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Financial Market Commentary: 3rd Quarter 2014

The Return of Market Volatility

Markets around the world, with the exception of U.S. large cap equities and long-term U.S. Treasury bonds, experienced volatility during the third quarter of 2014 not endured in recent years. Asset classes that were especially hit hard included mid to small capitalized stocks as the S&P 400 and S&P 600 returned –4.0%[1] and –6.7%[1] respectively. Moreover, stocks of companies domiciled overseas also experienced a rough quarter evidenced by the MSCI EAFE's poor performance during the quarter losing 5.8%.[1]

Stock market volatility is nothing new, despite its absence from our portfolios since the S&P 500 lost 2.75% over the course of a three month period nearly two years ago.[1] If anything, the market's recent struggles serve as a reminder that we must be constantly vigilant of our financial plan, ensuring that our assets are still aligned with our ultimate goals. As we enter the final three months of the year, I'd like to point out some prudent financial house keeping duties to perform (preferably before the busy holiday season arrives!)

Year-End Check-Up

Review Your Asset Allocation. As noted, the market's recent volatility reminds us that our portfolio balances do not grow at a constant rate. Now is the ideal time to identify your asset allocation. An aggressive allocation has historically provided a higher rate of return than a conservative allocation, especially over long periods of time. However, if your goal for the money is no longer considered long-term, or if the current balance is enough to satisfy that goal, now may be an appropriate time to take some risk off the table by adjusting to a more conservative allocation.

On the other hand, the recent dip in asset prices may provide an opportunity for investors that have been patient to deploy cash or other conservative assets during a time when the market isn't setting multiple records (see Financial Market Commentary: 2nd Quarter 2014). While the practice of dollar cost averaging (deploying cash systematically over a set period of time) reduces the risk of poor market timing (buying when asset prices are at an all-time high), it also diminishes the opportunity of buying when asset prices are at a low. Now may be an opportunity to begin a dollar cost averaging strategy with some of your conservative assets earmarked for long-term goals.

Review Your Individual Securities. Specifically, individual assets with losses can be used to offset other gains within your portfolio if sold, and even ordinary income. According to www.irs.gov, "Generally, realized capital losses are first offset against realized capital gains. Any excess losses can be deducted against ordinary income up to $3,000 ($1,500 if married filing separately) on line 13 of Form 1040."[2] Worried about missing the market's next upswing after liquidating an asset? You can redeploy the cash after a 30 day waiting period into the same asset. Alternatively, you may be able to buy a similar asset immediately, so long as it is not considered "substantially identical"[3] per IRS wash sale rules. Please consult with a tax professional for further detail.

Make a 529 Contribution.[4] If you are currently funding post secondary higher education expenses for an individual (or plan to in the future), you may be able to make a contribution to a state-sponsored 529 program and receive additional tax benefits. For example, Nebraska's state sponsored plan, the Nebraska Education Savings Trust (NEST), allows individuals to take a deduction from their state income tax return on contributions made to the plan (limitations apply). Keep in mind that unlike IRA contributions, the deadline for making a contribution to a 529 account (and receiving a deduction for that calendar year) is December 31, not your tax filing deadline.

Process Your Required Minimum Distribution. This rule applies to fairly specific demographic of those that own an IRA and are over 70 1/2 years old. However, it is extremely important to process a RMD before the end of the year because the penalty is relatively punitive (1/2 of the amount that should have been taken).

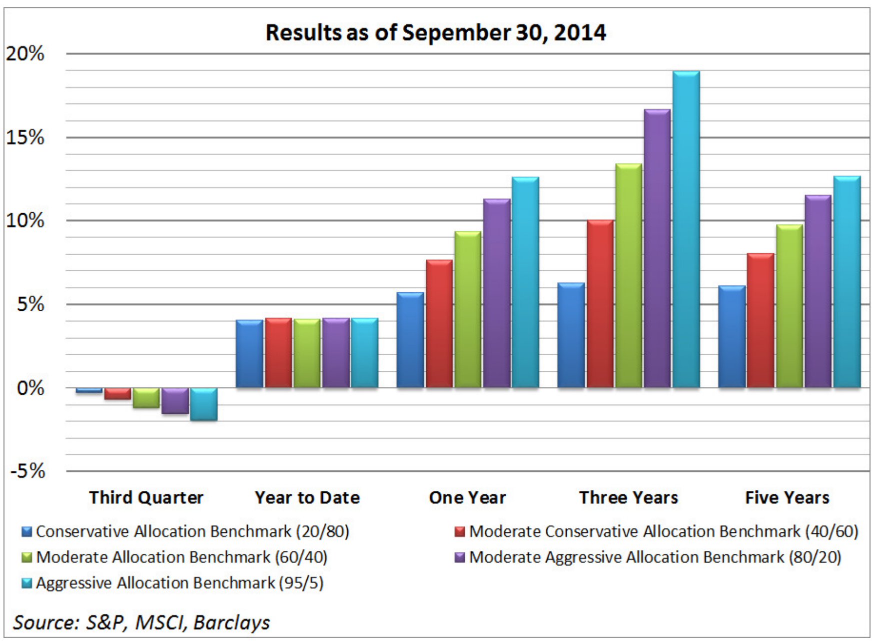
Review Your Beneficiaries. Has there been a marriage, divorce, birth of a child, or a death in the family since you last checked/ opened your account? If so you may need to update your beneficiary designations. Keep in mind that for many employer sponsored retirement plans, the duty to keep records of beneficiary information may not belong to the plan's financial custodian where your funds are held, but rather with the plan's administrator.

