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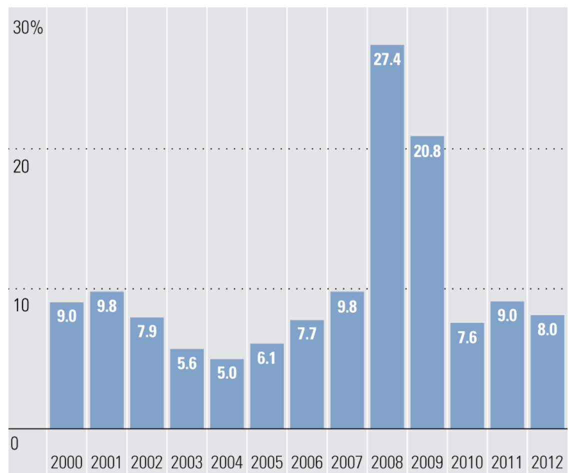
Dividend Income: Not So Fixed

ITI Financial Management/Troy E. Kennedy

- 4650 S. National, Ste. A-1
- Springfield, MO 65810
- 417-889-2550
- 877-889-2660 toll free
- 417-889-2559 fax
- tkennedy@itifinancialmgt.com

Since interest rates are still relatively low right now, many investors looking for income and yield have begun to assess switching a portion of their investment allocation from bonds into dividend-paying stocks. However, it is important to remember that the interest payment of a bond is a contractual obligation of the company, whereas dividend payments are not. If a bond issuer does not pay either interest or principal on time, the company will be in default, and likely will be placed into bankruptcy. However, dividend payments are not a contractual obligation of a company and can be either cut or raised by its board of directors at will. When times are tough, companies may cut dividends to conserve cash, such as during the 2008 credit crisis. Conversely, when times are good, companies may increase their dividend payments, providing investors with additional upside.

Percentage of Companies That Cut Dividends



Source: Morningstar analysis. This is for illustrative purposes only and not indicative of any investment. Past performance is no guarantee of future results. Returns and principal invested in stocks are not guaranteed, and stocks have been more volatile than bonds. Dividends are not guaranteed and are paid solely at a company's discretion. Percentage of companies that cut dividends is calculated for listed companies on NYSE, NASDAQ, and NYSE AMEX.

Troy E. Kennedy
Advisor/Principal

tkennedy@itifinancialmgt.com
417-889-2550

Advisor Corner

Mr. Kennedy's investment philosophy is the same that he has practiced over the last decade: securities markets are efficient and advisors primarily add value by coordinating the asset allocation for clients based upon risk tolerance, objectives, and time horizons. The firm has constructed 5 models for clients that vary in risk to meet the goals of each client. The firm primarily uses passive mutual funds in each model and uses select actively managed funds for bond, commodity, and real estate exposure. ITI uses several research resources, including many that were used over the last 20 years, to assist with the recommended asset allocation and the appropriate funds to utilize in each model. Mr. Kennedy is an Investment Advisor Representative of ITI Financial Management, LLC.

Investment services are offered through ITI Financial Management, LLC, a registered investment adviser with the state of Missouri

Find the Right IRA in Three Easy Steps

ITI Financial Management/Troy E. Kennedy

- ITI Financial Management is a fee only, non commissioned registered investment advisory firm headquartered in Springfield, Missouri. We presently manage approximately $65 million for over 175 accounts. In November 2009, Springfield Trust & Investment Company sold to a large out of town bank holding company. After 17 years as a shareholder/executive vice president with Springfield Trust & Investment Company, Troy Kennedy founded ITI Financial Management to continue to provide the highest level of personalized investment management and financial planning services. There are no fees to hire ITI nor are there any fees to terminate the relationship. It is truly a partnership with each client. ITI Financial Management/Troy Kennedy is a Registered Investment Advisory firm headquartered in Springfield, Missouri. All client assets are held in custody at Fidelity Institutional.

Even if you're already convinced that saving in an IRA is a sensible thing to do, there's still a little bit of research to conduct. There are two main types of IRA accounts, and selecting the one that's best for you can be a daunting process. You can figure this out in relatively short order by following these three steps.

