Quarterly

BEACON HILL INVESTMENT ADVISORY

Spring 2015

If you haven't heard, Stephanie and I had a healthy baby boy on March 24th; Bennett Ross Fissel. We're so happy he arrived safely and doing very well. It's nice to have Bennett home except for between the hours of midnight and six!

Best Wishes – Mark Fissel

Quarterly Market Review

Volatility continued to rule the domestic equities markets. After losing ground in January, the major indices had a strong February. March saw early losses, then solid gains, with the Dow industrials, S&P 500, and Russell 2000 all hitting closing highs, and the Nasdaq closing above 5000 for the first time in 15 years, just shy of its all-time high. But these gains were tempered by a late-month downturn, with all the major indices losing ground in five of the last seven trading days as investors, jittery about corporate earnings, took profits. The small caps of the Russell 2000, which are seen as having less international exposure, saw March's only gains, and also led all indices for the quarter, up almost 4% with the Nasdaq right behind at 3.5%. The S&P and Global Dow trailed, up .4% and .7% respectively, while the Dow industrials slipped into negative territory for the year.

The Fed's slower-than-expected approach to interest rate hikes caused a sharp but temporary drop in the U.S. dollar, which continued to gain strength during the quarter against the currencies of its major trading partners. While a strengthening dollar was good news for Americans traveling abroad last quarter, it added to investor angst because of the potentially adverse effects on the global profits of U.S. multinational corporations. In January, the benchmark 10-year Treasury note dropped below 2% for the first time since May 2013, with demand driving yields to as low as 1.68% that month, before stabilizing to end the quarter just under 2%.

Market/Index	2014 Close	As of 3/31	Month Change	Quarter Change	YTD Change
DJIA	17823.07	17776.12	-1.97%	-.26%	-.26%
NASDAQ	4736.05	4900.88	-1.26%	3.48%	3.48%
S&P 500	2058.90	2067.89	-1.74%	.44%	.44%
Russell 2000	1204.70	1252.77	1.57%	3.99%	3.99%
Global Dow	2501.66	2518.18	-2.47%	.66%	.66%
Fed. Funds	.25%	.25%	0 bps	0 bps	0 bps
10-year Treasuries	2.17%	1.94%	-9 bps	-23 bps	-23 bps

**Chart reflects price changes, not total return. Because it does not include dividends or splits, it should not be used to benchmark performance of specific*

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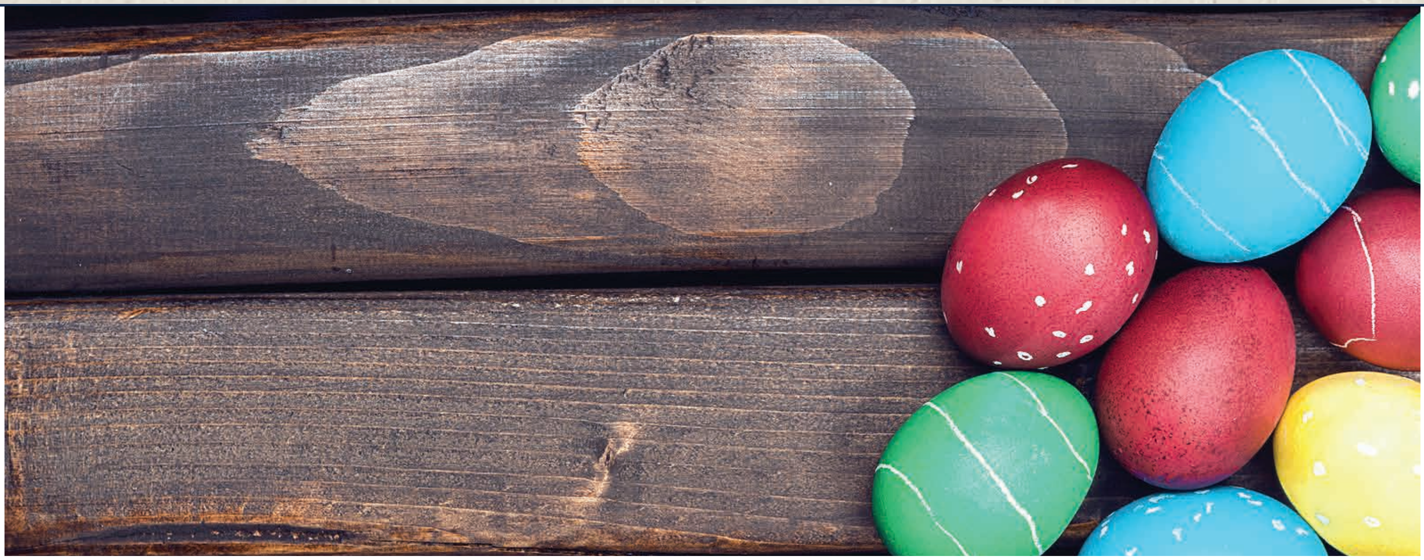

