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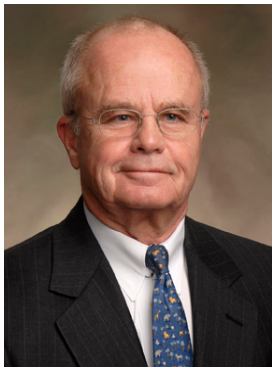
*Summer 2015*

# Investor's Quarterly

## Market and Economic Commentary

*“Whenever you find yourself on the side of the majority, it’s time to pause and reflect.”*

– Mark Twain



### Greek drama plays out on a global stage

The second quarter ended with all eyes on Greece after the country failed to reach an agreement with its creditors. The impasse resulted in shuttered banks and imposed capital controls, at least until a July 5 referendum on whether to accept further austerity measures in exchange for a European bailout. The Mediterranean country also defaulted on its 1.5 billion payment to the International Monetary Fund (IMF). Eurozone and domestic markets tumbled on news of the continuing debt drama, with the Dow Jones, broad-market S&P 500 and the EAFE international indices dipping slightly into negative territory for the quarter. Of the three major domestic benchmarks, only the NASDAQ gained ground since March.

	6/30/15 Close	3/31/15 Close	Change	Gain/Loss
DJIA	17,619.51	17,776.12	– 156.61	– 0.88%
NASDAQ	4,986.87	4,900.89	85.98	1.75%
S&P 500	2,063.12	2,067.89	– 4.77	– 0.23%
MSCI EAFE	1,842.46	1,849.34	– 6.88	– 0.37%

\*Performance reflects price returns as of 4:15 p.m. EDT, June 30, 2015.

Some investors view the near-term volatility as a buying opportunity. “The eurozone is going to take any steps necessary to protect its financial system,” believes Raymond James Chartered Market Technician Andrew Adams, “therefore, I continue to think Europe is going to be a favorable place to invest.”

The S&P 500 had been working its way toward its all-time high this month, but lost ground as the Greek crisis dragged on. Improving economic data (e.g., strong, steady pace for job growth with more

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## Market and Economic Commentary *(continued)*

than 3 million jobs added in the past 12 months) came on the heels of the government's negative estimate of first-quarter GDP. However, that softness reflected the transitory impact of bad weather, West Coast port delays and a stronger dollar.

“Other measures, such as national income and domestic final sales, continued to reflect expansion in the first half of the year,” notes Chief Economist Scott Brown, “and the economy appears to be picking up steam heading into the second half.”

The Federal Reserve maintains that future monetary policy decisions will be data-dependent and expects conditions to warrant an initial increase in short-term interest rates by year-end with future increases expected to be very gradual. Policymakers will continue to watch overseas markets, as well, for signs of an adverse impact on our own economy.

“Concerns about the rest of the world (Greece, China, Latin America, and Puerto Rico) may be with us for a while,” says Brown, “but the fundamentals of the U.S. economy appear to be in good shape.”

I will continue to update you on relevant geopolitical events and market movements, especially if I come across anything that could impact your long-term financial plan.

*Investing involves risk, and investors may incur a profit or a loss. Past performance is not an indication of future results and there is no assurance that any of the forecasts mentioned will occur. Investors cannot invest directly in an index. The Dow Jones Industrial Average is an unmanaged index of 30 widely held stocks. The NASDAQ Composite Index is an unmanaged index of all common stocks listed on the NASDAQ National Stock Market. The S&P 500 is an unmanaged index of 500 widely held stocks. The MSCI EAFE (Europe, Australia, Far East) index is an unmanaged index that is generally considered representative of the international stock market. International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets. The performance noted does not include fees or charges, which would reduce an investor's returns. There is no assurance the trends mentioned will continue or any forecasted events will occur.*

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# Financial Planning



## How Grandparents Can Help Grandchildren with College Costs

As the cost of a college education continues to climb, many grandparents are stepping in to help. This trend is expected to accelerate as baby boomers, many of whom went to college, become grandparents and start gifting what's predicted to be trillions of dollars over the coming decades.

Helping to pay for a grandchild's college education can bring great personal satisfaction and is a smart way for grandparents to pass on wealth without having to pay gift and estate taxes. So what are some ways to accomplish this goal?

### Outright cash gifts

A common way for grandparents to help grandchildren with college costs is to make an outright gift of cash or securities. But this method has a couple of drawbacks. A gift of more than the annual federal gift tax exclusion amount – \$14,000 for individual gifts and \$28,000 for gifts made by a married couple – might have gift tax and generation-skipping transfer (GST) tax consequences (GST tax is an additional gift tax imposed on gifts made to someone who is more than one generation below you). Another drawback is that a cash gift to a student will be considered untaxed income by the federal government's aid application, the FAFSA, and student income is assessed at a rate of 50%, which can impact financial aid eligibility.

