Condor Capital
WEALTH MANAGEMENT

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Despite many headwinds facing the equity markets, the S&P 500 Index gained 0.95% during the first quarter.

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April 2015

Condor Capital Reviews 1st Quarter 2015

The first quarter of 2015 marked a return to normal levels of volatility within the domestic capital markets. Many of the same themes that were set into motion during the second half of 2014 continued to reverberate, such as the divergence of global central banking policy, the strengthening U.S. dollar, and the decline in oil/commodity prices. However, despite these many headwinds, the S&P 500 Index was able to finish the period marginally higher, posting a 0.95% gain over the first three months of the year.

Reversing course from 2014, small-cap names led in the quarter, leaving both large- and mid-cap names in the dust. Across all market caps, investors' interest in out-of-favor stocks waned during the period, resulting in growth names outperforming many of their value peers. Led by robust mergers-and-acquisitions activity, healthcare was the top performing sector, with the consumer cyclical and real estate groups following right behind. Alternatively, with markets beginning to factor in a rate hike in the not-too-distant future, the utilities sector posted negative returns, ending the quarter as the worst performing sector. Overseas, on the heels of accommodative monetary policy and a subsequent decline in foreign currencies, international equities outpaced their domestic counterparts, with the MSCI EAFE Index and the MSCI Emerging Market Index posting a 4.88% and 2.24% gain, respectively.

Around the globe, the separation of central banking policy has emerged as one of the main reasons for market volatility during the quarter. As the U.S. economy continued to show moderate improvements, the Fed elected to maintain its near-zero interest rate policy, while deciding to remove the word "patient" from its policy statement in March. Ultimately, through ambiguous commentary, Fed Chair Janet Yellen sent mixed signals to the markets and left the door open for a delay in timing and a dampening in magnitude for eventual rate hikes. Across the Atlantic, the European Central Bank (ECB) officially announced its own form of quantitative easing in January and began purchasing securities in March, leading to a rally in equities across most of the continent.

To the chagrin of many Treasury bears, the benchmark 10-year Treasury yield continued to tumble, beginning the period at 2.17% and ending it at 1.93%. Similarly, on the back of aggressive stimulus, the German benchmark 10-year declined to 0.18%. On the corporate side, spreads continued to tighten, particularly on the long end of the yield curve. While the Citi Corporate Bond Index gained 2.22%, municipal bonds, following a stellar 2014, returned 1.12%.

Outlook – In an environment of moderate growth and low inflation, attention will likely remain fixated on central banking policy for the foreseeable future. In all likelihood, the ECB's accommodative stance will further devalue the Euro and, in effect, boost European equity markets on a nominal basis. With European yields trending towards negative levels, it is not too farfetched to believe that the Fed's coming rate hike will be stifled by capital inflows coming from foreign investors searching for both U.S. dollar exposure and yield. Barring any major geopolitical conflict in the Middle East, oil prices are projected to remain subdued as supply outpaces demand, posing risk to many oil exporting nations (e.g. Russia and Venezuela).

As we head into earnings season, valuations are no longer a tailwind for the domestic equity markets and the strengthening dollar will have likely dampened earnings at multinational companies. This, in addition to expectations of a coming rate hike at some point in the second half of the year, is expected to lead to more volatile capital markets. The biggest hurdle for investors to overcome will be their own emotions as this volatility heightens to more normal levels. However, due to the underlying relative strength of the U.S. economy, we remain bullish on our outlook for the domestic equity market.

See disclaimer on final page

Comparing costs

To compare colleges based on costs in an apples-to-apples way, determine your out-of-pocket cost, or net price, at each college. Your out-of-pocket cost is the total cost minus any grant or scholarship aid the college is offering. Once you know your out-of-pocket cost at each college, determine how much, if anything, you or your child will need to borrow. Then calculate what the monthly loan repayment amount would be for borrowing amounts at different colleges.

Evaluating College Acceptances

For the majority of high school seniors, spring is crunch time. Most college acceptances arrive in March or April, and a deposit must be received by the college the student plans to attend by May 1. The period of time between acceptances and deposit can be intense as students and their parents weigh a number of factors. Here are two questions to ask as your family evaluates college acceptances.

How well does the college meet your child's needs?

Presumably, all the colleges your child applied to would do a good job of meeting your child's needs; otherwise he or she wouldn't have applied there in the first place. But now that your child has a definite list of options, it's time to look at things a little more closely.