1) Know the Basics: Understanding the difference between the two types of IRAs—Roth IRAs and traditional IRAs—is the key first step in determining which is suitable for you.

Both vehicles let you sock away money and enjoy a tax benefit. With a traditional IRA, you won't have to pay taxes on your IRA's investment earnings until you begin taking distributions from it during retirement; thus, your money enjoys the benefit of tax-deferred compounding. (That means you'll have to pay taxes on your earnings when you begin withdrawing money, but not as you go along.) The Roth, however, has a couple of huge advantages over a traditional IRA. Whereas traditional IRAs carry restrictions governing when you have to begin taking distributions, the Roth carries no such restrictions; you won't be forced to take distributions at any age. And perhaps even more significantly, qualified distributions from a Roth will be tax-free, not tax-deferred as is the case with a traditional IRA.

With that information, the choice might seem clear: Roth IRA all the way. But there are a few other issues to consider. For those who qualify (consult a tax professional or the IRS' site to determine if that's you), a traditional IRA provides up-front tax savings. All of your contribution to a traditional IRA plan could be tax-deductible. Contributions are not tax-deductible with a Roth IRA.

2) Determine Your Eligibility: Okay, you've now identified the account type that suits you, but there are eligibility hurdles you'll have to clear in order to use a traditional IRA or a Roth IRA.

Let's start with the most sweeping limits first. For 2014, according to IRS Publication 590, if you are covered by a retirement plan at work, your deduction for contributions to a traditional IRA is reduced (phased out) if your modified adjusted gross income (AGI) is: more than $96,000 but less than $116,000 for a married couple filing a joint return or a qualifying widow(er); more than $60,000 but less than $70,000 for a single individual or head of household; or less than $10,000 for a married individual filing a separate return.

For 2014, according to Publication 590, you cannot make a Roth IRA contribution if your modified AGI is $191,000 or more if your filing status is married filing jointly; $129,000 or more filing single, head of household, or married filing separately, and you did not live with your spouse at any time in 2014; or $10,000 or more if your filing status is married filing separately and you lived with your spouse at any time during the year.

3) Weigh Your Options: You may find that certain IRA types are automatically off limits to you because of your income level. But what if you establish that you're eligible to make more than one type of IRA contribution—for example, you can contribute to a Roth and make a deductible contribution to a traditional IRA? You may decide to do both if you have the money to do so, but if you have a limited sum of money to invest, the decision becomes a bit tougher. For a situation like this, as well as to keep abreast of the latest rules and regulations pertaining to IRAs, it would be in your best interest to consult with your financial advisor/tax professional.

Funds in a traditional IRA grow tax-deferred and are taxed at ordinary income tax rates when withdrawn. Contributions to a Roth IRA are not tax-deductible, but funds grow tax-free, and can be withdrawn tax free if assets are held for five years. A 10% federal tax penalty may apply for withdrawals prior to age 59 1/2.

The Great Yield Chase

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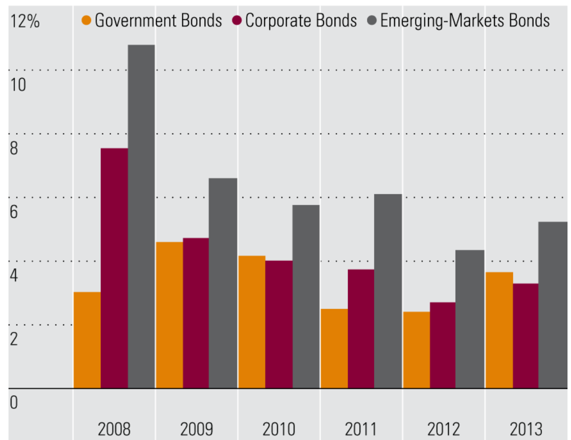
With Treasury yields still relatively low and worry about the eventuality of rising rates ever present, many investors have been moving away from Treasuries and into other fixed-income sectors in their quest for income. Two fixed-income segments seeing activity from this migration are corporate and emerging-markets bonds.

