Condor Capital Reviews 3rd Quarter 2016

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In the third quarter of 2016, international stocks generally outperformed amid greater appetite for risk.

Developed international stocks participated in the global equity rebound, though emerging markets continued to lead.

In the U.S., the Federal Reserve continued to stay on the sidelines, though there is an increasing belief that it will raise rates sooner rather than later.

September 2016

After heightened volatility over the last week of the second quarter due to the “Brexit” vote, where the people of Great Britain voted to leave the European Union, global stocks and bonds generally fared well during the third quarter of 2016. The S&P 500 Index, a broad measure of domestic equities, finished the three-month period up 3.85%. Also during the quarter, small-cap U.S. stocks outperformed their large-cap peers, while growth stocks edged their value counterparts; this last point is especially noteworthy, since value stocks comfortably outpaced their growth brethren over the first six months and have still maintained their lead this year through September 30th. While the Fed remained on the sidelines and did not hike rates in September, a growing belief that it would act in December and higher valuations in higher-yielding sectors like utilities, telecommunications, and consumer staples caused a rotation out of these value groups and into growth areas like technology, which posted the strongest gain of all the major sectors in the quarter.

International equities generally outperformed domestic stocks in the quarter, with both the MSCI EAFE Index (up 6.43%) and MSCI Emerging Markets Index (up 9.03%) outperforming the S&P 500 Index over the last three months. However, through the first nine months of the year, foreign developed stocks as measured by the MSCI EAFE Index have trailed, returning 1.73%, while emerging market stocks as measured by the MSCI Emerging Markets Index, have outperformed with a 16.02% gain thanks to low rates and rebounding commodity prices.

The U.S. fixed income markets also finished the quarter generally higher, adding to their gains for the year against a backdrop of slightly higher interest rates in the period. Strength in investment grade, high yield, and emerging market debt caused bonds to shine overall, with stability in energy prices supporting high yield securities and moderating strength in the dollar supporting foreign debt investments. Corporate spreads tightened amid modest economic momentum and global investors’ search for yield. Within municipals, higher quality issues gave up some ground amid rising rates despite strong inflows, while lower quality names rallied due to strength in Puerto Rican debt.

Outlook — In the midst of football season and basketball about to tip off here in the U.S., sports fans know very well the importance of the fourth quarter. For 2016’s fourth quarter, there are several things that we will be keeping a close eye on in order to gauge further direction for the stock and bond markets. Front and center is the presidential election, with all of its rhetoric, which will finally take place in November after what has seemed like a long and tumultuous road. Add to that the Federal Reserve’s more hawkish tone of late, which could finally pave for another rate hike before the end of the year, and there doesn’t appear to be a shortage of market-moving events. With the Fed doing its best to telegraph the next rate hike though, we think it is more important for investors to note the language and pace of the next several hikes as opposed to the timing of the next one. To that end, we expect a measured, deliberate pace of hikes and not continuous raises by the Fed.

With valuations having expanded, earnings and guidance from corporate America will likely have an outsized impact on stock prices as well. So far, the large banks have reported solid earnings overall and, after several quarters of year-over-year weakness in revenues and earnings for the overall market, analysts expect revenue growth to return in the third quarter of 2016 and earnings growth to return in the fourth quarter of 2016. For 2017, analysts expect revenue growth of about 6% and earnings growth of over 12% due in large part to stability in energy prices and leadership from technology companies. While near-term risks remain, we are constructive on U.S. economic fundamentals, due in particular to an uptick in wages. Specifically, the Census Bureau recently noted that the median American household’s income rose by just over 5% year-over-year in 2015 on an inflation-adjusted basis.

Periods of economic uncertainty and market volatility over the first three quarters of the year have served to remind investors about just how important maintaining a diversified portfolio is. That said, like most years, 2016 has also shown that coming up with the appropriate asset allocation for your portfolio is best done proactively and not in reaction to sudden market movements or news.

- ***In 2013, the IRS introduced a 3.8% surtax on net investment income to supplement Medicare funding.***
- ***Those affected must now file an IRS Form 8960 in addition to IRS Form 1040.***

Understanding The Net Investment Income Tax

It's been around since 2013, but many are still struggling to come to grips with the net investment income tax. The 3.8% tax, which is sometimes referred to as the Medicare surtax on net investment income, affected approximately 3.1 million federal income tax returns for 2013 (the only year for which data is available) to the tune of almost $11.7 billion.[1] Here's what you need to know.

What is it?

The net investment income tax is a 3.8% "extra" tax that applies to certain investment income in addition to any other income tax due. Whether you're subject to the tax depends on two general factors: the amount of your modified adjusted gross income for the year, and how much net investment income you have.

Nonresident aliens are not subject to the net investment income tax.

What income thresholds apply?

