Michael Tarantino, CFP®
CERTIFIED FINANCIAL PLANNER™
303 East Mountain Ave
Fort Collins, CO 80524
970-292-0105
fax: (970) 224-4180
michael.tarantino@investmentcenters.com
www.michaeltarantino.net

Hello,

Staying the course pays off in 2016:

After starting the year in meltdown mode, the market is on another comeback kick. Quietly, the market has not only erased its losses but is actually in positive territory.

If you 'd like to review your investments or discuss current market conditions, please feel free to contact me.

Mike

Issue 17

Assessing Portfolio Performance: Choose Your Benchmarks Wisely

You can't help but hear about the frequent ups and downs of the Dow Jones Industrial Average or the S&P 500 index. The performance of both major indexes is widely reported and analyzed in detail by financial news outlets around the nation.

Like the Dow, the S&P 500 tracks the stocks of large domestic companies. With 500 stocks compared to the Dow's 30, the S&P 500 comprises a much broader segment of the stock market and is considered to be representative of U.S. stocks in general. Both indexes are generally useful tools for tracking stock market trends, but some investors mistakenly think of them as benchmarks for how well their own portfolios should be doing.

However, it doesn't make much sense to compare a broadly diversified, multi-asset portfolio to just one of its own components. Expecting portfolio returns to meet or beat "the market" is usually unrealistic, unless you are willing to expose 100% of your life savings to the risk and volatility associated with stock investments.

Asset allocation: It's personal

Just about every financial market in the world is tracked by one or more indexes that investors can use to look at current and historical performance. In fact, there are hundreds of indexes based on a wide variety of asset classes (stocks/bonds), market segments (large/small cap), and styles (growth/value).

Investor portfolios are typically divided among asset classes that tend to perform differently under different market conditions. An appropriate mix of stocks, bonds, and other investments depends on the investor's age, risk tolerance, and financial goals.

Consequently, there may or may not be a single benchmark that matches your actual holdings and the composition of your individual portfolio. It could take a combination of several benchmarks to provide a meaningful performance picture.

Keep the proper perspective

Seasoned investors understand that short-term results may have little to do with the effectiveness of a long-term investment strategy. Even so, the desire to become a more disciplined investor is often tested by the arrival of quarterly or annual financial statements.

The main problem with making decisions based on last year's performance figures is that asset classes, market segments, or industries that do well during one period don't always continue to perform as well. When an investment experiences dramatic upside performance, it may mean that much of the opportunity for market gains has already passed. Conversely, moving out of an investment when it has a down year could mean you are no longer in a position to benefit when that segment starts to recover.

On the other hand, portfolios that are left unattended may drift and begin to take on too much risk or become too conservative. Rebalancing periodically could help bring your asset mix back in line with your preferred allocation.

There's really nothing you can do about global economic conditions or the level of returns delivered by the financial markets, but you can control the composition of your portfolio. Evaluating investment results through the correct lens may help you make appropriate adjustments and effectively plan for the future.

Note: *Keep in mind that the performance of an unmanaged index is not indicative of the performance of any specific security, and individuals cannot invest directly in an index. Asset allocation and diversification are methods used to help manage investment risk; they do not guarantee a profit or protect against investment loss. All investments are subject to market fluctuation, risk, and loss of principal. Shares, when sold, may be worth more or less than their original cost. Investments that seek a higher return tend to involve greater risk. Rebalancing may result in commission costs, as well as taxes if you sell investments for a profit.*

Quiz: Which Birthdays Are Financial Milestones?

When it comes to your finances, some birthdays are more important than others. Take this quiz to see if you can identify the ages that might trigger financial changes.

Questions

1. Eligibility for Medicare coverage begins at what age?

a. 62

b. 65

c. 66

2. A child can stay on a parent's health insurance plan until what age?

a. 18

b. 21

c. 26

3. At this age individuals who are making contributions to a traditional or Roth IRA or an employer-sponsored retirement plan can begin making "catch-up" contributions.

a. 50

b. 55

c. 60

d. 66

4. This age is most often associated with drops in auto insurance premiums.

a. 18

b. 25

c. 40

d. 50

5. Individuals who have contributed enough to Social Security to qualify for retirement benefits become eligible to begin collecting reduced benefits starting at what age?

a. 62

b. 65

c. 66

d. 70

6. To obtain a credit card, applicants under this age must demonstrate an independent ability to make account payments or have a cosigner.

a. 16

b. 18

c. 21

Answers

1. b. 65. Medicare eligibility begins at age 65, although people with certain conditions or disabilities may be able to enroll at a younger age. You'll be automatically enrolled in Medicare when you turn 65 if you're already receiving Social Security benefits, or you can sign up on your own if you meet eligibility requirements.

