Lassus Wherley ...a View from the Top
Building Better Futures
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Happy New Year????

Here are our thoughts on the financial markets in 2015, kicking off 2016, and the basics of a reverse mortgage.

Just as we were catching our breath from the crazy ride at the end of 2015, the roller coaster started picking up speed. This was certainly not the start to 2016 we were hoping for, but the financial markets have been pretty unpredictable recently. This is a really good time for remembering why we focus on long-term investment. If you spend a lot of time trying to figure out what is driving the short-term swings in financial markets, it can increase your stress level pretty significantly.

The ups and downs of the market are driven by many different things but primarily by two, which are macro issues, such as the health of the economy, and fundamental information, such as basic earnings of companies. Recently we have seen more of a focus on macro issues, including the challenges faced by China. We see these currently as headline risk. When the headlines change on a day-to-day basis, the markets react to these headlines. Whether the headlines are positive or negative determines the short-term direction of the markets. Keep this in mind as you review our ongoing discussion of what the markets have done and are currently doing.

Good-bye to 2015

2015 was a year marked by volatility, with many different themes contributing to that volatility throughout the year. We had the ongoing saga with Greece and uncertainty as to whether or not they would remain a member of the euro-zone, tenuous negotiations over the terms of a bailout plan aimed

to allow Greece to meet its ongoing obligations to lenders and buy time to implement agreed-upon reforms. After the agreement for an $86-billion euro bailout plan by Greece and euro-zone authorities in August of last year, headlines about Greece have been more muted. Volatility in China and

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continued drops in oil prices, both of which were also consistent themes in 2015, have been dominating headlines recently. Concerns over ISIS and other terrorist activity, ongoing tension in the Middle East, and uncertainty over the timing of the first interest rate hike by the Fed also played a major role in the volatility we experienced in 2015. Divergence in returns within equity markets was significant. The S&P 500 closed the year with a return of 1.38%, while the Russell 2000 (a proxy for US small-cap stocks) closed the year down -4.41. The MSCI EAFE and EM indices, measures of developed international and emerging markets stocks, closed down -0.81% and -14.92%, respectively. The Barclays US Aggregate Bond Index, a broad representation of the US Bond Market, finished the year with a gain of 0.55%, and our global real estate fund also posted a slight positive gain of 0.69%. The divergence in returns we saw in 2015 highlights the importance of maintaining a well-diversified portfolio.

The primary reason for the downdraft in stocks to start the year was the sell-off in Chinese equities, which shed 7% (as measured by the Shanghai Shenzhen CSI 300 index) on Monday the 4th. The 7% drop triggered circuit breakers which led to a trading halt on the exchange.

Kicking Off 2016

With the exception of timing for the first interest rate hike which was enacted in December by the Fed, many of these themes continue to be present, and volatility has certainly continued into the first trading week of the New Year.

The first trading day of the year saw the S&P 500 close down roughly -1.5%. The S&P 500 index subsequently managed a small gain of 0.20% the next day, before downside volatility resumed with the index shedding about another -4.80% through the rest of the week.

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China subsequently announced that it would extend the selling ban for shareholders owning more than 5% of a listed company's stock to try and prevent another sharp drop. Chinese equities did rally a bit to close the week, trading up by close to 2% on Friday. If slower growth in China and volatility in China's equity markets and currency don't sound like new concepts, that's because they aren't. These conditions have been both present and widely telegraphed for some time. The selling this week certainly seems reminiscent of August of last year when

concerns over China had also sparked selling in US equity markets, with the S&P 500 having lost roughly 6.0% for the month. However, stocks rebounded with the S&P 500 posting a return of just over 7.0% in the 4th quarter.

It is important to keep in mind that we do not allocate a large amount to Emerging Market stocks, with exposure to this asset class typically in the single digits. Furthermore, the DFA Emerging Market Core Equity fund that we utilize has direct exposure of less than 15% to China, putting overall portfolio level exposure to Chinese equities at a nominal amount vis-à-vis the Emerging Market equity asset class.

