



Modest Slowdown in Overall Employment Growth

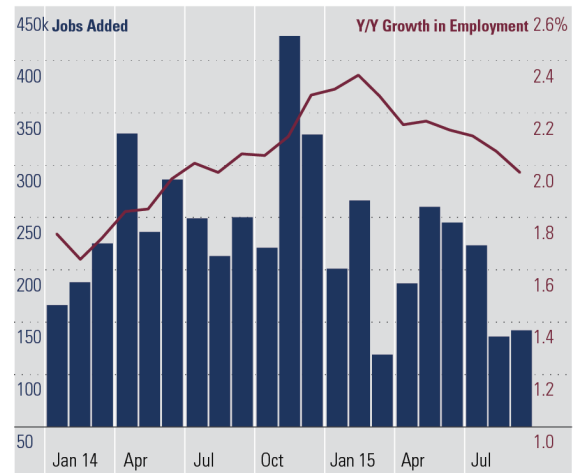
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The U.S. economy added 142,000 jobs in September, and the August report was adjusted down considerably from the originally reported 173,000 to a less impressive 136,000. The unemployment rate remained unchanged at 5.1%. The year-over-year employment growth, which is a less volatile indicator of employment strength, decreased modestly from an impressive 2.3% pace in February to a slower-but-still healthy 2.0%.

Overall, the September employment report was disappointing and had many investors worried that the U.S. economy might be deteriorating. While a modest slowdown cannot be denied, it is worth noting that the current pace of employment growth is still faster than what we've experienced in the first half of 2014, indicating that the growth has not fallen off the cliff.

Employment Growth



Source: Bureau of Labor Statistics, Morningstar.

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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

Fixed-Income Investors: Face the Facts

ITI Financial Management/Troy E. Kennedy

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All of the recent chatter about the future direction of interest rates has caused a great deal of angst amongst investors, many of whom are either saving for or spending their way through retirement and are desperately looking for reliable sources of investment income. The facts facing fixed-income investors today are harsh. Rather than ignore them or try to defy them by investing in some freshly minted cure-all, investors should stand and face them.

Fact 1: Interest Rates Are Low. We are most likely in the twilight of a decades-old secular bull market in bonds. As of Sept. 28, the yield on the 10-year U.S. Treasury stood near 2.1%. After accounting for inflation, the real yield on the 10-year Treasury was about 0.3%. Interest rates are historically low. This is bad news for savers. Low yields portend low future returns; manage your expectations accordingly.

Fact 2: Interest Rates Will One Day (Maybe Soon) Head Higher. Based on current 30-day federal funds futures prices, market participants are betting that the Federal Reserve will raise the federal-funds rate sometime late this year or early 2016. Of course, this is hardly a done deal. There will be plenty of economic data that will emerge in the coming months that could push back the timing of a rate hike. Also, if and when the Fed raises rates, there is no telling 1) the magnitude of the hike, 2) the timing and magnitude of subsequent increases, or 3) whether the rate hike could send the economy into a lurch and cause the Fed to subsequently reverse course. We are in uncharted waters.

Fact 3: Rising Rates Drive Bond Prices Lower. Bond prices have a seesaw relationship with interest rates. As rates go up, prices go down, and vice versa. When rates rise, it will place downward pressure on bond prices. Just how much pressure will chiefly depend on the magnitude of the rate increase and the bond or bond portfolio's duration (holding all else equal, there are other factors to consider, of course).

Facing these facts, some investors have been behaving badly. These circumstances have been a difficult pill to swallow for a growing class of investors that needs reliable sources of income now more than ever. Many

investors are attempting to defy the odds, reaching for yield and piling on risk in the process.

The Fed's policy has pushed many investors into smaller, more-volatile areas of the market. We've witnessed this in the mushrooming of assets in non-traditional (and much riskier) fixed-income strategies, such as high yield. In all of these cases, investors looking to protect themselves against one type of risk are simply loading up on another one. In the process, many seem to be forgetting the basic case for owning high-quality bonds in an appropriately diversified portfolio. They may serve some of investors' most crucial needs, specifically: capital preservation, diversification, and income generation.

As discussed earlier, the expected returns of a diversified portfolio of high-quality bonds today are, to put it lightly, unappealing. That said, bonds still play an important role in a diversified portfolio. Quality bonds are typically less risky than stocks and can act as a good diversifier of equity risk, even as rates change.

Past performance is no guarantee of future results. Diversification does not eliminate the risk of experiencing investment losses. Government bonds and Treasury bills 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. Corporate bonds are not guaranteed. High-yield corporate bonds exhibit significantly more risk of default than investment grade corporate bonds.