Most colleges host an accepted students day geared exclusively to incoming students. Even if your child has already visited the college, visiting again might be helpful. Your child will meet other accepted students, hear in more detail about the offerings related to academics, extracurricular activities, and student life, and possibly notice things on campus that he or she might have missed the first time around. Some colleges even offer overnight stays in the dorms that can give your child an extra taste of life at that college. Your child might also have the opportunity to explore the surrounding area and see what it would be like to travel back and forth from home. Does the college still have the same appeal that it did when your child applied? If not, why?

If your child can't visit, there are other ways to do additional research. Your child might e-mail a particular department, professor, or student ambassador with specific questions. Your child could also browse online forums for student reviews of specific colleges. While no college is immune from the occasional "sour grapes" reviewer, there might be a ring of truth to a particular issue if more than one student brings it up across multiple forums. At the very least, a cluster of negative reviews might prod your child to investigate further.

Finally, don't overlook academic flexibility. Many college students end up changing their majors down the road. If your child decided to change majors, would he or she be able to find another one relatively easily? Or is the school very focused in one area – for example, business, creative, or technology – where that would be difficult?

What is the cost to you and your child?

Parents of college-bound kids have likely seen the steady stream of news stories about skyrocketing student loan debt and the debilitating effects of taking on too much debt. For many parents, a thorough review of the affordability of each college is mandatory.

A college acceptance packet should include a detailed breakdown of any financial aid the college is offering, whether it's loans, grants, scholarships (need-based or merit-based), or a work-study job. Make sure to read the fine print carefully and understand *exactly* what the college is offering. For example, a college might say, "Congratulations! You've been awarded $25,000…" which you might think is a scholarship but which actually includes $5,500 in loans. As you review the award, keep in mind that if a college says it is meeting "100% of your demonstrated need," the college is the one who defines your need, not you.

The goal is to compare your out-of-pocket cost at each college. To do this, look at the total cost of attendance for each school (this figure includes tuition and fees, room and board, plus a discretionary sum for books, personal expenses, and transportation). Next, list any grants or scholarships the college is offering – this is "free" money. If the grant or scholarship is merit-based, find out whether it's guaranteed for all four years and the requirements that must be met to qualify each year (for example, a 3.5 minimum GPA, participation in certain activities). If the grant or scholarship is need-based, find out whether you can expect a similar amount each year as long as your income and assets stay roughly the same (and you have the same number of children in college), and ask whether it increases each year to match any annual increases in tuition or room and board.

The difference between a college's total cost of attendance and any grant or scholarship aid is your out-of-pocket cost or "net price." Compare your net price across all colleges. Next, with your net price in hand, determine how much, if anything, you or your child will need to borrow. Multiply this figure by four to get an idea of what your total borrowing costs might be over four years. Then use a loan repayment calculator to show your child what the monthly loan repayment would be over a standard 10-year term at a fixed interest rate. Armed with this information, you'll be in a better position to make a sound financial decision for your family.

You should consider the counsel of an experienced estate planning professional and your legal and tax advisors before implementing any of these strategies. There are costs and expenses associated with the creation of these legal instruments.

Estate Planning for a Second Marriage

They say that love is lovelier the second time around. But for many individuals, remarriage later in life can create some unique estate planning issues.

If you're anything like the typical person contemplating a second (or third) marriage, you are older, have children, have accumulated property, and have been enjoying a standard of living you would like to maintain. Entering into a new marriage can raise many, perhaps conflicting, concerns such as:

- How can you protect assets you already own?
- How can you provide for children from a previous marriage?
- How do you share assets acquired or inherited after the marriage equally or fairly?
- How do you ensure your prospective spouse's future financial security?
- How can you avoid family disharmony?

Put your financial cards on the table

Money is a major cause of stress in any marriage, but it can be especially so in a second one. You and your future spouse should discuss and agree on all important financial issues and formulate plans that, hopefully, you both can live with. Full disclosure is important, especially if you are considering a prenuptial or postnuptial agreement.

Protect your assets with a prenuptial or postnuptial agreement

You're probably well aware that life is not a stroll down the primrose path, so while the suggestion of a prenup or postnup may not fan the flames of romance, you should know that this contract is important if you're bringing assets into the marriage. Why? By law, a surviving spouse has the right to take an "elective share" of the deceased spouse's estate, regardless of what is in the will. An elective share is typically one-third or one-half of the elective estate. An elective estate can include almost all the decedent's property, even property with beneficiary designations and property held in trust. If your surviving spouse takes his or her elective share, this may result in the unintentional disinheritance of your children or other heirs.

The only way to supersede elective share laws is with a prenup or postnup, in which both parties can waive their rights to the elective share. This way, you can minimize the chance that state law will interfere with your intended estate plans.