Modified adjusted gross income (MAGI) is basically adjusted gross income--the amount that shows up on line 37 of your IRS Form 1040--with certain amounts excluded from income added back in.

The net investment income tax applies only if your modified adjusted gross income exceeds the following thresholds:

Filing Status	MAGI
Married filing jointly or qualifying widow(er)	$250,000
Married filing separately	$125,000
Single or head of house-hold	$200,000

What is net investment income?

Investment income generally includes interest, dividends, capital gains, rental and royalty income, income from nonqualified annuities, and income from passive business activities and businesses engaged in the trade of financial instruments or commodities. Investment income does not include wages, unemployment compensation, Social Security benefits, tax-exempt interest, self-employment income, or distributions from most qualified retirement plans and IRAs.

Even though items like wages and retirement plan distributions aren't included in net investment income, they are obviously a factor in calculating MAGI. So higher levels of non-investment income can still make a difference in whether the net investment income tax applies.

Gain from the sale of a personal residence would generally be included in determining investment income. However, investment income does not include any amount of gain that is excluded from gross income for regular income tax purposes. Qualifying individuals are generally able to exclude the first $250,000--or $500,000 for married couples filing jointly--of gain on the sale of a principal residence; any of the gain that's excluded for regular income tax purposes would not be included in determining investment income.

To calculate *net* investment income, you reduce your gross investment income by any deductible expenses that can be allocated to the income. So, for example, associated investment interest expense, investment and brokerage fees, expenses associated with rental and royalty income, and state and local income taxes can all be factored in.

How is the tax calculated?

You know your modified adjusted gross income. You know your net investment income. To calculate the net investment income tax, first subtract the threshold figure (shown above) for your filing status from your MAGI. Then compare the result with your net investment income. Multiply the lower of the two figures by 3.8%.

For example, assume you and your spouse file a joint federal income tax return and have $270,000 in MAGI and $50,000 in net investment income. Your MAGI is $20,000 over the $250,000 threshold for married couples filing jointly. You would owe $760 (3.8% multiplied by $20,000), because the tax is based on the lesser of net investment income or MAGI exceeding the threshold.

How is it reported?

If you're subject to the net investment income tax, you must complete IRS Form 8960, Net Investment Income Tax--Individuals, Estates, and Trusts, and attach it to your federal income tax return (you must file IRS Form 1040). The instructions for IRS Form 8960 provide an overview of the rules that apply and can be a good source of additional information. If you think you may be affected by the net investment income tax, though, it's a good idea to consider discussing your individual situation with a tax professional.

[1] IRS Statistics of Income Bulletin, Spring 2015

When assets are abandoned and go unclaimed, custodians such as banks are required to turn them over to the state for safekeeping. According to one estimate, $41.7 billion of such assets are currently held by states, and most people who abandoned these assets are unaware they even exist. How to find out if you are entitled to

Finding and Claiming Forgotten Funds

As a child, you may have dreamed about finding buried treasure, but you probably realized at an early age that it was unlikely you would discover a chest full of pirate booty. However, the possibility that you have unclaimed funds or other assets waiting for you is not a fantasy.

According to the National Association of Unclaimed Property Administrators (NAUPA), $41.7 billion is waiting to be returned by state unclaimed property programs. So how do you find what is owed to you, even if it's not a fortune?

State unclaimed property programs

Every state has an unclaimed property program that requires companies and financial institutions to turn account assets over to the state if they have lost contact with the rightful owner for one year or longer (such as when the account has been inactive). It then becomes the state's responsibility to locate the owner. State-held property generally can be claimed in perpetuity by original owners and heirs.

For state programs, unclaimed property might include the following:

- Financial accounts
- Stocks
- Uncashed dividend or payroll checks
- Utility deposits
- Insurance payments and policies
- Trust distributions
- Mineral royalty payments
- Contents of safe-deposit boxes

To see whether you have unclaimed assets, you may have to search your state's database and the databases of states where you formerly lived or worked. It's possible that funds or assets are still waiting for you even if you moved away years ago. Fortunately, most states participate in a national database that you can search for free at MissingMoney.com.

Finding "lost" life insurance policies might take some legwork. Life insurance companies that can't locate a beneficiary must generally turn over benefits from an individual policy to state unclaimed property programs, but might not do so if the company does not know that the policy owner has passed away. If you believe that a family member owned life insurance but can't find the physical policy, you may need to look for evidence of it by searching personal records and files (assuming you have the authority to do so) or by contacting the policy owner's insurance agent, attorney, or other financial professionals.