Quarterly Economic Perspective

- The Fed has lost its patience. That's the main headline of the quarter, as the Federal Reserve finally removed long-standing language from its monthly statement of monetary policy that it would be patient about moving away from a near-zero interest rate environment. While this means the Fed is closer to raising interest rates, Fed Chair Janet Yellen indicated any increase wouldn't happen before June, and in any event not until warranted by economic data. The Fed indicated that rate increases would likely occur later, and at a more gradual pace, than previously forecast due to more moderate growth expectations.
- The Bureau of Economic Analysis's final figures confirmed that U.S. growth slowed in 2014's final quarter, dropping from 5% in Q3 to 2.2%. That meant GDP increased 2.4% over all of 2014. The 4.4% increase in consumer spending was the biggest quarterly gain since the first quarter of 2006, but a 12.2% decline in federal defense spending and a 10.4% increase in imports helped offset it. Meanwhile, a 1.6% drop in the quarter's after-tax corporate profits (adjusted for inventories and capital consumption) contributed to an 8.3% annual decline for 2014—the worst year for profits since 2008.
- The U.S. economy added 295,000 jobs in February, which helped cut the unemployment rate from 5.7% to 5.5%. The Bureau of Labor Statistics said February's job growth exceeded the 266,000 monthly average for the last year. Hourly wages were up 2% from a year earlier.
- Sales of existing homes rose 1.2% in February (4.2% higher than a year earlier, according to the National Association of Realtors) but ongoing low inventories of homes for sale pushed prices up once again. New home sales also were up by 7.8% in February, and the January figure was revised upward. The Commerce Department said that put sales almost 25% higher than last February, and the 539,000 annual sales rate for new single-family homes hasn't been that high since February 2008.
- After 3 months of falling consumer prices, consumer inflation turned up 0.2% in February. The Bureau of Labor Statistics said energy, food, and housing costs all contributed to the monthly increase, which left the inflation rate over the last 12 months essentially flat.
- A 1.4% drop in February durable goods orders—the third decline in the last four months—confirmed a winter slowdown in the economy. More troubling was a 2.6% slump in business spending on capital equipment.
- In March the European Central Bank commenced a long-awaited quantitative easing program worth at least €1.1 trillion ($1.3 trillion) to try to stimulate the sluggish economy there. The euro, pressured by QE and uncertainty about Greece, posted the largest quarterly loss versus the dollar since 2008.
- Greece's anti-austerity opposition party Syriza, led by Alexis Tsipras, topped vote-getters in January's parliamentary election and formed a coalition government with another anti-austerity party, the Independent Greeks. The election raised concerns about Greece's willingness to go along with conditions imposed by its creditors after bailouts in 2011 and 2013, and the possibility of a default and "Grexit" from the eurozone. By March, Greece was struggling to satisfy creditor demands for detailed economic reform plans, in order to qualify for the next round of bailout funds. Reuters reported that without those funds, Greece will run out of money by April 20.
- China cut its growth forecast for 2015 to 7%; Premier Li Keqiang cited underutilization of manufacturing capacity, slowing investment growth, potential deflation, and the need for increased public spending on social services. Though most developed economies would be thrilled with 7% growth, it's lower than 2014's 7.4% increase.

9 Hot Trends in 401(k) Plans

Cammack Retirement has identified nine hot trends that people on any side of a defined contribution plan should keep their eye on in the coming year and beyond.

