a bad factor to consider in seeking employment, if it had been my only, or even my primary, long-term motive, my business career as an investment adviser would have been very (very) short-lived. My decisions would have been based solely on what was best for me and not what was in the client' best interest. Fortunately, I realized early on that putting my clients first was the best practice for building long-term relationships and, after 32 years, many of our original clients still remain (and new generations of those clients now seek our services).

Personally, I can thank my parents, trusted friends, and mentors for instilling in me a desire to constantly improve my business model, pursue education and experience, and think deeply about life's big questions. In fact, some of those" big" questions have shaped the way the Gateway Group conducts its business and there is no more important example than: *How would I like being treated as a client?* This existential exercise naturally leads to questioning topics such as: *What is a fair fee to charge? How much risk should be taken? ect*. While this may seem like a rudimentary practice to some, it is the backbone of our business model. However, that is just one facet of questions that we must address if we wish to truly serve the needs and interests of our clients. There are also questions pertaining to ethics and morality that are unavoidable in our society. In these situations, the Bible has been a constant resource for our team, along with advice from mentors, and the reading of the "great books of antiquity."

As a result of my pontification, I believe that Gateway's vision is driven by these two "big" questions:

- How can we build long-term relationships with our clients?
- How can we enhance our clients' lives through our services?

I know Hunter agrees – and he is another building block to the foundation and implementation of Gateway's long-term vision. His presence on the team provides a youthful longevity to our business model and brings a diverse background and desire to improve our use of technology to serve our clients. His fresh way of thinking and a legal degree also provides our team with a unique perspective. And, most importantly, our core beliefs have melded well and offer us the ability to challenge each other to do the best for our clients.

It's not that missteps and mistakes will not occur – they most certainly will in this imperfect world – but it is how we respond to those mistakes and missteps that build the character of who we truly are.

In the end, words have meaning, but it is the actions that take place day-to-day, year-after-year, that builds the trust and confidence in client relationships. It is our hope that our actions and words ring true to you.

Welcome Message

On May 8th we officially welcomed Vickie Bollinger to the Gateway Investment Management team. Vickie will serve as our new administrative assistant and will take over the duties previously performed by Naomi. We welcome Vickie to the team as we look forward to the immense value she will add to our clients.

Background:
Vickie is a native Missourian with almost 20-years of experience in the financial services industry. Through that time, Vickie has garnered extensive knowledge of different investment philosophies and products, back-office processes and procedures, and client service skills that will help her improve the way we serve our valued clients. Moreover, Vickie maintains all of her security licenses and can, therefore, help you with any transactions you may wish to pursue. Vickie has also received numerous awards from previous employers in relation to outstanding customer service.

Please welcome Vickie to the Gateway Group.

PLANNING STRATEGY

Raymond James "Point of View" article. M17-013092

The Twists and Turns of Social Security

Social Security is complicated. This world of confusion stems from all the factors that have to be accounted for, including your age, income, marital status, health and life expectancy. With Social Security accounting for nearly 40% of most Americans' retirement income, it's important to get your filing decision right or as close to it as possible.
Don't worry, it can be done. Specialized software can help illustrate the likelihood and potential impact of various choices, but you'll want to start the planning process well before you file a claim. Preparation is key.

Three Main Types of Benefits

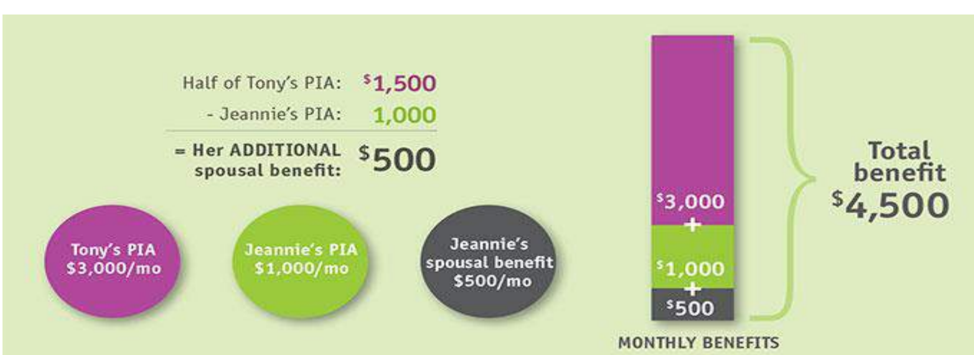
1. Benefits for Workers

You must have worked and contributed to the system for at least 40 quarters (10 years) to be entitled to what's known as your Primary Insurance Amount (PIA) at "full retirement age" (FRA), somewhere between 66 and 67, depending on the year you were born. You can file as early as 62, but be warned, you'll be locking in 25% lower payments for life if you do. File after FRA and you start racking up delayed retirement credits. What does that mean? For every year you wait to file after you reach FRA, you'll get an 8% raise in benefits. Even better, adjustments for cost of living (think inflation-fighting protection) also get factored in and will compound over time.