2. c. 26. Under the Affordable Care Act, a child may retain his or her status as a dependent on a parent's health insurance plan until age 26. If your child is covered by your employer-based plan, coverage will typically end during the month of your child's 26th birthday. Check with the plan or your employer to find out exactly when coverage ends.

3. a. 50. If you're 50 or older, you may be able to make contributions to your IRA or employer-sponsored retirement plan above the normal contribution limit. These "catch-up" contributions are designed to help you make up a retirement savings shortfall by bumping up the amount you can save in the years leading up to retirement. If you participate in an employer-sponsored retirement plan, check plan rules--not all plans allow catch-up contributions.

4. b. 25. By age 25, drivers generally see their premiums decrease because, statistically, drivers younger than this age have higher accident rates. Gaining experience and maintaining a clean driving record should lead to lower premiums over time. However, there's no age when auto insurance rates automatically drop because rates are based on many factors, including type of vehicle and claims history, and vary by state and insurer; each individual's situation is unique.

5. a. 62. You can begin receiving Social Security retirement benefits as early as age 62. However, your benefits will be reduced by as much as 30% below what you would have received if you had waited until your full retirement age (66 to 67, depending on your year of birth).

6. c. 21. As a result of the Credit Card Act of 2009, credit card companies cannot issue cards to those under age 21 unless they can show proof that they can repay the debt themselves or unless someone age 21 or older with the ability to make payments cosigns the credit card agreement.

What is the birthday rule?

The birthday rule may be used by health insurers to coordinate benefits when a dependent child is covered by the health plans of both parents and the parents are married or living together. The plan of the parent whose birthday falls earlier in the calendar year is generally the primary plan, providing benefits and paying claims first, and the plan of the other parent provides secondary coverage. If the parents share the same birthday, primary coverage is provided by the plan that has covered one parent the longest.

Source: National Association of Insurance Commissioners, naic.org

Are There Gaps in Your Insurance Coverage?

If you own a condo, your association's property insurance may leave gaps in coverage. For example, most association insurance doesn't cover your furniture, wall coverings, electronics, interior walls, and structural improvements made to the interior of your unit. Review your condo documents, particularly the association's master deed, its by-laws, rules and regulations, which may describe those parts of your unit the association insurance covers, and which parts you may need to insure.

Buying insurance is about sharing or shifting risk. For example, health insurance will cover some of the cost of medical care. Homeowners insurance will assume some of the risk of loss in the event your home is damaged or destroyed. But oftentimes we think we're covered for specific losses when, in fact, we're not. Here are some common coverage gaps to consider when reviewing your own insurance coverage.

Life insurance

In general, you want to have enough life insurance coverage (when coupled with savings and income) to allow your family to continue living the lifestyle to which they're accustomed. But changing circumstances may leave a gap in your life insurance coverage.

For example, if you have life insurance through your employer, changing jobs could affect your insurance coverage. You may not have the same amount of insurance, or the policy provisions may differ. Whereas your prior employer may have provided permanent life insurance, now you may have term insurance that will expire on a predetermined date. Review your income, savings, and expenses annually and compare them to your insurance coverage, and be mindful that changing circumstances may require a change in the amount of insurance coverage.

Homeowners insurance

It's not always clear from reading your homeowners policy which perils are covered and how much damage will be paid for. It's important to know what your homeowners policy covers and, more important, what it doesn't cover.

You might think your insurer would pay the full cost to replace your home if it were destroyed by a covered occurrence. But many policies place a cap on replacement cost up to the face amount stated on the policy. You may want to check with a building contractor to get an idea of the replacement cost for your home, then compare it to your policy to be sure you have enough coverage.

Even if your policy states that "all perils" are covered, most policies carve out many exceptions or exclusions to this general provision. For example, damage caused by floods, earthquakes, and hurricanes may be covered only by special addendums to your policy, or in some cases by separate insurance policies altogether. Also, your insurer may not cover the extra cost of rebuilding attributable to more stringent building codes, or your policy may limit how much and how long it will pay for temporary housing while repairs are made.

To avoid these gaps in coverage, review your policy annually with your insurer. Also, pay attention to notices you may receive. What may look like boilerplate language could actually be significant changes to your coverage. Don't rely on your interpretations--seek an explanation from your insurer or agent.

