Condor Capital Reviews 4th Quarter 2015

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Global markets rebounded in October to drive the S&P 500 Index higher by 7.04% in the fourth quarter and 1.38% in 2015.

Foreign developed markets' central banks propelled their shares higher due to their ongoing accommodative monetary policies, while emerging market equities languished.

Highlighting the gradual improvement in the domestic economy, the Federal Reserve raised its target rate by 0.25% in December.

December 2015

Following a volatile third quarter that was characterized by heightened market volatility, markets rebounded in the final quarter of the year. The gains were primarily achieved in October, with foreign central banks from the European Central Bank (ECB) to the People's Bank of China projecting a dovish stance on monetary policy. Nonetheless, a precipitous decline in commodity prices and the belief that the Federal Reserve would finally raise its target rate generally tempered performance in our capital markets over the final two months of the year. As expected then, the Federal Reserve finally went ahead and increased its target rate for the first time in nine years during its December meeting, signaling that our economy continues to improve. Overall, the S&P 500 Index posted a 7.04% gain for the quarter and propelled the Index to a gain for the full year.

With investors' desire for attractive valuations and greater stability increasing, large-cap names generally outpaced their mid- and small-cap brethren during the final period. With volatility continuing to rear its head, investors sought names with greater earnings visibility, resulting in growth names generally beating their value peers. Mergers and acquisitions also continued to dominate the headlines, specifically in the healthcare space, leading that sector to perform relatively well during the period. On the other hand, energy names once again were a drag in the markets as oil prices fell to their lowest levels in seven years following OPEC's decision to not cut its oil output from current levels.

Overseas, ECB President Mario Draghi reassured markets by saying that he would boost the bank's stimulus program by continuing to purchase bonds and further cutting the deposit rate if conditions warranted such actions. The English and Swiss central banks' leaders also reassured investors with their own accommodative statements, while the Bank of Japan appears committed to its own dovish monetary policy. With all of that said, the MSCI EAFE Index rose 4.71% in the period and lost 0.81% for the year. Meanwhile, weak commodity prices, geopolitical tensions, and political scandals adversely impacted several key emerging markets. In all, the MSCI Emerging Markets Index posted a tepid 0.66% return for the period and returned –14.92% for the year.

With the unemployment rate having declined steadily to 5.0% amid other tangible signs of improvement in the economy, the Federal Reserve finally increased its benchmark interest rate by 0.25% at its mid-December meeting. In a statement following the announcement, the Committee noted that it also expects inflation to rise to its 2% objective over the medium term. Elsewhere, continued weakness in Europe led the ECB to increase the duration of its asset buying program by another six months.

With the Fed raising its target rate, the U.S. 10-year Treasury yield rose from 2.06% at the end of September to 2.27% by the end of the year. In light of the changes in the domestic bond market, corporate bond spreads widened from their previously low levels. In the municipal fixed income space, unseasonably low supply and steady demand propelled these credits to outperform Treasuries in the period. Over the fourth quarter, the Citi Corporate Bond Index posted a –0.44% return, while the Lipper Municipal Fund Index delivered a 1.80% gain.

Outlook - The capital markets have exhibited increased volatility over the last half of 2015 and through the early part of 2016, prompting many investors to wonder whether the bull market has come to an end or if they should be trying to time the markets and sell everything to cash. However, we continue to think it is crucial for investors to keep a long-term perspective and maintain a balanced portfolio that is appropriate for their own goals. The concerns stemming from China's slowing economic growth and recent policy missteps, as well as declining commodity prices, have put pressure on equity and credit markets.

With that said, it is worth highlighting that the U.S. is a relatively insulated economy, with exports representing only a fraction of our economy. Instead, our economic growth is largely driven by consumer spending, which we continue to see being buoyed by several factors. Jobs growth is robust, wages have seen an uptick, and fuel prices have fallen sharply over the past year. Add to that an ongoing recovery in the housing market, another major component of the domestic economy, and we feel that that are many reasons to be optimistic for the long-term.

- *Review your estate plan yearly*
- *Conduct a more thorough review every five years*
- *Take note of events that may require an additional review*
- *Condor Capital is happy to assist you in any of your estate planning needs. Give us a call today!*

Periodic Review of Your Estate Plan

An estate plan is a map that explains how you want your personal and financial affairs to be handled in the event of your incapacity or death. It allows you to control what happens to your property if you die or become incapacitated. An estate plan should be reviewed periodically.

When should you review your estate plan?

