Financial Management
Integrity ▪ Trust ▪ Independence

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April Employment Report: Mixed News

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The April employment report wasn't so strong that it created worries about economic overheating and Federal Reserve tightening, and it wasn't as weak as to create concern that the economy was about to slide back into a recession.

Looking at private sector job growth, which excludes the much slower-growing government sector, the three-month average, year-over-year growth rate remains relatively high at 2.6%, which is down just a touch from recent highs and still above the 2.4% average growth rate of the past 12 months. Overall, it seems the jobs report was strong enough to keep a rate increase on the table for September, but weak enough that a June rate increase now appears unlikely.

Private Sector Employment and Wage Growth

	Employment Growth (%)	**Hourly Wage Growth** (%)
April 2014	2.1	2.1
May	2.2	2.1
June	2.2	2.0
July	2.3	2.1
August	2.3	2.1
September	2.4	2.1
October	2.4	2.1
November	2.4	2.1
December	2.5	2.0
January 2015	2.6	2.1
February	2.7	2.0
March	2.7	2.1
April	2.6	2.1
Average (12 months)	**2.4**	**2.1**

Source: Bureau of Labor Statistics. Growth rates are calculated on a year-over-year, 3-month average basis.

This article contains certain forward-looking statements which involve known and unknown risks, uncertainties, and other factors that may cause the actual results to differ materially from any future results expressed or implied by those projected statements. Past performance does not guarantee future results.

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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

I Bonds Versus TIPS, Part 1

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 $75 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.

Most investors looking for a low-risk hedge against inflation automatically think of Treasury Inflation-Protected Securities, or TIPS. But under the right circumstances, I Bonds, which also offer an inflation-adjusted interest rate, may be just as useful—provided that investors understand how they work and how they differ from TIPS.

One reason that investors don't hear more about I Bonds is that, unlike many other bond types, they are not traded on a market. Only the person in whose name they are registered may redeem them. As such, I Bonds are not found in bond funds' portfolios. These are securities you have to invest in directly.

There are two ways to purchase I Bonds. You can buy them in electronic form directly from TreasuryDirect.gov or you can instruct the IRS (using Form 8888) to use some or all of your federal income tax refund to buy paper I Bonds or to send the money to your TreasuryDirect account, which you can then use to purchase them.

One drawback of I Bonds is that annual purchases are limited to $10,000 per Social Security number for electronic versions and $5,000 per year for paper versions. So, investors who hope to make I Bonds a cornerstone of their inflation-protection strategy and who have a large amount of assets may have to build a suitable position over time. Also, electronic I Bonds may be purchased in any amount of $25 or more, while paper I Bonds are only issued in denominations of $50, $100, $200, $500, $1,000, and $5,000.

Difference in Inflation-Adjustment Methods

Like TIPS, I Bonds are designed to adjust for inflation, although they do so in different ways. For one, TIPS adjust the value of their principal and, thus, the yield, while I Bonds adjust the yield directly with no change to the principal value. Both adjust for inflation semi-annually, and for I Bonds, this happens on the six- and 12-month anniversaries of the date they were issued (the rate of the adjustment is determined every May and November). Both security types use the Consumer Price Index as the basis for their inflation adjustments.

The fact that I Bonds adjust their yields only twice a year and are not tradable means that they can be less sensitive than TIPS to near-term changes in the rate of inflation. For example, if inflation spikes in June of a given year, an investor holding I Bonds would have to wait at least another five months, until November, for the yield on the I Bond to reflect this change (and possibly longer if the anniversary of the I Bond's purchase falls after November). With TIPS, that's not an issue because market prices will adjust to reflect more recent changes to the rate of inflation. Of course, if inflation heads lower, the delay in the adjustment could potentially provide a short-term advantage for I Bonds relative to TIPS.

The interest rate paid by I Bonds includes both a fixed rate that remains constant for the life of the bond plus the inflation adjustment. With interest rates as low as they are right now and inflation relatively low as well, newly issued I Bonds aren't paying much. In fact, the fixed-rate portion of new I Bonds is paying 0%, while the inflation rate for the full year ending with the most recent adjustment last November is 1.48%, for an overall composite rate on the bond of 1.48%. However, one advantage that I Bonds have over TIPS is that their composite interest rate is guaranteed to never fall below 0%, meaning the bondholder is guaranteed to never lose principal. With TIPS, yields can turn negative, potentially leading to losses for the bondholder.