One workaround is for the grandparent to give the cash gift to the parent instead of the grandchild, because gifts to parents do not need to be reported as income on the FAFSA. Another solution is to wait until your grandchild graduates college and then give a cash gift that can be used to pay off school loans. Yet another option is to pay the college directly.

### Pay tuition directly to the college

Under federal law, tuition payments made directly to a college aren't considered taxable gifts, no matter how large the payment. So grandparents don't have to worry about the \$14,000 annual federal gift tax exclusion. But payments can only be made for tuition – room and board, books, fees, equipment, and other similar expenses don't qualify. Aside from the obvious tax advantage, paying tuition directly to the college ensures that your money will be used for the education purpose you intended, plus it removes the money from your estate. And you are still free to give your grandchild a separate tax-free gift each year up to the \$14,000 limit (\$28,000 for joint gifts).

However, colleges will often reduce a student's institutional financial aid by the amount of the grandparent's payment. So before sending a check, ask the college how it will affect your grandchild's eligibility for college-based aid. If your contribution will adversely affect your grandchild's aid package, particularly the scholarship or grant portion, consider gifting the money to your grandchild after graduation to help him or her pay off student loans.

### 529 plans

A 529 plan can be an excellent way for grandparents to contribute to a grandchild's college

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## Financial Planning *(continued)*

education, while simultaneously paring down their own estate. Contributions to a 529 plan grow tax deferred, and withdrawals used for the beneficiary's qualified education expenses are completely tax free at the federal level (and generally at the state level too).

There are two types of 529 plans: college savings plans and prepaid tuition plans. College savings plans are individual investment-type accounts offered by nearly all states and managed by financial institutions. Funds can be used at any accredited college in the United States or abroad. Prepaid tuition plans allow prepayment of tuition at today's prices for the limited group of colleges – typically in-state public colleges – that participate in the plan.

Grandparents can open a 529 account and name a grandchild as beneficiary (only one person can be listed as account owner, though) or they can contribute to an already existing 529 account. Grandparents can contribute a lump sum to a grandchild's 529 account, or they can contribute smaller, regular amounts.

Regarding lump-sum gifts, a big advantage of 529 plans is that under special rules unique to 529 plans, individuals can make a single lump-sum gift to a 529 plan of up to \$70,000 (\$140,000 for joint gifts by married couples) and avoid federal gift tax. To do so, a special election must be made to treat the gift as if it were made in equal installments over a five-year period, and no additional gifts can be made to the beneficiary during this time.

**Example:** *Mr. and Mrs. Brady make a lump-sum contribution of \$140,000 to their grandchild's 529 plan in Year 1, electing to treat the gift as if it were made over 5 years. The result is they are considered to have made annual gifts of \$28,000 (\$14,000 each) in Years 1 through 5 (\$140,000 / 5 years). Because the amount gifted by each grandparent is within the annual gift tax exclusion, the Bradys won't owe any gift tax (assuming they don't make any other gifts to this grandchild during the 5-year period). In Year 6, they can make another lump-sum contribution and repeat the process. In Year 11, they can do so again.*

Significantly, this money is considered removed from the grandparents' estate, even though in the case of a grandparent-owned 529 account the grandparent would still retain control over the funds. There is a caveat, however. If a grandparent were to die during the five-year period, then a prorated portion of the contribution would be "recaptured" into the estate for estate tax purposes.

**Example:** *In the previous example, if Mr. Brady were to die in Year 2, his total Year 1 and 2 contributions (\$28,000) would be excluded from his estate. But the remaining portion attributed to him in Years 3, 4, and 5 (\$42,000) would be included in his estate. The contributions attributed to Mrs. Brady (\$14,000 per year) would not be recaptured into the estate.*

If grandparents want to open a 529 account for their grandchild, there are a few things to keep in mind. If you need to withdraw the money in the 529 account for something other than your grandchild's college expenses – for example, for medical expenses or emergency purposes – there is a double consequence: the earnings portion of the withdrawal is subject to a 10% penalty and will be taxed at your ordinary income tax rate. Also, funds in a grandparent-owned 529 account

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## Financial Planning *(continued)*

may still be factored in when determining Medicaid eligibility, unless these funds are specifically exempted by state law.

Regarding financial aid, grandparent-owned 529 accounts do not need to be listed as an asset on the federal government's financial aid application, the FAFSA. However, distributions (withdrawals) from a grandparent-owned 529 plan are reported as untaxed income to the beneficiary (grandchild), and this income is assessed at 50% by the FAFSA. By contrast, parent-owned 529 accounts are reported as a parent asset on the FAFSA (and assessed at 5.6%) and distributions from parent-owned plans aren't counted as student income. To avoid having the distribution from a grandparent-owned 529 account count as student income, one option is for the grandparent to delay taking a distribution from the 529 plan until any time after January 1 of the grandchild's junior year of college (because there will be no more FAFSAs to fill out). Another option is for the grandparent to change the owner of the 529 account to the parent.