Although there's no hard-and-fast rule about when you should review your estate plan, the following suggestions may be of some help:

- You should review your estate plan immediately after a major life event
- You'll probably want to do a quick review each year because changes in the economy and in the tax code often occur on a yearly basis
- You'll want to do a more thorough review every five years

Reviewing your estate plan will alert you to any changes that need to be addressed.

There will be times when you'll need to make changes to your plan to ensure that it still meets all of your goals. For example, an executor, trustee, or guardian may die or change his or her mind about serving in that capacity, and you'll need to name someone else.

Events that should trigger a periodic review include :

- There has been a change in your marital status (many states have laws that revoke part or all of your will if you marry or get divorced) or that of your children or grandchildren
- There has been an addition to your family through birth, adoption, or marriage (stepchildren)
- Your spouse or a family member has died, has become ill, or is incapacitated
- Your spouse, your parents, or other family member has become dependent on you
- There has been a substantial change in the value of your assets or in your plans for their use
- You have received a sizable inheritance or gift
- Your income level or requirements have changed
- You are retiring
- You have made (or are considering making) a change to any part of your estate plan

Some things to review

Here are some things to consider while doing a periodic review of your estate plan.

- Who are your family members and friends? How do you feel about them?
- Do you have a valid will? Does it reflect your current goals and objectives about who receives what after you die? Does your choice of an executor or a guardian for your minor children remain appropriate?
- In the event you become incapacitated, do you have a living will, durable power of attorney for health care, or Do Not Resuscitate order to manage medical decisions?
- In the event you become incapacitated, do you have a living trust, durable power of attorney, or joint ownership to manage your property?
- What property do you own and how is it titled (e.g., outright or jointly with right of survivorship)? Property owned jointly with right of survivorship passes automatically to the surviving owner(s) at your death.
- Have you reviewed your beneficiary designations for your retirement plans and life insurance policies? These types of property pass automatically to the designated beneficiary at your death.
- Do you have any trusts, living or testamentary? Property held in trust passes to beneficiaries according to the terms of the trust.
- Do you plan to make any lifetime gifts to family members or friends?
- Do you have any plans for charitable gifts or bequests?
- If you own or co-own a business, have provisions been made to transfer your business interest? Is there a buy-sell agreement with adequate funding? Would lifetime gifts be appropriate?
- Do you own sufficient life insurance to meet your needs at death? Have those needs been evaluated?
- Have you considered the impact of gift, estate, generation-skipping, and income taxes, both federal and state?

This is just a brief overview of some ideas for a periodic review of your estate plan. Each person's situation is unique. An estate planning attorney may be able to assist you with this process.

“The advantages of tax deferral are often emphasized when it comes to saving for retirement.”

Taxes, Retirement, and Timing Social Security

The advantages of tax deferral are often emphasized when it comes to saving for retirement. So it might seem like a good idea to hold off on taking taxable distributions from retirement plans for as long as possible. (Note: Required minimum distributions from non-Roth IRAs and qualified retirement plans must generally start at age 70½.) But sometimes it may make more sense to take taxable distributions from retirement plans in the early years of retirement while deferring the start of Social Security retirement benefits.

Some basics

Up to 50% of your Social Security benefits are taxable if your modified adjusted gross income (MAGI) plus one-half of your Social Security benefits falls within the following ranges: $32,000 to $44,000 for married filing jointly; and $25,000 to $34,000 for single, head of household, or married filing separately (if you've lived apart all year). Up to 85% of your Social Security benefits are taxable if your MAGI plus one-half of your Social Security benefits exceeds those ranges or if you are married filing separately and lived with your spouse at any time during the year. For this purpose, MAGI means adjusted gross income increased by certain items, such as tax-exempt interest, that are otherwise excluded or deducted from your income for regular income tax purposes.

Social Security retirement benefits are reduced if started prior to your full retirement age (FRA) and increased if started after your FRA (up to age 70). FRA ranges from 66 to 67, depending on your year of birth.

Distributions from non-Roth IRAs and qualified retirement plans are generally fully taxable unless nondeductible contributions have been made.

Accelerate income, defer Social Security

It can sometimes make sense to delay the start of Social Security benefits to a later age (up to age 70) and take taxable withdrawals from retirement accounts in the early years of retirement to make up for the delayed Social Security benefits.

If you delay the start of Social Security benefits, your monthly benefits will be higher. And because you've taken taxable distributions from your retirement plans in the early years of retirement, it's possible that your required minimum distributions will be smaller in the later years of retirement when you're also receiving more income from Social Security. And smaller taxable withdrawals will result in a lower MAGI, which could mean the amount of Social Security benefits subject to federal income tax is reduced.