1. **Shift toward 401(k)-style retirement plans by public employers**
   DC plans already dominate the corporate and tax-exempt marketplaces, and the trend appears to be picking up in the public sector as well. Some municipalities and states have been considering moving employees to enhanced DC plans and enrolling new employees in them.
2. **Greater focus on behavioral finance and retirement readiness**
   What can plan sponsors do to drive responsible financial behavior among plan participants? Encouraging participants to contribute enough to maximize employer matching and to choose wise investment vehicles are two options that work, rooted in an understanding of how participants actually use their plans. Plans will continue to study plan participant behavior and fine-tune their education resources and messaging accordingly.
3. **Consolidation of investment menus**
   In keeping with research on behavioral finance, economists have discovered that fewer investment options within a plan actually increase participation. Consolidating an expansive and potentially confusing menu of options through formally reviewing and evaluating funds available will make things easier on plan participants.
4. **Additional asset classes for greater diversification**
   Plan sponsors will institute new asset classes such as Treasury Inflation Protected Securities (TIPS) and Real Estate Investment Trusts (REITs) and shorter-duration fixed income products to hedge against inflation and rising interest rates.
5. **Fee scrutiny leading to greater consideration and use of alternative investment structures**
   Mutual funds and variable annuities are the main investment vehicles used by DC plans today, but collective trusts, separate accounts and exchange traded funds are gaining popularity – except in the case of 403(b)s, where the use of collective trusts is federally prohibited.
6. **Facing the challenges of the fixed annuity and stable-value fund marketplace**
   Shrinking wrap capacity has made stable-value funds more expensive and placed limits on the investment strategies of people managing those funds. Participant credit ratings and minimum guarantees are both falling.
7. **Growth of QDIA-appropriate funds**
   QDIA-appropriate funds will grow, and continue to address the savings and accumulation phase of the retirement cycle.
8. **Participant desire for guaranteed income**
   It's no surprise that plan participants are looking for the same thing out of DC plans as they would from a defined benefit pension when they hit retirement — that is, guaranteed income. Insurance companies and third-party providers will have to step up their game to meet this growing demand, and there will be corresponding legislative guidelines for the use of new products that plans implement to fill this need.
9. **Regulatory scrutiny and legislation**
   The body of federal regulation around retirement plans will continue to grow in 2015 and beyond. The first revision of the fiduciary rules since ERISA was implemented in 1974 will happen in 2015.

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Source: Benefits Pro, Matthew Stern

Retirement Withdrawal Rates

During your working years, you've probably set aside funds in retirement accounts such as IRAs, 401(k)s, and other workplace savings plans, as well as in taxable accounts. Your challenge during retirement is to convert those savings into an ongoing income stream that will provide adequate income throughout your retirement years.

Your retirement lifestyle will depend not only on your assets and investment choices, but also on how quickly you draw down your retirement portfolio. The annual percentage that you take out of your portfolio, whether from returns or the principal itself, is known as your withdrawal rate. Figuring out an appropriate initial withdrawal rate is a key issue in retirement planning and presents many challenges.

Why is your withdrawal rate important?
Take out too much too soon, and you might run out of money in your later years. Take out too little, and you might not enjoy your retirement years as much as you could. Your withdrawal rate is especially important in the early years of your retirement, as it will have a lasting impact on how long your savings will last.

Conventional wisdom.
So, what withdrawal rate should you expect from your retirement savings? One widely used rule of thumb states that your portfolio should last for your lifetime if you initially withdraw 4% of your balance (based on an asset mix of 50% stocks and 50% intermediate-term Treasury notes), and then continue drawing the same dollar amount each year, adjusted for inflation. However, this rule of thumb has been under increasing scrutiny.

Some experts contend that a higher withdrawal rate (closer to 5%) may be possible in the early, active retirement years if later withdrawals grow more slowly than inflation. Others contend that portfolios can last longer by adding asset classes and freezing the withdrawal amount during years of poor performance. By doing so, they argue, "safe" initial withdrawal rates above 5% might be possible. (Sources: William P. Bengen, "Determining Withdrawal Rates Using Historical Data," Journal of Financial Planning, October 1994; Jonathan Guyton, "Decision Rules and

Continued on next page...

Retirement Withdrawal Rates *continued...*

Portfolio Management for Retirees: Is the 'Safe' Initial Withdrawal Rate Too Safe?" Journal of Financial Planning, October 2004)

Still other experts suggest that our current environment of lower government bond yields may warrant a lower withdrawal rate, around 3%. (Source: Blanchett, Finke, and Pfau, "Low Bond Yields and Safe Portfolio Withdrawal Rates," Journal of Wealth Management, Fall 2013)

Don't forget that these hypotheses were based on historical data about various types of investments, and past results don't guarantee future performance.

Inflation is a major consideration.
An initial withdrawal rate of, say, 4% may seem relatively low, particularly if you have a large portfolio. However, if your initial withdrawal rate is too high, it can increase the chance that your portfolio will be exhausted too quickly, because you'll need to withdraw a greater amount of money each year from your portfolio just to keep up with inflation and preserve the same purchasing power over time.

In addition, inflation may have a greater impact on retirees. That's because costs for some services, such as health care and food, have risen more dramatically than the Consumer Price Index (the basic inflation measure) for several years. As these costs may represent a disproportionate share of their budgets, retirees may experience higher inflation costs than younger people, and therefore might need to keep initial withdrawal rates relatively modest.

Your withdrawal rate.
There is no standard rule of thumb. Every individual has unique retirement goals and means, and your withdrawal rate needs to be tailored to your particular circumstances. The higher your withdrawal rate, the more you'll have to consider whether it is sustainable over the long term.

Source: Broadridge

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