

## Q1 2015 – Market Overview Newsletter

### Welcome to our *new* quarterly newsletter!

We haven't reinvented the newsletter, but we've tinkered with our formatting in an effort to make this newsletter an easier and more enjoyable read. We are also introducing sections for educational topics and will cover more than just the typical market overview. We hope you find these as welcome changes. Please let us know if you have any thoughts on how we can make this better.

- The Langdon Shaw Team

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### Economic Update

Lately the markets have felt like a roller coaster ride, especially since most of us are still suffering from post traumatic stress disorder brought on by the "great recession" of 2008 and 2009. The flow of news is constant and every bit of bad news we hear seems like it could turn into another name worthy event. The reality is that those types of events are quite rare and market volatility is normal, natural and even necessary.

The first quarter proved to be a volatile period of time for domestic equities with broad swings of the Dow Jones Industrial Average (DJIA) in excess of 1000 points. Yet by the end of March, the DJIA was just shy of where it began 2015<sup>(1)</sup>. Increased volatility likely isn't going away soon, so it is important to keep a long-term perspective in mind. Despite average intra-year drops of as much as -14.2%, annual returns for the S&P 500 were positive 27 out of the past 35 years<sup>(2)</sup>.

Part of this volatility seemed to stem from reaction to the comments made by the Federal Reserve this quarter. The question has never been if they will raise the target federal funds rate but when. This did not become any less ambiguous after the first quarter meeting of the fed committee. The fed committee did, however, reduce their targeted increases to rates for the year, leading most analysts to think we will see a small increase throughout this year.

It is true that the resale value of current bonds will decrease as interest rates go up. Rapidly increasing rates could discount currently held bonds quickly while also increasing opportunity cost and would likely cause the prices for bond funds to go down. If rates increase slowly, however, new bonds with higher rates can be purchased upon the current bond maturities with little to no opportunity cost and could be good for fixed income investors. We don't think we'll see a rapid climb in interest rates, but time of course will tell.

Historically, an increase in interest rates has been good for stocks<sup>(3)</sup>. However, there are other factors, like earnings growth and valuation that will likely have a bigger impact on the performance of the stock market. Current valuations are getting pricier, but are still not what we would consider to be expensive. Companies and the economy as a whole still seem to be growing in what Brian Wesbury has long referred to as "the plow horse economy"<sup>(4)</sup>.

Our advice, stay the course and try not to get too caught up in the news of the day. Remember when we were all going to die from mad cow disease? Or when Y2K was going to mean disaster for computers and turn the world into total chaos? The list goes on. Above all else, it is important to have a diversified portfolio that will help you meet your goals and allows you to sleep at night. If you're losing sleep because of your finances, then let's talk. We are here to help in any way we can.

For more market details, see the "Capital Analysts Q1 2015 Market Review" in the commentaries page on our website at [www.langdonshaw.com/commentaries](http://www.langdonshaw.com/commentaries). -LS

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### Educational Topic:

#### College Savings with a 529 Plan

Are you or a loved one considering a college education? A 529 College Savings Plan can be a great way to save. With the cost of college increasing every year, every little bit helps and

it is never too early to start saving for educational goals. 529 Plans allow you to invest after tax dollars, which can be distributed tax free when used for higher education. In this case, no tax would ever be owed on growth in the 529 account. On the other hand, distributions from 529 accounts that are not used for higher education are subject to income taxes and in some circumstances a 10% penalty.

Anyone can open a 529 regardless of your income and may contribute up to \$14,000 (\$28,000 if married) annually without gift tax consequences. You may also make a special election to accelerate up to five years worth of contributions, allowing you to contribute \$70,000 (\$140,000 if married) at one time. These are considered complete gifts to the account beneficiary at the time the contributions are made even though you may maintain control of the assets as the account owner.

If you are an Indiana resident, you may want to consider contributing to Indiana's College Choice 529 Savings plan. Contributions can earn you an Indiana state tax credit of up to \$1,000. Please let us know if you would like to learn more

about how you may benefit from contributing to a 529 savings plan. -LS

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### *Social Security:* **Will You Maximize Your Benefits?**

Social Security seems like a simple matter, but most people don't realize that there are many strategies that can be used depending on your family situation to get the most from your benefits. If you are approaching retirement and are trying to decide when and how to claim your benefits, let us help.

We can provide an analysis based on your Social Security statement, marital status and life expectancy. We will go over the various strategies and work with you to implement the one that fits best with your overall retirement income plan. Before claiming your benefits, give us a call! -LS

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1. Google Finance (<https://www.google.com/finance>) (<http://goo.gl/A14e2F>)
  2. JPMorgan Guide to the Markets 2Q 2015
  3. Goelzer Investment Management (April 2015)
  4. First Trust Economics Blog 4/23/2012 (<http://www.ftportfolios.com/blogs/EconBlog/2012/4/23/the-plow-horse-economy>)

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The Dow Jones Industrial Average is a widely watched index of 30 American stocks thought to represent the pulse of the American economy and markets.

In general, the bond market is volatile, and fixed income securities carry interest rate risk. (As interest rates rise, bond prices usually fall, and vice versa. This effect is usually more pronounced for longer-term securities). Fixed income securities also carry inflation risk, liquidity risk, call risk and credit and default risks for both issuers and counterparties. Lower-quality fixed income securities involve greater risk of default or price changes due to potential changes in the credit quality of the issuer. Any fixed-income security sold or redeemed prior to maturity may be subject to loss.

S&P 500 Index is an index of 500 of the largest exchange-traded stocks in the US from a broad range of industries whose collective performance mirrors the overall stock market. Investors cannot invest directly in an index.

Diversification does not guarantee a profit or protect against a loss.

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Participation in a 529 College Savings Plan (529 Plan) does not guarantee that contributions and investment return on contributions, if any, will be adequate to cover future tuition and other higher education expenses or that a beneficiary will be admitted to or permitted to continue to attend an institution of higher education. Contributors to the program assume all investment risk, including potential loss of principal and liability for penalties such as those levied for non-educational withdrawals.

Depending upon the laws of the home state of the customer or designated beneficiary, favorable state tax treatment or other benefits offered by such home state for investing in 529 college savings plans may be available only if the customer invests in the home state's 529 college savings plan. Consult with your financial, tax or other adviser to learn more about how state-based benefits (including any limitations) would apply to your specific circumstances. You may also wish to contact your home state or any other 529 college savings plan to learn more about the features, benefits and limitations of that state's 529 college savings plan.

For more complete information, including a description of fees, expenses and risks, see the offering statement or program description.