Auto insurance

Which drivers and what vehicles are covered by your auto insurance? Most policies provide coverage for you and family members residing with you, but it's not always clear-cut. For instance, a child who is living in a college dorm is probably covered, but a child who lives in an off-campus apartment might be excluded from coverage. If you and your spouse divorce, which policy insures your children, particularly if they are living with each parent at different times of the year? Notify your insurer about any change in living arrangements to avoid a gap in coverage.

Other gaps include no coverage for damaged batteries, tires, and shocks. And you might not be covered for stolen or damaged cell phones or other electronic devices. Your policy may also limit the amount paid for a rental while your vehicle is being repaired.

In fact, insurance coverage for rental cars may also pose a problem. For instance, your own collision coverage may apply to the rental car you're driving, but it may not pay for all the damage alleged by a rental company, such as loss of use charges. If you're leasing a car long term, your policy may cover the replacement cost only if the car is a total loss or is stolen. But that amount may not be enough to pay for the outstanding balance of your lease. Gap insurance can cover any difference between what your insurer pays and the balance of your lease.

Policy terms and conditions aren't always easily understood, and you may not be sure what's covered until it's time to file a claim. So review your insurance policy to be sure you've filled all the gaps in your coverage.

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michael.tarantino@investmentcenters.com
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What is the federal funds rate?

In December 2015, the Federal Open Market Committee (FOMC) raised the federal funds target rate to a range of 0.25% to 0.50%, the first shift from the rock-bottom 0% to 0.25% level where it had remained since December 2008.

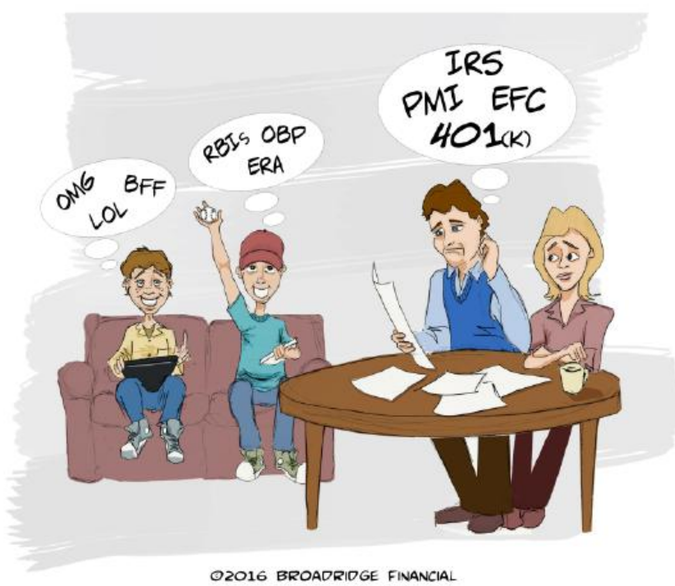
The federal funds rate is the interest rate at which banks lend funds to each other from their deposits at the Federal Reserve, usually overnight, in order to meet reserve requirements. The Fed also raised a number of other rates related to funds moving between Federal Reserve banks and other banks. The Fed does not directly control consumer savings or credit rates, but the federal funds rate serves as a benchmark for many short-term rates, such as savings accounts, money market accounts, and short-term bonds.

The prime rate, which commercial banks charge their best customers, is typically about 3% above the federal funds rate. Other forms of business and consumer credit--such as small-business loans, adjustable-rate mortgages, auto loans, and credit cards--are often directly linked to the prime rate. Actual rates can vary widely. Fixed-rate home mortgages and other long-term loans are generally not linked directly to the prime rate, but may be indirectly affected by it

The FOMC expects economic conditions to "warrant only gradual increases" in the federal funds rate. Most Committee members projected a target range between 0.75% and 1.75% by the end of 2016, so you can probably expect a series of small increases this year. Although rising interest rates make it more expensive for consumers to borrow, higher rates could be good for retirees and savers who seek current income from bank accounts, CDs, bonds, and other fixed-interest investments.

The FDIC insures CDs and bank savings accounts, which generally provide a fixed rate of return, up to $250,000 per depositor, per insured institution. The principal value of bonds may fluctuate with market conditions. Bonds redeemed prior to maturity may be worth more or less than their original cost. Investments seeking to achieve higher yields also involve a higher degree of risk.

***Source:** Federal Reserve, 2015*



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