Quarterly
BEACON HILL INVESTMENT ADVISORY
Winter 2016

Happy New Year to our clients, friends and family! We wish you a prosperous and enjoyable year, both personally and professionally.

Best Wishes – The Beacon Hill Team

Budgeting – Cornerstone of Success

5 Budget Tips You Need to Know

We've all heard the phrase "live within your means". That's much easier said than done. I've spent some time over the last year helping a few clients "live within their means" to achieve their version of financial success. Here are some helpful tips that you can put to work.

1. Budget – Not a Dirty Word

Try to think about budgeting as a means to an end rather than the annoyance we feel when the word is uttered. Don't overthink it – take 30 minutes and create a budget today. Once constructed, you'll have guardrails to keep you on the path to better spending patterns. However, before putting pen to paper, think about your overall family/business goals. These might be retirement, vacation home, new business capital, and so on. Also, consider this:

- Be reasonable in goal setting with easily identifiable and measureable milestones
  - i.e. down payment in 2 yrs.
- Are there other stakeholders should weigh-in to get their tacit approval?
  - You may be asking them to rein in spending too.
- How much you need to set aside monthly to achieve your goals?
- What specific expenses can you trim or cut altogether?
  - Divide into Needs, Wants & Wishes
  - Doing so will help you understand necessities versus "other".

2. Know the Numbers

The biggest hurdle for most people is trying to understand exactly how they spend their money every month. Small purchases add up quickly over time. Here are two strategies in calculating your monthly spend.

Income Approach: The first approach is to add up your monthly income sources – these include W-2 wages, investment income (CD's, bonds, etc.), rental property, K-1 distributions, etc. Then, add up how much you actively save in a month. Savings include how much you contribute to your 401k or other retirement account, how much you have remaining in your savings account at the end of the month or simply, how much you've set aside in a separate account. Subtract your "monthly savings" from your "monthly income" – the difference is how much you spend.

- For example, if your income is \$5,000/mo and you save \$300/mo, you're spending \$4,700 per month.

Transactional Approach: The second approach is to meticulously track your expenses. There are excellent online resources to help you. My favorite is www.Mint.com and it's free for the basic edition. You simply create an account, link your bank and credit cards, and the software does the rest! You can drill down into how much you're spending on restaurants vs clothing vs car maintenance and so on.

I would recommend the Income Approach to establish your baseline. You can then set up the Transactional Approach to better understand the details behind your monthly spend.

continued on page 3...

What the Fed Rate Hike Means for You

The Federal Reserve raised its key interest rate by 0.25% December 16th. It was the first rate hike in nearly a decade.

Millions of Americans will be affected as U.S. rates start rising. If you have a credit card or savings account, invest in a 401(k) or in the markets, or want to buy a home or car, now's the time to pay attention.

The Fed slashed interest rates to zero in December 2008 to stimulate the economy and boost the housing market during the depths of the Great Recession.

The central bank now believes the U.S. economy is strong now and no longer needs crutches. Still, it won't be a game changer overnight. Rates are expected to go up at a slow, gradual pace.

Here's what you need to know about how the Fed's action will affect you.

1. Big ticket buyers: don't rush, rates are still low

If you're in the market for a home or a car, you don't need to rush and get it done tomorrow. But it's a good time to pay attention and start preparing to take the big decisions.

Interest rates are still low but are slowly expected to start climbing next year.

The Fed determines the target rate for very short-term debt. But it also influences interest rates on credit cards, car loans and even long-term debt like mortgages.

None of the impact will happen overnight, experts say.

"Rates are pretty low and they're not going to change much," in the short term, says Dean Croushore, a University of Richmond professor and former Fed economist.

The average interest rate on a typical 30-year fixed rate mortgage is 3.9% right now and is expected to gradually increase.

Ten years ago mortgage rates were near 6.3% and 20 years ago 7.2%, according to the St. Louis Fed. So yes, rates will likely be higher in a year but still low when compared to historical averages.

2. Savers see light at the end of the tunnel

Savers may not get to rejoice right away. America's largest banks wasted little time Wednesday announcing that they will start charging more interest for loans. But they also made it clear that they would be pocketing the money themselves and that savers won't get higher interest on their deposits immediately.

But there's hope for the future.

If you put money in your savings account or have certificates of deposit, you earned almost zero interest in the last seven years. That will begin to change over the next couple years, even if it's slow.

The Fed's first rate hike will be a step in the right direction. It means there will likely be more increases in the near future (the next 1–2 years), and that eventually will mean higher interest income on your deposits. Bottom line for savers: it's good news, but you need to be patient.

