Foster & Motley

FOSTERING LIFE'S WEALTH

Review & Outlook

FEBRUARY 8, 2016 VOLUME 19 ISSUE 1

MARKET NOTES

2015 was a year of volatility and poor returns. High initial valuations, concerns about the Fed's December increase in short-term interest rates, weak earnings growth, fears over the Chinese economy, and commodity prices played a role.

Stock markets were led by the S&P 500 which rose 1.4% (without dividends the return would be a negative 0.7%). The market continued to penalize S&P 500 dividend payers, which fell -5.2%, on average for the year, while the non-dividend paying members rose 3.9%. Historically, dividend payers outperform non-dividend payers by nearly 2% per year!

A strong dollar further weakened returns for international stocks. Established international stocks performed better than emerging markets, losing only -0.8% versus a significant -14.9% loss for emerging markets. U.S. small stocks were down -4.4% for the year.

Despite a Fed interest rate hike, low yields in bonds have persisted. Municipal bonds returned 2.3% and outperformed taxable bonds which were nearly flat for the year at 0.6%. REITs were positive for the year as well at 2.8%.

Here are the numbers through Dec. 2015:

BENCHMARK RETURNS: DECEMBER 31, 2015

	QTR	2015
Blended Equity (Includes next 4 indices):	5.6%	-1.4%
S&P 500 - Large US stocks (60%)	7.0%	1.4%
Russell 2000 - small stocks (15%)	3.6%	-4.4%
EAFE - established intl stocks (15%)	4.7%	-0.8%
MSCI Emerging Markets Free (10%)	0.7%	-14.9%
Dow Jones Industrial Average	7.7%	0.2%
Merrill Lynch US Master (txbl. bonds)	-0.6%	0.6%
Merrill Lynch Municipals 1-12 years	0.9%	2.3%
NAREIT Equity REIT Index	7.7%	2.8%

THE HIERARCHY OF CHARITABLE GIFTING
BY: TONY LUCKHARDT, CFP®

As we enter the new year, we find a change in the contents of our mailboxes. December charitable solicitations are replaced with Christmas bills and tax forms. As you begin to gather tax documents and look back at 2015, hopefully you find some time to plan for 2016. Specifically, now is a good time to become more intentional about your charitable gifting. Rather than respond to year-end mailers, what about taking a deep breath to think about what charities you want to give to, how much, and, maybe most importantly, how to make the gift?

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If you would like to receive our news-letter electronically, please contact Jessica Holcomb at (513) 561-6640.

The Hierarchy of Charitable Gifting

BY: TONY LUCKHARDT, CFP®

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There are many ways to give to charity. The easiest, most straightforward way to give is cash. Cash is great, because it's simple and perfect for smaller gifts. Also, there is a tactile benefit from giving cash that makes us feel good. Make sure to get a receipt from the charity, and keep this with your tax records.

You can also gift appreciated securities such as stocks, mutual funds, bonds, and exchange-traded funds (ETFs) directly from your brokerage account. If you've held a security for more than one year and donate it to a charity, you get a tax deduction for the fair market value of the security and avoid paying capital gains tax. The charity sells the security tax-free and uses the proceeds. A win/win!

For folks older than 70½, the Protecting Americans from Tax Hikes (PATH) Act, signed into law late in 2015, has permanently extended the Qualified Charitable Deduction (QCD) from an IRA. This technique allows those over age 70½ to transfer up to $100,000 from an IRA directly to a qualified charity and avoid all taxes on the transfer. The benefit of this strategy is that neither the income nor the deduction is on your tax return. Therefore, the income is not included in the calculation for Adjusted Gross Income (AGI). Higher AGI amounts can limit tax deductions/credits and can even cause higher Medicare premiums.

"Most of the time, gifting appreciated long-term stock is better than gifting cash or using a QCD."

So, which of these three options is best? Most of the time, gifting appreciated securities held for more than a year is better than gifting cash or using a QCD. The reason is twofold:

1. You receive a charitable deduction for the fair market value of the securities on the date of contribution.
2. You avoid any capital gains tax that you would have owed if you sold the securities.

These two benefits combine to give you more bang for your "charitable buck" and make appreciated securities a superior gift over cash or a QCD, but there are some exceptions. Namely, a QCD can make the most sense if you are over age 70½ and do not itemize your deductions on your tax return. In this scenario, the QCD will likely be a better option.

One challenge of using appreciated securities is the extra step of coordinating the gift between your brokerage firm and your charity. Your Foster & Motley team can reduce this burden down to a simple signature. Additionally, some clients use a Donor Advised Fund to serve as their "charitable piggy bank" for the year. Donor Advised Funds can be particularly helpful if you make a lot of smaller gifts to several different charities.

If you'd like to discuss your specific situation, please contact your Foster & Motley advisor.

Revisiting Low Oil Prices and the Financial Markets

BY: THOM J. GUIDI, CFA

A year ago we wrote about the falling cost of energy – specifically the price of oil as it fell to about $50 a barrel. At the time low oil prices were viewed by the financial markets as a blessing, some suggesting the benefit was equivalent to a $500 million a year tax cut (about one-sixth of federal tax receipts). We were more cautious, warning that there were always winners and losers from the falling price of any commodity.

When oil prices fall, it is bad for producers, especially those with highest operating costs as their margins get squeezed first. This is especially acute in the shale oil states in the U.S. and the oil sands of Canada. Many such projects were started when oil traded above $100 a barrel. With prices so low today, few new production sources are being tapped; however many existing wells continue to produce as upfront costs have already been paid.

