FINANCIAL SYNERGIES®
ASSET MANAGEMENT

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Quarterly Newsletter

INSIDE THIS ISSUE

The Survey Says ...

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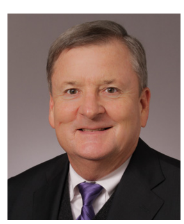
SENIOR PARTNER AND PRESIDENT



Investors may not have learned from the market downturns of 2000–2002 and 2008 as much as we thought. According to a TIAA-CREF survey, more than half of investors (53%) think taking more risk in their investments guarantees a higher return. For an investor survey to reveal that a majority of respondents have such a lack of understanding of basic investment concepts is surprising. As an investment advisor who has

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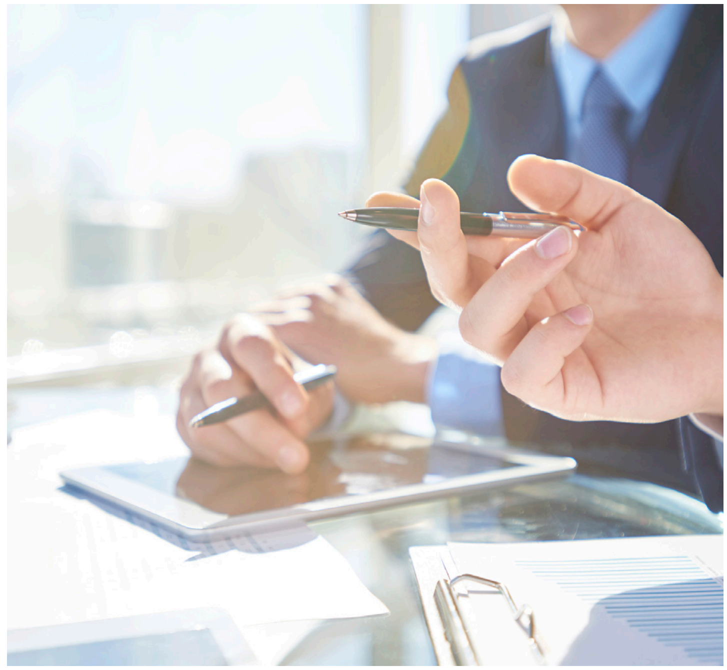
"IT'S IMPORTANT TO LOOK AT THE BIG PICTURE WHEN EVALUATING INVESTMENT PERFORMANCE. ONE YEAR OR ONE QUARTER IS A SHORT PERIOD OF TIME WHEN YOU CONSIDER THAT MANY INDIVIDUALS ARE INVESTING FOR 30 YEARS OR MORE."

ROGER W. FERGUSON
PRESIDENT AND CHIEF EXECUTIVE OFFICER
TIAA-CREF



shunned the word "guarantee" in any context it might be invoked, I would have expected more than half of the survey participants to have said something like "There are no guarantees in investing."

The No. 1 mantra I have preached to my clients over the last 30-plus years has been "Keep a long-term perspective!" Yet this survey further revealed that 36 percent of respondents look to one-year performance as the most important indicator of an investment's return, with an additional 16 percent looking to quarterly performance as most important. Forty-seven percent have purchased investments based on the prior 12-month returns rather than looking at performance over a longer-term investment horizon such as five or 10 years.

"It's important to look at the big picture when evaluating investment performance. One year or one quarter is a short period of time when you consider that many individuals are investing for 30 years or more," says Roger W. Ferguson, President and Chief Executive Officer of TIAA-CREF. "Fortunately, investors can avail themselves of a range of resources, including professional financial advice, which can help them make well-informed investment decisions and build portfolios designed to meet their specific financial goals, whatever they may be. While investors continue to grapple with the challenges of market volatility, it's even more critical for them to understand key investment concepts around diversification, asset allocation, risk and returns."