I Bonds Versus TIPS, Part 2

ITI Financial Management/Troy E. Kennedy

- The firm's investment philosophy is the same that Mr. Kennedy practiced at Springfield Trust & Investment Company, that the securities markets are efficient and that 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 18 years, to assist with the recommended asset allocation and the appropriate funds to utilize in each model.

Interest Payments and Tax Advantages

I Bonds continue to earn interest for up to 30 years but can be redeemed as soon as after 12 months. However, a three-month interest penalty applies. They can be redeemed after five years with no penalty. Unlike with TIPS and other bond types, which pay out periodic interest payments, I Bond interest accrues until the bond is redeemed, compounding twice a year while offering no periodic payments.

For those looking for an inflation hedge to be held in a taxable account, I Bonds offer some tax advantages relative to TIPS. The most important of these is that I Bond-holders may defer paying taxes on interest until they redeem the bond. The holder of a TIPS, on the other hand, must pay taxes each year on the interest as well as on any adjustment to the value of its principal (sometimes referred to as "phantom income"). As with TIPS, the interest on I Bonds is taxable at the federal level but is exempt from state and local taxes.

For some college savers, I Bonds also offer a tax advantage in that interest is tax-free if used to pay for college tuition and fees. However, income restrictions do apply. For 2014, the tax break began phasing out at $113,950 in modified adjusted gross income for married couples filing jointly and phased out completely at incomes of $143,950 and above. (For single filers, the tax break starts to phase out at $76,000 and goes away at modified adjusted gross income above $91,000.)

Are I Bonds for You?

If you are an investor looking to add inflation protection to your portfolio and willing to hold on to a security for the long term, I Bonds may be worth a look. But remember that they are designed to serve primarily as a principal-preservation tool rather than a source of periodic income. If you're looking for inflation protection that also pays regular income, you might want to consider TIPS.

On the other hand, because I Bonds are not traded, they are essentially immune to interest-rate risk because changes to prevailing rates have no impact on their value. The same cannot be said of TIPS, which are traded and, therefore, susceptible to prevailing interest-rate movements.

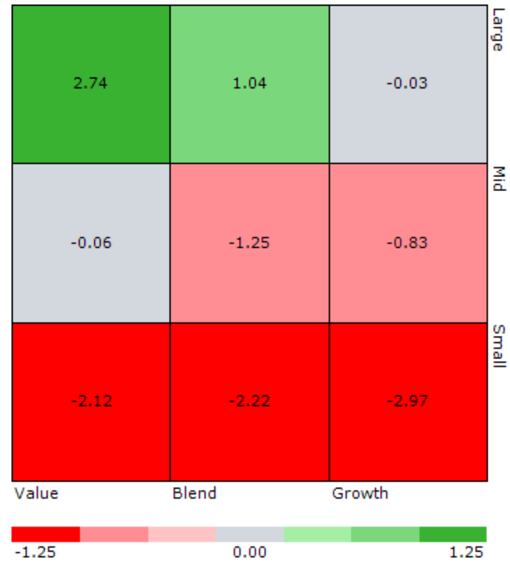
If you are considering I Bonds as a long-term holding, it might be worth waiting until interest rates begin moving higher so that you can attempt to lock in a fixed rate that is above 0% in addition to the inflation rate on the bond. The I Bond's fixed rate hasn't reached 1% since 2007, and there's no telling when rates will return to that level. But for an investment you plan to hold for many years, any fixed rate is better than nothing.

Debt securities have varying levels of sensitivity to changes in interest rates. In general, the price of a debt security tends to fall when interest rates rise and rise when interest rates fall. Securities with longer maturities and mortgage securities can be more sensitive to interest rate changes.

TIPS are guaranteed by the full faith and credit of the U.S. government as to the timely payment of principal and interest. TIPS are subject to risks which include, but are not limited to, liquidity risk, credit risk, income risk, and interest-rate risk.

An investment cannot be made directly in an index.

Monthly Market Barometer



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1 Month, ending April 30, 2015. The U.S. Market returned 0.53% (YTD 2.31%).

The Morningstar Market Barometer provides a visualization of the performance of various stock market indexes. The color scale (red for losses and green for gains) allows you to assess which areas of the market performed strongly and which areas showed weakness for the time period analyzed. The nine-square grid represents stocks classified by size (vertical axis) and style (horizontal axis). There are three investment styles for each size category: small, mid and large. Two of the three style categories are "value" and "growth" while the central column represents the core style (neither value nor growth characteristics dominate). Large-caps account for the top 70% of the capitalization; mid-caps represent the next 20%; and small-caps represent the balance.

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