Colleges treat 529 plans differently for purposes of distributing their own financial aid. Generally, parent-owned and grandparent-owned 529 accounts are treated equally because colleges simply require a student to list all 529 plans for which he or she is the named beneficiary.

**Note:** Investors should consider the investment objectives, risks, charges, and expenses associated with 529 plans before investing. More information about specific 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.

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# Our Opinion

## It's all about China

A lot is being said about the Chinese economy, its stock market and possible effects upon the global economy. China's market is state sponsored, and the theory goes; Beijing can produce any economic outcome it wants to. After all, look at its growth rate, over 10% for the last 30 years. (However, now it is down to 7% and I feel will drop further in the years to come.) Do they have some magic wand? I believe it's about technology, which is being borrowed from the United States, thus allowing them to transform a 3rd world economy to the second largest economy today.

So why is China's stock market so volatile? Down 8% in just one day (July 27) and a loss of 28% since mid June of this year, yet up over 75% from one year ago. Some say their market is in a massive bubble, ready to burst and wreak havoc across the globe. I think not. Why? China's market has yet to return to its all time high achieved in 2007. In fact, over the last six years, China is up just 8% vs. the U.S. markets up over 200%. Clearly, there is something wrong with China and its economy. For one, they don't have a democracy nor do they have a free market place and this prohibits entrepreneurial thinking, a vital ingredient for future growth.

Yes, China is the second largest economy in the world; however, I don't think their troubles will have much of an effect upon the U.S. economy. Granted we buy a lot of things made in China but we don't sell a lot to China. In fact, our exports to China amount to only .7% of GDP, meaning China could shut down, not import anything from United States, and our economy would have still grown last year; 2.5% growth minus .7% leaves 1.8% growth in the U.S. bottom line, our economy would continue to grow and wouldn't have a recession. Anyone believing China will have a lasting impact on the United States is making a mistake.

Having said this, the U.S. stock market hasn't had a real correction, 10% or more, in a long time and the fears about China or some other world event, even a fed rate hike, may be causing a correction right now. I say may, because I don't really know, I am not a trader, I am an investor. But what I do know is that the U.S. stock market is still cheap and the U.S. economy will survive no matter what problems China has and it is still a very good time to be investing.

## Office News

As a reminder, our regular office hours are from 8:30 AM to 5:00 PM, Monday thru Thursday. Note that the office will be open from 8:30 AM to 12:00 PM on Fridays.

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## How to Reach Us

Please note that we are not able to initiate security or investment purchases or sales via e-mail or voice mail. You must speak to a representative of our office for any trades to occur. For other communications, our e-mail addresses and phone extensions follow. Our phone number is (937) 298-8904.

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## Personal

Lazy summer. Not much happening, golf course close for renovation and will reopen sometime next summer, ouch. However, we do have a reciprocity program with other clubs in the area, which helps. Aimy and the kids took a break from their summer activities in Michigan and came to Dayton for the week, fun times. Took a long weekend and visited the Homestead, located in Virginia. Classy place with golf, shooting and fishing. I hate to fish, no patience, actually it's because Sukey always catches the fish and nothing for me. Fun watching the little boys, Croix and Barrett discover new experiences.

Respectfully,



**Martin K. "Bo" Brown, CFP®, CIMA®**  
Financial Consultant

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## Portfolio Investment Strategy

### Asset Class Target Allocations (Current)

Asset Class	Portfolios*							
	1		2		3		4	
	Current Weight	Change	Current Weight	Change	Current Weight	Change	Current Weight	Change
Investment Grade Bond	12%	0	7%	0	2%	0	0	0
Multi-Sector Bond	15%	0	7%	0	0	0	0	0
High Yield	5%	0	7%	0	5%	0	0	0
Global Market Bond	13%	0	15%	0	11%	0	0	0
Large Cap Equity	22%	0	26%	0	36%	0	47%	0
Small/Mid Cap Equity	3%	0	9%	0	13%	0	15%	0
International Equity	10%	0	10%	0	15%	0	19%	0
Alternative Investment	8%	0	8%	0	6%	0	5%	0
Cash	12%	0	11%	0	12%	0	14%	0
	100%		100%		100%		100%	

Portfolio*	Name	Neutral Allocation %
1	Conservative Balance	60% Bonds, 40% Equity
2	Balance	40% Bonds, 60% Equity
3	Equity Balance	25% Bonds, 75% Equity
4	Equity	0% Bonds, 100% Equity