On the positive side, consumers obviously benefit from low gasoline prices. This should eventually creep into increased retail sales and help consumer product manufacturers. But consumers seem to view the low prices as temporary and have not increased spending even as household budgets have become more accommodating. For now, consumers are using low gas prices to increase their savings as evidenced by an increase in the personal savings rate from 4.6% in November 2014 to 5.5% in November 2015.

"...on balance [low oil prices] are a positive for the U.S. economy."

Transportation companies (airlines, shipping companies and cruise lines) and manufacturers that rely on oil as a component of production (petrochemical, fertilizer, and synthetic fibers) should also benefit. However, the full impact of low cost oil is usually not realized immediately as much of their oil needs are contracted for well in advance. But with prices steadily declining over the last eighteen months, the benefits are now increasingly being realized and that benefit will persist well after prices rebound.

In the last two years, global oil supply has increased by 1.5 million barrels per day more than demand. This imbalance has caused inventories of crude to rise by approximately 1 billion barrels with an expected additional growth of 285 million barrels in 2016. Growing inventories are a sure sign of a supply/demand mismatch and almost always lead to falling prices. OPEC producers, especially Saudi Arabia, have typically reined in production in these circumstances to restore the supply/demand balance and put a floor under prices. However, in this cycle, OPEC production cuts haven't occurred even in the face of plunging prices. Furthermore, in the short run, the oversupply problem will likely get worse as Iran takes advantage of the lifting of sanctions to add several hundred thousand barrels of oil daily to world supply.

Even though low oil prices create winners and losers among businesses, on balance, they're a positive for the U.S. economy. Despite our growing shale oil production, we are still a net importer of oil and lower prices help us. So, what then could explain the recent stock market habit of falling on days when the oil price drops and rising when the oil price goes up? One possibility is that the stock market is using the price of oil as an indicator of the strength of the global economy in general and China in particular. After all, a surplus of oil can arise from too little demand as well as too much production. China has been the shining star of growth among global economies for many years but has recently been faltering at the same time that the developed world has been growing at a very slow pace. Given the widespread suspicion of China's official economic statistics, the stock market may view the price of oil as an important indicator of Chinese growth and, by extension, an ominous indicator today for global economic activity. If that construct is accurate, what's bad for oil prices may indeed be bad for U.S. business.

In any case, it's important to remember that the best cure for low prices is low prices, no matter what commodity we're studying. High oil prices sparked the shale oil boom in the U.S., which brought additional supplies to the market and ultimately pushed prices down. Low prices remove the incentive for drilling by making it unprofitable. Oil supply is particularly responsive to drilling reductions (rig numbers are down 60%), because oil wells have a natural production decline curve meaning the peak production from a well occurs in the first year and declines every year thereafter. So drilling new wells is required just to maintain existing production levels! Low prices also lead to increased demand as can be seen in the recent lift in SUV and light truck purchases (up 13% in 2015) while gas squeezing economy car sales have lagged (e.g. Prius sales down 12%). We don't pretend to be able to predict the timing of the oil price cycle, but we do know that market forces drive that cycle, and we can capitalize on opportunities that are created by it.

"...the best cure for low prices is low prices..."

Employee Spotlight

LAURI—WELCOME!

We are pleased to announce that Lauri J. Sachs joined the firm on January 4, 2016 as a Client Service Specialist. She will be working with the Investment Management Team, primarily serving Mark Motley, CFA, and Brad Soper, CPA. Lauri grew up in Cincinnati, Ohio. She graduated from the University of Louisville in 1997 with a bachelor's degree in Accounting and earned her Master of Business Administration in 2000. Lauri has worked in the financial services industry for most of her career for companies such as Bartlett & Co. and the Louisville Trust Company. From 2008-2014, Lauri was a Care Manager and Director of Marketing for Homewatch Caregivers, a home healthcare service provider. Her most recent position was as a Wealth Management Group Trust Associate with Stock Yards Bank and Trust Company.

Lauri resides in Kenwood with her husband, Nick. They have 2 children. She enjoys traveling, cooking, and spending time with family and friends.

News and Notes

Tony Luckhardt, CFP® attends American Institute of CPA's (AICPA) conference

Tony recently attended the AICPA's Advanced Personal Financial Planning conference. The conference, held annually, is one of the largest and most highly regarded financial planning conferences. Financial planning professionals from across the country gathered to learn new tools and techniques and to hear updates on changes by lawmakers that may impact their clients' finances. The conference included nearly 60 different sessions offering valuable insight and best practices in retirement planning, investment management, tax planning, and wealth management.

Security Tip—Don't email your account numbers!

When emailing us questions about your specific brokerage accounts, please do not include your full account number. Hackers troll your email correspondence looking for this type of information. The best way to refer to your account is to note the last 4 digits of your account number. For example, if your account number ends in 1234, you can refer to it in the email as *1234. Protect your identity by protecting your account numbers!

Class Action Reminder

This is a friendly reminder that Chicago Clearing Corp. (CCC) now processes class action (security litigation) claims for Foster & Motley clients who have consented to the use of their service. As a subscriber to this service you (and we) no longer need to complete and submit claim forms. CCC handles all of the filings. When a recovery of funds occurs, there is a 15% contingency fee deducted by CCC, with the balance directly deposited into your Schwab account. If you're not sure whether you've opted for this service, please contact us.