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The Oil Story Continues

We have also discussed the drop in crude oil prices in the past, which have continued to slide due to the large supply and ongoing tensions between Saudi Arabia and Iran. A Shiite cleric was recently executed in Saudi Arabia's capital, Ryadh, which led to Iranian Shiite's attacking the Saudi embassy in Iran's capital, Tehran. Saudi Arabia subsequently gave Iranian diplomats 48 hours to leave the country and said that it was severing all diplomatic ties. These ongoing tensions between major oil producers and the large amount of supply on the market continue to put downward pressure on oil. The continued drops in energy prices have in turn continued to put downward pressure on stocks. However, lower oil prices also have the effect of reducing input prices for corporations as well as gas prices for consumers, which can provide a tail-wind for corporate earnings and consumer spending.

Thoughts for 2016

In terms of whether or not we will continue to see more selling, we do see the possibility for downside volatility to continue. However, we wanted to share an interesting bit of information that was provided in JP Morgan's "Guide to the Markets" related to pre-conditions that have been present the last ten times stocks headed into a bear market (as defined by a 20% or greater decline in stocks from the all-time high). Preceding each of the last ten bear markets, we have typically seen at least one of or a combination of four factors, including either being in a recession, seeing a spike in commodity prices, aggressive rate hikes by the Fed, and/or extreme valuations in stock markets. If we examine each of these factors, it becomes apparent that the typical pre-conditions for bear markets are not present. The US economy is not in recession as we see fundamentals improving and the economy continuing along the path of slow growth, we are seeing the opposite of a spike in commodity prices, the Fed had kept interest rates at rock bottom levels for several years before a recent modest rate hike of 0.25%, and valuations don't appear to be ex-

treme with the Forward P/E (price to earnings) ratio for the S&P 500 not too far off of long-term averages at this point. This would seem to argue that we are not headed for a bear market in stocks.

Furthermore, looking overseas to Europe, we note that the euro-zone continues to slowly recover and is in the midst of a $1.1 trillion euro stimulus plan with the European Central Bank consistently noting that it will remain accommodative for some time and stands ready to expand stimulus if needed.

We do think it will take time to work our way through some of the current challenges facing the markets, but it is important as always that we remember that we are long-term investors. Downside volatility caused by uncertainty and fear in the short-term provides opportunities to rebalance your portfolio. With that in mind, we ask that you continue to keep us posted in terms of any short-term cash needs that you anticipate.

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Here are a couple of great questions from some of our clients. Let us know if you have one you would like included.

Question: ***Why is what's going on in China having such a large impact on US markets?***

Answer: If you are asking yourself this question, you are not alone in this line of thinking. Particularly in light of the fact that US economic growth is continuing at a sustainable pace and fundamentals continue to improve. Despite the size of China's economy and its importance on a global scale, there are many who believe that it would be fair to characterize the selling that has occurred thus far as irrational. The fact is that volatility in China's equity markets, slowing economic growth, and efforts to stabilize a volatile currency are not new themes in the global economy. Much of what is occurring in US markets is reactionary and emotional selling, with the volatility in Chinese equities, continued drops in oil prices, headlines regarding continued conflict between Saudi Arabia and Iran, as well as bomb tests in North Korea, all giving investors looking for a reason to sell the motivation to do so. Despite the volatility we have seen in US markets amid the turmoil in China, the S&P 500 has actually been fairly resilient in the face of this volatility relative to world markets. We must remember that markets are often not rational and can trade off of fear and emotion in the short-term. History shows us that investors are not well served by reacting to this type of volatility.