Corporate bonds: Many investors have bumped up their allocations to corporate bonds for reasons that are pretty straightforward. Company balance sheets are about as healthy as they've been for many years, with cash holdings high and default rates at multiyear lows. In addition to these attractive fundamentals, buying has been strongly encouraged by central bank policies, including the Federal Reserve's quantitative-easing programs. They have played a major role in suppressing agency mortgage and Treasury yields, which in turn has pushed investors to take on more credit risk in search of more yield.

Emerging-markets bonds: The trend of holding emerging-markets bonds has gained popularity in recent years. Again, investors have been given incentive to hold higher-risk assets because developed-markets central bank policies have pushed Treasury yields down. A byproduct of these central-bank policies is that assets have not only poured into U.S.-based investments but also into emerging-markets bonds of all kinds, including both sovereign and corporate sectors. Further boosting their attractiveness, emerging-markets credit ratings have been rising based on a number of factors, including economic structural reforms and growth rates that are meaningfully higher than in developed markets. To top it off, the underlying balance sheets of many emerging economies look increasingly appealing when compared with the debt-laden, major economies of the West.

With greater return potential comes greater risk. The ultimate questions for investors moving out of Treasuries are whether their investment alternatives will stand up to potential trouble down the road and whether their portfolios still line up with their risk and return expectations. There's a tension between trying to provide the best possible returns when things are going well and maintaining the kind of portfolio that should provide better diversification in the case of volatile equity markets. In recent years, investor demand has significantly pushed prices up and yields down. Those new lower yield levels suggest that, even under the best circumstances, the prospect for future returns is muted. While currently attractive, there's reason to be wary of how these sectors will perform under stress scenarios. Most investors aren't expecting a repeat of 2008, when Treasuries rallied and risky assets sold off, but it's nearly certain that bumps in the road will appear at some point. It is important to be aware that a dearth of yield may be causing some investors to take on more risk than they realize.

Yields for Government, Corporate and Emerging-Markets Bonds



Diversification does not eliminate the risk of experiencing investment losses. Government bonds are guaranteed by the full faith and credit of the United States government as to the timely payment of principal and interest. With corporate bonds, an investor is a creditor of the corporation and the bond is subject to default risk. International investments involve special risks such as fluctuations in currency, foreign taxation, economic and political risks, and differences in accounting and financial standards. Emerging-markets debt carries unique risks and may not be suitable for certain investors. Emerging-markets investments are more risky than developed-markets investments.

Data: Government bonds—20-year U.S. government bond; Corporate bonds—Barclays U.S. Corporate Investment-Grade Index; Emerging-markets bonds—Barclays Emerging Markets Aggregate Index.

Quick Facts: Retirement

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1. According to Aon Hewitt's "The Real Deal" 2012 study, an average full-career contributing employee needs 11.0 times pay at age 65, after Social Security, to expect to have sufficient assets to last through retirement. For example, if your salary is $80,000, you will need to have accumulated $880,000 by the time you're 65 and ready to retire.

2. In reality, the same employee is expected to have only 8.8 times pay in resources at retirement, which translates into a 2.2 times pay shortfall. To reuse the example above, this means you'd be $176,000 short.

3. The 2013 Transamerica Retirement Survey found that the percentage of participants who have taken a loan from their 401(k) plan has increased from 16% in 2008/2009 to 21% in 2012, then slightly decreased to 17% in 2013.

4. Wells Fargo conducted a survey of 1,000 middle-class Americans. The study shows that across middle class members of all generations, only 24% are confident in the stock market as a place to invest for retirement. The apprehension about the market is stronger for those age 25 to 29, with 56% expressing fear of losing their nest egg. When asked if given $5,000 for retirement where they would invest, 58% of those age 25 to 29 said they would invest in a savings account/CD.

5. Only 18% of workers are very confident they will have enough money to live comfortably in retirement (according to the EBRI 2014 Retirement Confidence Survey).

Sources: Aon Hewitt's "The Real Deal: 2012 Retirement Income Adequacy at Large Companies." "14th Annual Transamerica Retirement Survey of American Workers," Transamerica Center for Retirement Studies, July 2013. Wells Fargo news release, "Middle Class Americans Face a Retirement Shutdown," October 2013.