Another sobering result of the survey was that a whopping 71 percent of respondents believe they can "completely eliminate investment risk by having a diversified portfolio." Of course, diversification across many asset classes is the linchpin of any investment strategy that seeks long-term growth with reduced volatility. But to think it completely eliminates risk is irrational. A well-executed diversified investment strategy, at best, will only moderate volatility and risk, not eradicate it.

So, in summary, a majority of investors, it seems, think taking more risk in their investments guarantees a higher return, a time frame of one quarter to one year is best to judge an investment's performance, and diversification can completely eliminate risk.

So here is my suggested New Year's resolution for you to consider:

- Understand that taking more risk can get both higher returns and deeper losses.
- A reasonable time frame for you to assess an investment's performance is a minimum of two to three years, so choose wisely on the front end.
- Diversification merely moderates volatility, and while it definitely reduces investment risk, it certainly does not eliminate it.

Happy New Year!

Silver Lining: Tax-Loss Harvesting

MIKE MINTER, CFP®, CFS® | PARTNER

Although 2015 was a mixed bag, and definitely frustrating, we made it through. Most of the major asset classes struggled to find their footing, and many ended in negative territory. There were many headwinds, such as the oil and commodities rout, uncertainty surrounding a Federal Reserve rate hike, and the slowdown in China, to name a few.

But overall, 2015 wasn't catastrophic by any means, and we did what we could to take advantage of the temporary pullback in global markets. The silver lining for the year was our use of **tax-loss harvesting.** Although many of you are familiar with this concept, I'll give a brief definition.

Tax-loss harvesting refers to selling a security to realize a loss, and reinvesting the proceeds in a similar security. Although your portfolio is still in balance, and you haven't lost exposure to that asset class, the IRS allows you to take the loss for tax purposes. The loss will first be used to offset any gains, and then you can apply $3,000 of any remaining net loss to reduce your taxable income for the year. And any excess net loss that remains can be carried forward indefinitely, until all the losses are used up in future years.

It's never comfortable to see losses on a statement, but tax-loss harvesting can be a powerful tool when used correctly. Since the portfolio allocation is still intact, when the asset class recovers you'll participate in that rise. And you'll also have the tax loss to utilize, which will effectively increase your after-tax return on the portfolio.

OVERALL, 2015 WASN'T CATASTROPHIC BY ANY MEANS, AND WE DID WHAT WE COULD TO TAKE ADVANTAGE OF THE TEMPORARY PULLBACK IN GLOBAL MARKETS. THE SILVER LINING FOR THE YEAR WAS OUR USE OF TAX-LOSS HARVESTING.

Each client's portfolio and taxable situation varies, so in some cases we were able to completely eliminate the realized gains on the year, and in other scenarios we reduced the realized gains as much as possible.

The timing on this was good because we had portfolio and fund changes that needed to be made anyway, so there was no need to find a temporary replacement fund just to harvest the losses. We were able to transition to the new preferred funds with the added benefit of harvesting losses.

Appearances Aside, Economy Is Growing

BRYAN ZSCHIESCHE, CFP®, MS, MBA | PARTNER

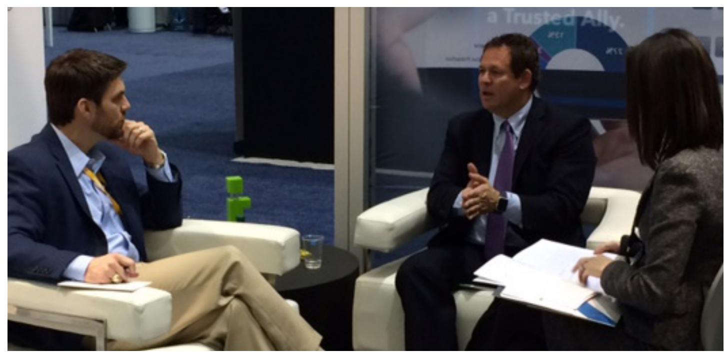
In November, Heath Hightower and I attended the Schwab IMPACT conference in Boston, providing us with the chance to hear from thought leaders across our industry. During the conference, I had an opportunity to sit down one-on-one with Rick Rieder, Chief Investment Officer of Fundamental Fixed Income at BlackRock and portfolio manager of the BlackRock Strategic Income fund, an investment we've held in our clients' portfolios for many years.