2. Benefits for Spouses

Spousal benefits offer your spouse steady income based on your work record – a boon, especially for spouses who didn't work or were the secondary breadwinner. Your spouse can start collecting at age 62, but you must have filed for benefits first. Spousal benefits, unlike the worker benefit, do not earn delayed retirement credits after FRA, but could incur reductions if you take spousal benefits before your own FRA.

Let's illustrate some of these benefits with an example. Jeannie is married to Tony, who made significantly more during his career. Both are 62 and eligible for benefits. Jeannie may be able to claim on Tony's record, but first we need to figure out what her own PIA would be at her FRA of 66. If Jeannie's PIA is less than half of Tony's, then she qualifies for spousal benefits, but only if Tony files for benefits first. Then she would receive a spousal benefit that equals half of Tony's PIA minus her own. In reality, she'll receive two benefits – her own worker benefit plus the spousal benefit. Tony's PIA is $3,000 a month at 66, his FRA. Jeannie's PIA is $1,000 a month. When they both file at age 66, Tony will receive $3,000 and Jeannie will receive $1,500 comprised of her own record plus the additional spousal benefit, so *their household monthly benefit would be $4,500*.



If the higher earner files early:

Here is where it gets a bit more complicated. If Tony files before FRA at 66, he permanently reduces his monthly benefit. But Jeannie could wait until her 66th birthday to start benefits and would still receive the full $1,500. Spousal benefits don't get reduced if the higher earner files early, nor do they grow if the higher earner delays filing past FRA.

But there's a twist. Once Tony files, Jeannie can't pick and choose one benefit over the other. Those born before Jan. 1, 1954 do get the choice, however, using a strategy commonly known as a restricted application, if they wait until full retirement age to file. Jeannie was born a little later, so she'll have to claim both her worker and her spousal benefits.

If the lower earner files early:

Remember, spouses cannot start spousal benefits until the higher earner files first. So if Jeannie wants the reliability of Social Security income before Tony does, she can file for only her own worker benefits, and those will be subject to a reduction if she files before FRA. Once Tony files at age 66, she'll get her spousal benefit, too.

3. Benefits for Survivors

Couples who want to ensure the surviving spouse gets the largest benefit possible after a loss should pay careful attention to the rules that govern survivor benefits. In this case, delaying Social Security increases your own benefit as well as the lifetime benefit for your widow or widower. It can kick in as early as age 60, so this can be particularly beneficial for couples with a substantial age difference between them. Your loved one will receive whichever is higher: their current benefit or your current benefit (both would be adjusted for inflation). Since the lower benefit will drop off in favor of the higher one, it may not always make as much sense for a lower earner to delay taking Social Security.

So if Jeannie loses Tony at age 82, her benefit will switch from $1,000 a month (her PIA) to $3,000 a month based on his PIA, plus any cost of living adjustments (COLAs) that occurred between when he filed at age 66 and when he passed away 16 years later. If Tony had delayed taking benefits even longer, Jeannie would be able to collect on his now-much-higher record for the rest of her life. That higher lifelong income provides an additional cushion as longer lifespans may result in greater healthcare and living expenses, as well as higher inflation.

Love and Marriage

If you're single, timing is everything when it comes to filing for Social Security. Delaying earns you an extra 8% for every year you wait past your FRA until age 70, plus whatever the COLA adjustments were for the ensuing years.

Married couples need to do a little more math in order to maximize their total Social Security benefits. Let's take a look at a few of the more common strategies. We are happy to run hypothetical scenarios with your specific numbers to help you determine which filing strategy puts you ahead of the game.

Main Breadwinner Delays Benefits

If the higher earner delays filing, not only will that person get an increased benefit for every year they wait, their spouse will, too, should they outlive the main breadwinner. Too many people focus on their individual benefit without considering the added twist of survivor benefits. But if you take that into account in your calculations, you may find that it makes more sense for the lower earner to start benefits as soon as you need income, while the higher earner racks up delayed retirement credits. When the higher earner passes away, the lower earning spouse will step up to the higher survivor benefits, which will add a level of income protection for life.

Maximize Spousal Benefit

The idea behind this strategy is to delay the higher earner's benefit. Since spousal payouts don't benefit from delayed credits, Tony may wish to start his benefit at FRA (66 in his case), allowing Jeannie to start her spousal benefit. If Tony were older than Jeannie, he'd want to delay his own benefits until she reaches her FRA, thus benefiting from delayed retirement credits and maximizing her spousal benefit.