Revise your will and other estate planning documents

Remarriage does not revoke a will (although state law can trump a will, as we have just discussed). It is vital, therefore, that you draft a new will in light of your new circumstances. While you're at it, review and update other estate planning documents, such as your durable power of attorney, advance medical directives (for example, a living will or health-care proxy), trusts, and beneficiary designations (for life insurance and retirement plans, for example).

Providing for your children from a previous marriage

A big concern in many second marriages is providing for the new spouse without disenfranchising children from a prior marriage. Having your assets pass into a qualified terminable interest property (QTIP) trust can be part of the solution. With a QTIP trust, all trust income is used to support the surviving spouse while the principal is preserved for the children. And there's a bonus: Assets passing to a valid QTIP trust qualify for the marital deduction, helping to minimize potential estate taxes at your death.

Dealing with wealth disparity

In second marriages, it's not uncommon for one spouse to be wealthier than the other. If federal estate taxes are a concern, equalizing your estates so that you and your spouse can take advantage of both of your basic exclusion amounts ($5,430,000 in 2015) may be in order. Without equalization, you may lose valuable tax savings if the less wealthy spouse dies first. This may be less of a concern now that the applicable exclusion amount is portable. Portability allows a surviving spouse to use the unused applicable exclusion amount of a predeceased spouse. You might also consider state death taxes.

Apportioning estate taxes

If you and your spouse have children from a previous marriage, you may want to plan for the payment of estate taxes in such a way that each child will bear the burden equally.

Conclusion

Each couple entering into a second marriage has unique concerns and goals. It's important to deal with your issues squarely, and create a plan that will optimize dispositions, help minimize taxes, and avoid unintended results, family disharmony, or even litigation.

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Please remember to contact Condor Capital Management if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing, evaluating, or revising our previous recommendations and/or services. Please also advise us if you would like to impose, add, or modify any reasonable restrictions to our investment advisory services. A copy of our current written disclosure statement as set forth on Form ADV Part II A/B continues to remain available for your review upon request.

Do I need to purchase flood insurance even if I don't live in a high-risk area for floods?

It depends. Powerful storms, inadequate drainage, melting snow, and hurricanes can all cause serious flooding damage, even if you don't live in a high-risk flood area. According to the National Flood Insurance Program (NFIP), approximately 20% of all flood insurance claims come from areas that are at low to moderate risk for floods. (Source: National Flood Insurance Program, October 2014) Since standard homeowners insurance generally does not cover damage directly caused by flooding, you may want to consider purchasing flood insurance if you live in an area of the country that is prone to severe weather systems that could result in flood damage to your home.

If you do plan on purchasing flood insurance, it is important to note that you can't simply buy flood insurance as an endorsement to your current homeowners policy. Instead, if you are eligible, you can purchase a separate flood insurance policy through an insurance company that participates in the NFIP.

A flood insurance policy provides flood protection for both your home and its contents. You can purchase up to $250,000 of coverage for the building itself and up to $100,000 of coverage for the contents. If the value of your home exceeds the amount available through the federal program, you may be able to buy excess flood insurance through a private insurer. Excess flood insurance covers amounts above the $250,000 federal limit and, unlike NFIP coverage, may cover your home for its full replacement cost.

Keep in mind that even though flood insurance offers some degree of protection for flood-related basement damage, it doesn't cover all types of damage. It also doesn't cover events such as seepage or failure of a sump pump, and damage caused by sewer backups unless it is directly related to a flood. For more information on flood insurance, visit www.floodsmart.gov.

Will I have to pay a penalty tax if I withdraw money from my IRA for a down payment on a house?

Whether you may be subject to a penalty tax depends on a number of factors, such as your age at the time of the withdrawal, how quickly you use the funds, and whether the person acquiring the home is a first-time homebuyer.

Distributions from an IRA before you reach the age of 59 ½ are generally considered premature distributions (or early withdrawals) by the IRS. To discourage withdrawals taken before retirement age, these premature distributions are subject to the usual federal (and possibly state) income taxes in the year received, and the taxable portion may be subject to a 10% federal tax penalty under Internal Revenue Code Section 72(t) (and possibly a state penalty tax). This 10% tax is referred to as the "premature distribution tax."

Fortunately, not all distributions before age 59 ½ are subject to this penalty. The IRS does allow some exceptions, including one for the payment of first-time homebuyer expenses.

In order for your withdrawal to qualify for this exception, the funds must be used within 120 days to pay the costs of acquiring the principal residence of a first-time home buyer. A first-time home buyer (you or your spouse, or the child, grandchild, or ancestor of either you or your spouse) is one who neither owned nor had an ownership interest in another principal residence during the two-year period ending on the day the new home is acquired.

Keep in mind that if you qualify for this exception, it is subject to a $10,000 lifetime limit.