Whether this strategy works to your advantage depends on a number of factors, including your income level, the size of the taxable withdrawals from your retirement savings plans, and how many years you ultimately receive Social Security retirement benefits.

Example

Mary, a single individual, wants to retire at age 62. She can receive Social Security retirement benefits of $18,000 per year starting at age 62 or $31,680 per year starting at age 70 (before cost-of-living adjustments). She has traditional IRA assets of $300,000 that will be fully taxable when distributed. She has other income that is taxable (disregarding Social Security benefits and the IRA) of $27,000 per year. Assume she can earn a 6% annual rate of return on her investments (compounded monthly) and that Social Security benefits receive annual 2.4% cost-of-living increases. Assume tax is calculated using the 2015 tax rates and brackets, personal exemption, and standard deduction.

Option 1. One option is for Mary to start taking Social Security benefits of $18,000 per year at age 62 and take monthly distributions from the IRA that total about $21,852 annually.

Option 2. Alternatively, Mary could delay Social Security benefits to age 70, when her benefits would start at $38,299 per year after cost-of-living increases. To make up for the Social Security benefits she's not receiving from ages 62 to 69, during each of those years she withdraws about $40,769 to $44,094 from the traditional IRA--an amount approximately equal to the lost Social Security benefits plus the amount that would have been withdrawn from the traditional IRA under the age 62 scenario (plus a little extra to make the after-tax incomes under the two scenarios closer for those years). When Social Security retirement benefits start at age 70, she reduces monthly distributions from the IRA to about $4,348 annually.

Mary's after-tax income in each scenario is approximately the same during the first 8 years. Starting at age 70, however, Mary's after-tax income is higher in the second scenario, and the total cumulative benefit increases significantly with the total number of years Social Security benefits are received.*

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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.

I'm thinking about storing financial documents in the cloud. What should I know?

Cloud storage--using Internet-based service providers to store digital assets such as books, music, videos, photos, and even important documents including financial statements and contracts--has become increasingly popular in recent years. But is it right for you?

Opinions vary on whether to store your most sensitive information in the cloud. While some experts say you should physically store items you're not willing to lose or expose publicly, others contend that high-security cloud options are available.

If you're thinking about cloud storage for your financial documents, consider the following:

- Evaluate the provider's reputation. Is the service well known, well tested, and well reviewed by information security experts?
- Consider the provider's own security and redundancy procedures. Look for such features as two-factor authentication and complex password requirements. Does it have copies of your data on servers at multiple geographic locations, so that a disaster in one area won't result in an irretrievable loss of data?
- Review the provider's service agreement and terms and conditions. Make sure you understand how your data will be protected and what recourse you have in the event of a breach or loss. Also understand what happens when you delete a file--will it be completely removed from all servers? In the event a government subpoena is issued, must the service provider hand over the data?
- Consider encryption processes, which prevent access to your data without your personal password (including access by people who work for the service provider). Will you be using a browser or app that provides for data encryption during transfer? And once your data is stored on the cloud servers, will it continue to be encrypted?
- Make sure you have a complex system for creating passwords and never share your passwords with anyone.

What's the best way to back up my digital information?

In writing or speaking, redundancy is typically not recommended unless you're really trying to drive a point home. When it comes to your digital life, however, redundancy is not only recommended, it's critical.

Redundancy is the term used to refer to data backups. If you have digital assets that you don't want to risk losing forever--including photos, videos, original recordings, financial documents, and other materials--you'll want to be sure to back them up regularly. And it's not just materials on your personal computer, but your mobile devices as well. Depending on how much you use your devices, you may want to back them up as frequently as every few days.

A good rule to follow is the 3-2-1 rule. This rule helps reduce the risk that any one event--such as a fire, theft, or hack--will destroy or compromise both your primary data and all your backups.

- Have at least three copies of your data. This means a minimum of the original plus two backups. In the world of computer redundancy, more is definitely better.
- Use at least two different formats. For example, you might have one copy on an external hard drive and another on a flash drive, or one copy on a flash drive and another using a cloud-based service.
- Ensure that at least one backup copy is stored offsite. You could store your external hard drive in a safe-deposit box or at a trusted friend or family member's house. Cloud storage is also considered offsite.

If a cloud service is one of your backup tactics, be sure to review carefully its policies and procedures for security and backup of its servers. Another good idea is to encrypt (that is, create strong passwords that only you know) to protect sensitive documents and your external drives.

So at the risk of sounding redundant (or driving the point home?), a good rule for data backup is to have at least three copies on at least two different formats, with at least one copy stored offsite. And more is always better.