Meet with Your Advisor. Last but not least, we highly encourage you to identify a time convenient for yourself to meet with your advisor. At the meeting, we can review in depth some of topics mentioned, as well as answer any questions or concerns on your mind. This time is extremely important to us as it helps us to identify the strategy for managing your money through the upcoming year. Appointments are preferred as it assures that we have time set aside to focus on your needs.

In focus

The market's recent volatility serves as an important reminder that capital markets can and will fluctuate. The most recent decline also provides a reminder that it's prudent to constantly gauge your account's balance and asset allocation to your overall goal for your account and your feelings toward volatility. As such, we highly encourage you to contact one of our associates to set up a time to review your financial plan.

Benchmark Performance



[1] Morningstar and Associates [2]www.irs.gov/uac/IRS-Reminds-Taxpayers-They-Can-Use-Stock-Losses-to-Reduce-Taxes [3]www.irs.gov/publications/p550/ch04.html

[4]Potential investors of 529 plans may get more favorable tax benefits from 529 plans sponsored by their own state. Consult your tax professional for how 529 tax treatments would apply to your particular situation. To determine which college saving option is right for you, please consult your tax and accounting advisors. Neither APFS nor its affiliates or financial professionals provide tax, legal or accounting advice. Please carefully consider investment objectives, risks, charges, and expenses before investing. For this and other information about municipal fund securities, please obtain an offering statement and read it carefully before you invest.

Certain sections of this commentary may contain forward-looking statements that are based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. Past performance is not indicative of future results. Diversification does not assure a profit or protect against loss in declining markets. The performance quoted represents past performance and does not guarantee future results. Investing involves risk including loss of principle. No investment strategy such as asset allocation or diversification can guarantee a profit or protect against loss in periods of declining values. Index returns are for illustrative purposes only and do not represent actual account performance. Indexes are unmanaged and one cannot invest directly in an index. Index performance returns do not reflect any management fees, transaction costs or expenses. The Internal Rate of Return (IRR) is used to calculate the true, money-weighted rate of return. Like the Modified Dietz calculation, the portfolio or asset is valued at the starting and ending points of the period. Cash flows are based on their timing. The IRR is related to the time-value of money or present value formula. It calculates the discount rate which will take the starting value and all cash flows to result in the ending market value. Performance returns for time periods longer than 365 days have been annualized.

Conservative Allocation Benchmark (20/80) is comprised of 10% S&P 500, 2% S&P MidCap 400, 1% S&P SmallCap 600, 6% MSCI Developed EAFE, 1% MSCI Emerging Markets, 80% Barclays Aggregate Bond.
Moderate Conservative Allocation Benchmark (40/60) is comprised of 21% S&P 500, 4% S&P MidCap 400, 2% S&P SmallCap 600, 11% MSCI Emerging Markets, 2% MSCI Emerging Markets, 60% Barclays Aggregate Bond
Moderate Allocation Benchmark (60/40) is comprised of 30% S&P 500, 7% S&P MidCap 400, 3% S&P SmallCap 600, 17% MSCI Developed EAFE, 3% MSCI Emerging Markets, 40% Barclays Aggregate Bond
Moderate Aggressive Allocation Benchmark (80/20) is comprised of 41% S&P 500, 9% S&P MidCap 400, 4% S&P SmallCap 600, 22% MSCI Developed EAFE, 4% MSCI Emerging Markets, 20% Barclays Aggregate Bond
Aggressive Allocation Benchmark (95/5) is comprised of 48% S&P 500, 11% S&P MidCap 400, 5% S&P SmallCap 600, 26% MSCI Developed EAFE, 5% MSCI Emerging Markets, 5% Barclays Aggregate Bond