3. Stock markets roller coaster could get more bumpy

If you invest at all in stocks and bonds — even if you just have a 401(k) — a Fed rate hike will be important to you and your portfolio.

It could trigger volatility in stock and bond markets, which are already on a roller coaster ride. Just last week, U.S. stocks had their worst week in months.

And there's plenty of other factors that are already concerning investors: falling oil prices, China's continued economic slowdown and actions from other central banks around the world.

Most other banks, like the European Central Bank, are moving in the opposite direction and cutting interest rates. China's central bank cut rates in October too.

4. Dollar could gain versus global currencies

The divergence between interest rates in America versus other countries is expected to cause the U.S. dollar to become stronger.

That's great news for world travelers, but it would hurt all types of U.S. companies that sell products abroad.

Also some investors are pulling their money out of global investments parking it in the U.S. — higher rates make assets priced in dollars more attractive.

Others are getting out of emerging markets like Turkey and Brazil. Those countries sometimes borrow loans that have to be paid in U.S. dollars.

Once the dollar's value rises, those loans get more expensive and difficult to pay back. It creates financial stress and can lead to default and ultimately hurt the broader economy.

It's already been a bad year for many developing nations. The MSCI Emerging Market Index, which captures stock market performance, is down nearly 20% so far this year.

So just be ready for a bumpy ride in the global markets.

5. Can the global economy get back on track?

The Fed's actions have huge implications for the global economy.

The Unites States is linked more than ever before to major players around the world. China's slowdown has hurt other emerging markets. Japan is barely growing. Europe is struggling with low economic growth too. It's been a rough year for emerging markets across the board.

To varying degrees, all that weighs on the U.S. economy & the Fed.

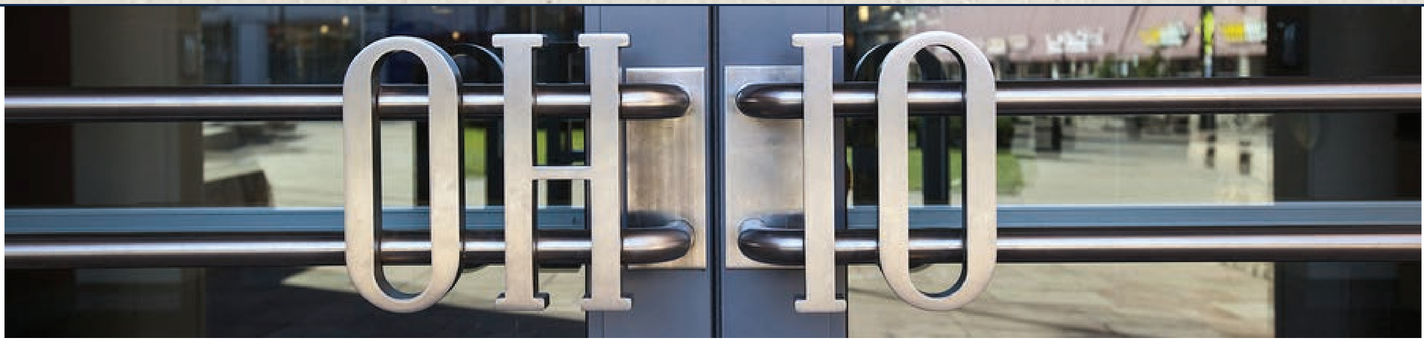
The concern is that the Fed's rate hike can cause a boomerang effect: (1) the Fed raises rates, (2) that hurts other economies even more, and then (3) economic woes in developing countries eventually hurt U.S. trade and economic growth.

The U.S. manufacturing sector has already shrunk as a result of the weak global economy and strong U.S. dollar.

The U.S. economy has made lots of progress since the recession, but it's still not at the finish line, some say.

"We've come a long way from the depths of the recession, but we're still not quite back to where we'd like to be," says Croushore, the former Fed economist.

Source: CNN Money, by Patrick Gillespie



Budgeting – Cornerstone of Success | *Continued from page 1...*

3. Honesty is the Best Policy

Your parents have instilled the value of honesty. You need to be honest with yourself too. Common reactions I hear from folks after walking through the Income Approach:

- *"I don't spend that much"*
- *"this was an unusually expensive month"*
- *"I used to save X and was planning to start again next month"*

Once you fully come to terms with your actual monthly spend, you can take the next step in budgeting. Honest reflection is an important step and one in which many do not achieve.