Question: ***Should I Be Thinking About a Reverse Mortgage?***

Answer: Over the past decade we have begun to hear more and more about reverse mortgages as a way for seniors to pay off a mortgage, supplement income or pay for healthcare expenses. It allows you to convert part of the equity in your home into cash without having to sell your home or pay additional monthly bills. When you have a **regular** mortgage, you pay the lender every month to buy your home over time. In a **reverse** mortgage, you get a loan in which the lender pays *you*. Reverse mortgages take part of the equity in your home and convert it into payments to you, a kind of advance payment on your home equity. The money you receive is usually tax-free. Generally, you don't have to pay back the money for as long as you live in your home. When you die, sell your home, or move out, you, your spouse, or your estate would have to repay the loan. Sometimes that means selling the home to get money to repay the loan.

In a **reverse** mortgage, you get a loan in which the lender pays *you*. Reverse mortgages take part of the equity in your home and convert it into payments to you, a kind of advance payment on your home equity.

There are three types of reverse mortgages. Careful consideration should be given to which might best suit your needs.

Single-purpose reverse mortgage – least expensive option and may only be used for one purpose such as home improvements or paying off a mortgage.

Proprietary reverse mortgages are private loans backed by the companies that develop them. If you own a higher valued home, you may get a bigger advance from this type of loan.

Home equity conversion mortgages (HECMs) are federally backed and insured reverse mortgages that can be used for any purpose. These type of reverse mortgages are the most popular. Generally, HECM loans do not require the senior to pass credit or income requirements.

Reverse mortgage eligibility requirements are that the owner must be age 62 or older, the home must be the primary residence and the owner must have equity in the home. Additionally, mandatory debt counseling is required with a HUD-certified counselor as a consumer safeguard. The counselor is required to explain the loan's costs and financial implications. The counselor also must explain the possible alternatives to a HECM-like government and non-profit programs, or a single-purpose or proprietary reverse mortgage. The counselor should be able to help you compare the costs of different types of reverse mortgages and tell you how different payment options, fees, and other costs affect the total cost of the loan over time.

Consider the following pros and cons as a starting point for determining if it makes sense for you. Even though HUD loans require a loan discussion with a counselor, you should consult with your financial advisor and your tax professional before making a decision.

Pros of a reverse mortgage:

They're a source of income. Borrowers have a choice in whether they take the loan as a lump sum or by regular monthly payments.

Proceeds are generally tax-free. Final tax treatment may rely on a variety of personal factors, so check with a tax professional.

Generally, they don't impact Social Security or Medicare payments. Again, it is important to check personal circumstances, but there are usually no penalties relating to members already receiving payments from any program.

You won't owe more than the home is worth. Most reverse mortgages have a “nonrecourse” clause, which prevents you or your estate from owing more than the value of your home when the loan becomes due and the house is sold.

You will always remain the owner of your home. You do not give up title.

Cons of a reverse mortgage: You may outlive your equity. Reverse mortgages are viewed as a "last-resort" loan option and certainly not a singular solution to spending problems. They're recommended generally for older seniors as part of a strategic package of financial solutions to allow them to stay in their homes as long as possible.

You and your heirs won't get to keep your house unless you repay the loan. If your children hope to inherit your home outright, try to find some other funding solution (family loans, other conventional loan products) before you go with a reverse mortgage.

Application fees can be expensive. Reverse mortgage lenders typically charge an origination fee and higher closing costs than conventional loans. This adds up to several percentage points of your home's value.

If you have to move out for any reason, your loan becomes due. Generally, this is triggered if you or your co-borrower hasn't lived in the home for a continuous year. So health issues provide real risk with this type of product.

Interest rates may change over time. Most reverse mortgages have variable rates, which are tied to a financial index and change with the market. Variable-rate loans tend to give you more options on how you get your money through the reverse mortgage. Some reverse mortgages – mainly HECMs – offer fixed rates, but they tend to require you to take your loan as a lump sum at closing. The total amount you can borrow is often less than you could get with a variable-rate loan.

Interest is not tax deductible each year. Interest on a reverse mortgage is not deductible on income tax returns until the loan is paid off, partially or in full.