Federal unclaimed property programs

The federal government also tracks unclaimed property, including:

- Tax refunds
- Pension funds
- Funds from failed banks and credit unions
- Funds owed investors from U.S. SEC enforcement cases
- Refunds from FHA-insured mortgages
- Unredeemed savings bonds that are no longer earning interest

Unlike states, the federal government does not have a central website for finding unclaimed money or assets, so you'll need to check a number of sources, including one of the biggest sources of unclaimed funds--the IRS--at irs.gov. To find out more about other federal programs that may hold unclaimed property, visit the NAUPA website, unclaimed.org.

Submitting a claim

To claim property, follow the instructions given, which will vary by the type of asset and where the property is held. You'll need to verify ownership, typically by providing information about yourself (such as your Social Security number and proof of address), and submit a claim form either online or by mail.

What if the listed property owner is deceased? A claim may be made by a survivor and will be payable according to state or federal law. For life insurance, you may need the full name and Social Security number of the deceased individual, a copy of the death certificate, and in some cases proof that you were the named beneficiary.

Be careful

Private companies may be paid to locate rightful owners and/or offer to help rightful owners obtain property for a fee, but legitimate companies will ask you to pay only after you receive your property. State laws limit fees companies charge, so check with your state before you sign any agreement. However, in most cases you should be able to find the same property for free by checking state or federal databases. Carefully check out anyone who contacts you, because some scammers will claim to have property or represent that they are from a government agency in order to obtain other information about you or your finances. For more information about protecting yourself, visit the Federal Trade Commission's consumer information site, consumer.ftc.gov.

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Shoud I Pay Off My Student Loans Early or Contribute to my Workplace 401(k)?

For young adults with college debt, deciding whether to pay off student loans early or contribute to a 401(k) can be tough. It's a financial tug-of-war between digging out from debt today and saving for the future, both of which are very important goals. Unfortunately, this dilemma affects many people in the workplace today. According to a student debt report by The Institute for College Access and Success, nearly 70% of college grads in the class of 2014 had student debt, and their average debt was nearly $29,000. This equates to a monthly payment of $294, assuming a 4% interest rate and a standard 10-year repayment term.

Let's assume you have a $300 monthly student loan payment. You have to pay it each month--that's non-negotiable. But should you pay more toward your loans each month to pay them off faster? Or should you contribute any extra funds to your 401(k)? The answer boils down to how your money can best be put to work for you.

The first question you should ask is whether your employer offers a 401(k) match. If yes, you shouldn't leave this free money on the table. For example, let's assume your employer matches $1 for every dollar you save in your 401(k), up to 6% of your pay. If you make $50,000 a year, 6% of your pay is $3,000. So at a minimum, you should consider contributing $3,000 per year to your 401 (k)--or $250 per month--to get the full $3,000 match. That's potentially a 100% return on your investment.

Even if your employer doesn't offer a 401(k) match, it can still be a good idea to contribute to your 401(k). When you make extra payments on a specific debt, you are essentially earning a return equal to the interest rate on that debt. If the interest rate on your student loans is relatively low, the potential long-term returns earned on your 401(k) may outweigh the benefits of shaving a year or two off your student loans. In addition, young adults have time on their side when saving for retirement, so the long-term growth potential of even small investment amounts can make contributing to your 401(k) a smart financial move.

All investing involves risk, including the possible loss of principal, and there can be no guarantee that any investing strategy will be successful.

Have You Heard About the Newest Employee Perk?

What's one of the most cutting-edge employee benefits right now? Company-provided student loan assistance for employees who are paying back student loans.

With a record amount of student loan debt attached to the incoming workforce (visit finaid.org to see a student debt clock that now tops $1.3 trillion), companies that rely on a college-educated workforce--and want to attract and retain the best workers--are starting to offer student loan assistance to meet this immediate financial concern of many employees.

How do these programs work? Generally, an employer will contribute a certain amount each month toward an employee's student loans, typically from $100 to $250 per month, up to a lifetime cap (for example, $10,000). Programs may restrict participation to employees who have been with the company for a minimum period of time, and may require employees to remain at the company for a certain period of time after they receive loan repayment benefits.

But participants beware: Unlike matching 401(k) contributions that companies may give to employees, money given to help repay student loans is considered taxable income. Yet for college graduates facing thousands of dollars of debt and years of loan repayment, this employee benefit can be an attractive perk. Along with the actual financial help, borrowers may get a psychological boost from knowing that they have a plan in place to successfully pay off their loans and that their employer is invested in the outcome.

Even with the early hype, company student loan repayment programs are still a relatively uncommon employee benefit. According to a 2015 employee benefit survey by the Society for Human Resource Management, these plans were offered by only 3% of the more than 450 companies surveyed. Essentially, a handful of large employers that hire a large number of college grads are at the forefront of this trend.

Industry observers expect a lot of pent-up demand for this employee benefit as millennials' student debt burdens continue to garner widespread attention and employee retention efforts intensify as the economy improves. A company's contribution probably won't cover 100% of a young employee's student debt, but it might make a meaningful and welcome dent.