Four Tips for the RMD Season

ITI Financial Management/Troy E. Kennedy

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Complaining about required minimum distribution from retirement accounts might seem a little like grouching that the pool is too crowded in Florida. It may be a nuisance, but it's a high-class problem to have. That's because for the majority of people, RMDs are a nonissue. For affluent retirees, however, RMDs can be unwelcome, shrinking the amount of assets that can enjoy tax-deferred compounding. With the deadline to take required minimum distributions fast approaching—Dec. 31—here are some tips to bear in mind.

1) Take the right amount at the right time. If you've just turned 70 1/2 this year then your deadline to take the first withdrawal is April 1st of the following year. Calculating RMDs, meanwhile, is a matter of dividing each of your RMD-subject account balances on Dec. 31 of the previous year by your life-expectancy factor. In most instances you'd use the IRS' Uniform Lifetime table to calculate your RMD. But if your spouse is at least 10 years younger and also the sole beneficiary of your RMD-subject account, you'll use the IRS' Joint Life and Last Survivor Expectancy table (Table II in IRS Publication 590), finding the intersection between your age and your younger spouse's age. That results in a smaller payout than would be the case if you based your RMD on your life expectancy alone. It's also worth noting that you don't need to take RMDs from each and every IRA account. As long as you take the right total from at least one of the accounts, you've met your distribution requirement.

2) Let your year-end checkup drive what you sell. Before you actually pull the trigger on your RMDs, conduct a thorough year-end portfolio review, taking stock of your asset allocation. Holdings that look unattractive or are simply consuming too large a share of your portfolio might be at the top of your list to sell to meet RMDs. That can serve the dual goal of potentially improving your portfolio and satisfying the IRS' requirements.

3) Assess how they'll affect your taxes. Even if you don't intend to take your RMD until later in the year, it's still valuable to calculate your RMD as soon as possible. That way, you can take steps to offset the tax

impact—with tax-loss selling or accelerating deductions by prepaying property taxes, for example. A tax advisor should be able to help you gauge the impact of your RMDs on your tax bill and may be able to suggest steps you can take to reduce it.

4) Consider a qualified charitable distribution. For the charitably inclined, taking a qualified charitable distribution (QCD) can help kill three birds with one stone. By steering the IRA distribution directly to charity (rather than pulling the money out and then making a charitable contribution which is then deducted), the QCD enables the investor to fulfill the RMD, contribute to charity, and reduce adjusted gross income at the same time. From a tax standpoint, reducing AGI is preferable to taking a "below-the-line" charitable deduction, because a lower AGI may qualify the taxpayer for credits and deductions. Trouble is, Congress typically hasn't approved the QCD maneuver until the end of the year. But there's no downside in steering distributions directly to charity anyway. If Congress gives the go-ahead for QCDs, the retiree can use the distribution to reduce AGI. In the worst-case scenario, that the QCD provision remains dormant, the retiree could simply deduct the donation, as with a typical charitable contribution.

This article contributed by Christine Benz, Director of Personal Finance with Morningstar.

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. Please consult with a financial or tax professional for advice specific to your situation.

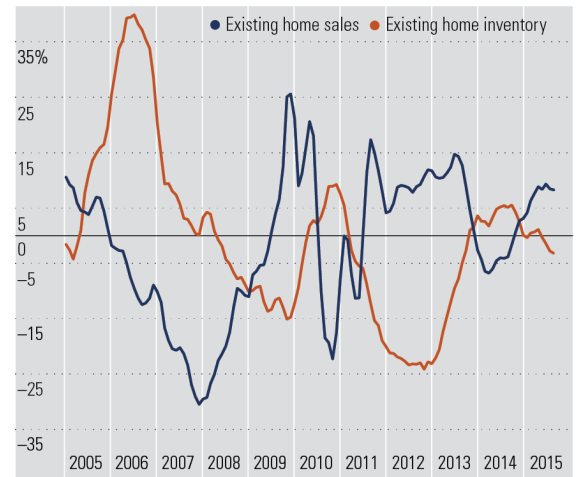
Existing Home Sales Remain Strong

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Existing home sales surged in September to the highest level of the recovery at 5.55 million units annualized. The year-over-year 3-month average growth stood at 8.3%, suggesting a continued strength in the existing home market as well. The demand for existing homes remains strong, and this is reflected in the low inventory levels that have been depleting for four consecutive months now. While existing home sales remain strong, the low inventory levels could potentially limit sales in the long run. Nonetheless, existing home sales are growing at a high single-digit rate based on the data released so far in 2015, which is good news considering that the existing home market actually contracted 3.1% in 2014. Overall, recent economic indicators suggest that the state of the housing industry remains strong, and that consumers continue to be confident about their long-term finances.

Existing Home Sales and Inventories



Source: National Association of Realtors.

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