You have to pay other costs related

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to your home. With a reverse mortgage, you keep the title to your home. That means you are responsible for property taxes, insurance and maintenance. If you do not pay your taxes or maintain your home, the lender may require you to repay your loan.

Before seeking a reverse mortgage, there are a few last items to consider:

Do you want a reverse mortgage to pay for home repairs or property taxes? If so, find out if you qualify for any low-cost single-purpose loans in your area. Find a local area Agency on Aging at eldercare.gov. There are various low-cost loan options for seniors.

Do you live in a higher valued home? You might be able to borrow more money with a proprietary reverse mortgage. But the more you borrow, the higher the fees you'll pay. You also might consider a HECM loan. A HECM counselor or a lender can help you compare these types of loans side by side, to see what you'll get – and what it costs.

Compare fees and costs. This bears repeating: shop around and compare the costs of the loans available to you. While the mortgage insurance premium is usually the same from lender to lender, most loan costs – including origination fees, interest rates, closing costs, and servicing fees – vary among lenders.

Understand total costs and loan repayment. Ask a counselor or lender to explain the Total Annual Loan Cost (TALC) rates. They show the projected annual average cost of a reverse mortgage, including all the itemized costs. And, no matter what type of reverse mortgage you are considering, make sure you understand all the reasons why your loan might have to be repaid earlier than you intended.

There are many considerations and only you can decide whether a reverse mortgage is right for your situation. These products are designed for specific circumstances but are still an expensive alternative. For some, these products work well; however, every applicant should do research and speak with a professional in this field who can help decide if a reverse mortgage is the right choice and which type of reverse mortgage might be right and help compare terms, options and fees.

Lassus Wherley News:

Diahann has been appointed to the newly formed **Commission on Standards** by the Certified Financial Planner Board of Standards (CFP Board). The Commission is charged with reviewing and making recommendations that are in keeping with CFP Board's mission to benefit the public by granting the CFP® certifi-

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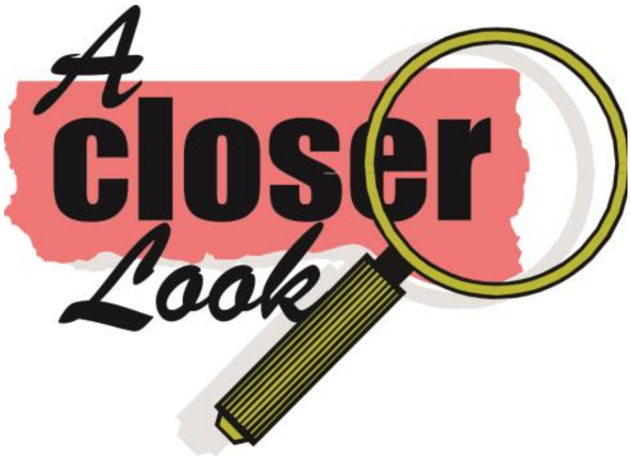

cation and upholding it as the recognized standard of excellence for competent and ethical financial planning.

The **Commission on Standards** will review and recommend proposed changes to four components of CFP Board's *Standards of Professional Conduct; Terminology, Code of Ethics and Professional Responsibility, Rules of Conduct and Financial Planning Practice Standards.*

In developing its recommendations, the Commission will consider, among other things: input from members of the public including the professional community, Federal and state statutes, rules and regulations related to the provision of investment advise, sales of insurance and securities; and the ethical rules or standards of other standard setting organizations. "This review by the Commission, conducted after CFP Board receives input from the public, and finalized after stakeholders have an ample opportunity to comment on the proposed changes, will ensure that CFP Board's standards will continue to be the benchmark for excellence in financial planning." (Excerpt from CFP Board Release 12/16/2015)

Keep in touch and remember that you are a long-term investor regardless of what happens in the financial markets in the short term.

Enjoy the winter and have a safe, warm and very happy 2016!

Diahann

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