4. Monitor

Now that you've identified your actual spend, you'll want to compare with your budgeted pro-forma spend. In other words, set a target amount that you would like to save on a regular basis. The target spend should take into consideration what you need to save regularly to achieve your goals. Your budget may need some tweaking to reach the target amount.

Financial tracking software will keep you on pace by monitoring your daily/weekly spend and communicating to you if you're on the right track. There are many resources for monitoring your spend; some of which are detailed in the next section.

5. Automate, Automate, Automate

I can't stress enough that whatever system you use, it must be automated. If not, you'll have great intentions but quickly revert back to your old habits – its human nature. Some easy automation techniques are as follows.

- Be certain your budget is online with built-in alerts (Mint.com, etc.). The casual prompts when you exceed your budget will start to retrain your otherwise stubborn habits.
- Set up more savings accounts with automated drafts from your primary checking account. Banks have made setting up multiple accounts easy, low cost and even free in some cases. For example, setting up a "kid's tuition", "vacation fund" or "new business venture" and funding this on a regular basis, allows you to plan for these otherwise large one-time expenses. Not having this in place often results in loans and credit card debt that cost you handsomely in interest payments. In addition, if the money isn't in your "primary account", it's spared the risk of being spent.
- Leverage your employer's retirement plan. Too often, we see folks not taking full advantage of the "company match" which is basically free money. As well, this money is payroll deducted for maximum convenience. Company retirement plans are a triple threat:
  - Give yourself a raise
  - Save for retirement
  - Avoid over-spending/blowing your budget

"Retirement" is the biggest purchase you'll ever make throughout your life. It's one that most Americans spend very little time considering relative to other much smaller purchases such as homes and cars. Carve out some time, build a budget and start planning for the largest purchase of your life.

By: Mark A. Fissel, CFP®

Retirement Plan Contribution Limits for 2016

How much can be contributed to an IRA and 401(k) in 2016? Are the income limits for Roth IRAs going to increase?

The contribution amount will not increase in 2016 because the increase in the cost-of-living index did not meet the thresholds that trigger an adjustment. The maximum you can contribute to a 401(k), 403(b), most 457 plans and the federal government's

Thrift Savings Plan will remain at $18,000. The catch-up contribution will remain the same, too – you can contribute an extra $6,000 if you'll be 50 or older anytime in 2016.

IRA maximum contributions aren't changing, either. You will be able to contribute up to $5,500 to an IRA in 2016, plus an extra $1,000 if you're 50 or older.

The Roth IRA income limits will be $1,000 higher than in 2015. You'll be able to contribute the full amount to a Roth IRA in 2016 if your adjusted gross income is less than $184,000 if you're married filing taxes jointly; the contribution amount will phase out completely if you earn more than $194,000. Singles will be able to contribute the full amount if their income is below $117,000 in 2016; the contribution amount will phase out completely if they earn more than $132,000.

The income limits to qualify for the retirement saver's credit will also increase slightly. To be eligible for the credit, your income must be less than $61,500 if married filing jointly (up from $61,000 in 2015), or $46,125 for a head of household (up from $45,750) or $30,700 if you're single (up from $30,500). This credit is worth 10%, 20% or 50% of the first $2,000 you contribute to an IRA, 401(k) or other retirement-savings plan (the higher your income, the lower the percentage).

Source: Kiplinger, by Kimberly Lankford

When to Expect Tax Forms this Year

Form Number	Mailing Date	Form Description
1099	February 15	Composite form for Individual, Joint & Trust Accounts
1099 – Q	January 31	Payments from Qualified Education Programs
1099 – R	January 31	Distributions from Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
RMD	January 31	Required Minimum Distribution Info
5498	January 31	Contributions (including rollover contributions) to an IRA, including a SEP, SIMPLE and Roth IRA: Roth Conversions; IRA recharacterization and the fair market value (FMV) of the account
1042 – S	March 15	Foreign Person's U.S. Source Income Subject to Withholding
WHFIT	March 15	Widely Held Fixed Investment Trusts
5498ESA	April 30	Coverdell ESA Contribution Information
5498	May 31	Contributions (including rollover contributions) for 2014 made to an IRA in 2015, including a SEP, SIMPLE and Roth IRA: Roth Conversions; IRA recharacterization and the fair market value (FMV) of the account

BEACON HILL
INVESTMENT ADVISORY
84 South Fourth Street
Columbus, OH 43215

Clint Edgington, CFA

Mark Fissel, CFP®, AIF®

William Shorthill, CFP®