Now, anyone who knows "bond guys" will agree that they aren't generally known for their optimism, so after hearing Rick talk so enthusiastically about the long-term prospects for U.S. investors, I was eager to pass a few nuggets along to our clients.

Rick explained that even though it isn't reflected in some of the indicators commonly used by economists and market pundits, the economy is growing. He explained that technology is creating growth without the inflation that typically comes along with it. In other words, technology is improving our efficiency, and as companies and consumers become more efficient, costs go down.

Here's an example: "A single iPhone, in 1991 storage and computing cost dollars, would be worth $1,440,000 today." Let that sink in for just a moment. Staggering, isn't it?

Smartphones are revolutionizing how we work and play. He asked me to think about all of the things we do today on our smartphones that used to require multiple devices: alarm clock, flashlight, dictionary, calendar, Rolodex, camera, etc.



Rick told me that half of all photographs taken in all of history will be taken this year. Eighty-seven percent of people in the millennial generation take at least one photo a week on their phone, and the only technology in history to be adopted more quickly than the smartphone was the television.

Rick's point was that these technologies are causing businesses and consumers to be so much more efficient than they've ever been, which leads to a much stronger economy.

Now, these sentiments may seem overly simplistic. After all, it isn't exactly news that smartphones are revolutionary, but don't be fooled. The day-to-day fluctuations of the market can be based heavily on short-term indicators that fail to look at the deeper story. So while the markets gyrate due to monthly data readings, Rick believes that growth and returns over the long term will be driven by huge changes in demographics and technology. Hard to argue with that, isn't it?

Congressional Bill Shakes Up Social Security Benefits

WILL GOODSON, CFP®

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Many Americans approaching retirement received unsettling news when Congress recently passed the Bipartisan Budget Act of 2015. The bill's most notable impact was the elimination of a popular Social Security strategy known as file-and-suspend. Prior to the change, a primary-earning spouse could delay taking their benefits at full retirement age (FRA) and allow them to grow up to age 70, while the lower-earning spouse could collect a benefit based on the first spouse's work history. The bill also eliminated the opportunity for a nonworking spouse to collect a spousal benefit while the primary earner delayed beyond FRA in order to get the maximum benefit.

Under the new rules, you are still able to suspend your benefits at full retirement age in order to receive a larger benefit in the future. Doing so, however, is viewed by the Social Security office as a unilateral suspension of all potential benefits based on your work record. This means any benefits to your spouse or dependent children are suspended as well.

Congress' goal was to eliminate this "loophole" and streamline the benefits-filing process. However, all is not lost. There are still several things you can do to get the most out of Social Security:

- **Delay benefits beyond full retirement age.** Every year that you delay taking benefits beyond FRA, you will receive an 8% increase. This means you may be able to increase your benefit by up to 32%!
- **Take a spousal benefit.** When a lower-earning spouse files for Social Security, they will receive the higher of their own benefit or 50% of their spouse's benefit so long as the higher earner has reached FRA.
- **Use the "start-stop-start" strategy.** If you filed for benefits early but have not yet reached FRA, you may be eligible to increase your benefit. If you started early, you can elect to suspend your benefit at FRA and wait to restart collecting until age 70. Doing so will increase your benefits by 8% per year.

Regardless of these recent changes, Social Security remains an integral part of any retirement plan. Navigating the maze that is Social Security can be exhausting, so please don't hesitate to contact us with any questions you may have!

Important note: If you were born in 1953 or earlier and have not taken your Social Security benefits, you may be eligible for grandfathering under the old rules. The deadline for taking action is **April 30, 2016.** Please contact us if you believe you may be entitled to benefits under the previous rules.