But remember the restricted application twist mentioned earlier. Those born before Jan. 1, 1954 get a choice between filing for their own benefits or spousal benefits when they reach FRA. Everyone else will be deemed to be applying for both and will automatically receive the higher of the two benefits.

For those who still qualify, here's how a restricted application for spousal benefits works. Like with regular spousal benefits, the other spouse files for worker's benefits first. The second spouse can apply for just spousal benefits at FRA, collect for several years until age 70, and then switch over to their own worker benefit, which will grow by 8% plus any cost-of-living adjustments every year they wait.

Twists and Turns in Your Life

Should you find yourself in changing circumstances – dealing with a loss of a loved one or ending a marriage – there are strategies that can help you avoid short-term financial hardship and solidify your long-term retirement income during and after these times of transition. These strategies aren't all that dissimilar from the spousal options we just discussed.

Filing on Your Ex's Record

Yes, you can do this. It's almost exactly the same process as filing for spousal benefits, except you must have been married for at least 10 years and remain unmarried while you collect on your ex's record. If you've been divorced for two years, your ex doesn't even have to file for benefits for you to qualify. He or she merely has to be eligible for benefits (e.g., at least age 62). Plus, your (ex-)spousal benefits in no way affect your ex's benefits or any benefits that would be owed to a future spouse. You can even collect if your ex remarries.

Here's another twist: You can even file a restricted application for spousal benefits based upon your ex-spouse's record if you were 62 by the end of 2015. Survivor benefits may also apply.

Dealing with a Loss

For widows and widowers under age 60 who have worked for at least 10 years, you have choices to make between your survivor and worker benefits. Typically, you'd claim the higher of the two when you initially file, but in some cases, you can integrate both.

Widows and widowers are among the few who can claim benefits before age 62, so you have the option to start your survivor benefit at the earliest age possible – age 60 – and switch to your own worker benefit when you turn 70, when it'll reach its maximum thanks to delayed retirement credits and COLAs. You can deploy this strategy at any point between age 60 and 70.

Or you can reverse the order, but you'll have to wait two years before you can start. If you made less than your spouse, you have the option to claim your own worker benefit as early as age 62, then switch to your higher survivor benefit at FRA. Again, there's no reason to wait longer than that because survivor benefits don't earn delayed retirement credits.

Finding the Right Path for You

Even though the Bipartisan Budget Act of 2015 restricted the use of certain popular Social Security claiming strategies, you still have options to help you and/or your spouse maximize your benefits. Remember, there's no one "best" strategy for anyone. The right strategy for you depends on your PIA and that of your spouse, as well as your health and financial status.

You can find out your expected Primary Insurance Amount (PIA) by signing up for a Social Security account and monitoring your estimated benefits. You can run what-if scenarios with your advisor to map out just what will happen if you file at 62, 66 or 70; what could happen if one or both of you fall ill or any combination of key factors. The point is the best answer may not be what you first thought.

LIFE & LEISURE

Raymond James "Point of View" article M14-3933

Nurturing Moneywise Children

Parents often emphasize the importance of education to their beloved children. The rewards are obvious. Yet all too many forget to bolster that education with real-world financial information that can be passed along for generations to come.

The good news is it's never too early to share financial wisdom, to teach your children the value of money and how to care for their financial legacy. In fact, the sooner you start, the better. When they're on their own, you'll have the comfort of knowing they understand and appreciate the power of financial planning and the role money plays in their lives.

Financial lessons can start as early as the toddler years and extend through middle age, when your adult children will need to know as much as possible about your financial life. Conversations should focus on holistic planning, saving and spending. It's about how you build wealth and what you do with it to achieve your goals. You might be able to use real-life examples, like a new home purchase, to explain a particular financial lesson.

It seems obvious, but the best way to pass on your own financial literacy is by example. Parents need to establish themselves, early on, as moneywise adults. Just as unhealthy, bad habits get passed on to children by example, so too can risky money management techniques. The next generation may struggle to overcome poor habits they've been taught over the years.

A Family Affair

Grandparents also have a role to play, as long as what they pass along is in line with your values and attitudes toward money. They often have insights, gained from years of experience that can be shared. You may even learn a thing or two as you build your family's financial legacy together.

While products such as trusts and wills can help ensure your wishes are carried out, they can't give your heirs the true understanding of how to save, grow and spend money wisely. In fact, if your children are going to receive a sizable inheritance, they may get overwhelmed by sudden wealth without a solid foundation to rely on. It's also a good idea to introduce your children, when they're ready, to your financial advisor and other professional partners, so they'll know where to find expert guidance when dealing with money issues.

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

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