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SECURING TOMORROW

INSIDE

Economic Update

by Clark Kendall

Quarter in Review

On Wall Street, the opening quarter of 2015 played out like the first quarter of 2014: gains for the Nasdaq and S&P 500, a small loss for the Dow. In another resemblance, uncertainties emerged about the strength of the economy. Hiring data and consumer confidence readings were mostly strong, yet Q1 did not see notable consumer spending or retail sales gains. Commodities suffered as the dollar rally continued. The pace of home sales wavered, but the big picture of the housing market was still very positive. While our central bank considered near-term tightening, economic signals in Asia and Europe led other central banks to ease.

Domestic Economic Health

The first quarter brought some good news and some question marks. Monthly job creation reached 201,000 in January, 264,000 in February and then just 126,000 in March – a sudden drop that made some analysts conclude that the strong dollar was now eating into company profits and expansion. The unemployment rate was down to 5.5% in March; the broader U-6 rate including the underemployed with the unemployed was at 10.9%. Wages were up 2.1% on an annualized basis, but that was countered by a slight reduction in the average workweek.

Another question mark involved the manufacturing sector. In March, the Institute for Supply Management's respected factory PMI slipped to 51.5 – down for the fifth consecutive month. (It was at 53.5 in January, 52.9 in February.) ISM's service sector PMI was more encouraging, coming in at 56.7 for January, 56.9 for February and 56.5 for March.

Personal spending figures were also unimpressive, and so were retail sales numbers (although lower gas prices impacted both indicators). According to the Commerce Department, household spending fell off 0.2% in the first month of 2015 and then ticked up 0.1% in February. Retail purchases were down 0.8% for January, 0.6% for February. Household incomes did rise by 0.3% in January and another 0.4% a month later. The plunge in gas prices helped send the Consumer Price Index south 0.7% in January, but then it advanced 0.2% for February.

Consumers may not have spent freely in Q1, but they were upbeat. The Conference Board's consumer confidence index came in at an impressive 103.8 in January, and rebounded to 101.3 in March after a dip to 98.8 in February. The University of Michigan's consumer sentiment index ended the quarter at 93.0 after reaching 98.1 in January and 95.4 in February. (For both indices, readings above 90 are considered quite strong.)

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On the factory front, the Producer Price Index moved south like the CPI, falling 0.8% in January and 0.5% for February with the drop in fuel and energy costs as a major influence. Headline hard goods orders rose 2.0% in January, then fell 1.4% in February.

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The Bureau of Economic Analysis made its third, final estimate of Q4 GDP: 2.2%, unchanged from the second estimate. By the end of the quarter, some economists thought Q1 GDP would pale in comparison. The Atlanta Fed projected Q1 growth at 0.1%, and S&P Capital IQ felt Q1 would bring a 3.0% dip in corporate profits.

The Federal Reserve found a new way to say what it had actually been saying for the past few quarters – and the subtle change in wording in its March policy statement seemed reassuring. It removed the word "patient" from its statement (as Wall Street analysts thought it would), but it also cut its 2015 GDP forecast to 2.3-2.7% and its 2015 inflation projection to 0.6-0.8%, an indication that any notions of raising interest rates in spring or summer may have subsided.

Global Economic Health

Outside our borders, the quarter was notable for two developments: the European Central Bank's new quantitative easing effort and a wave of interest rate cuts.

Strong measures were clearly needed to try and improve the euro area economy. In February, the region's consumer prices were down 0.3% year-over-year while its jobless rate was twice that of the United States (11.3%). So on January 22, the ECB stated that it would by €60 billion worth of eurozone bonds per month through September 2016, in imitation of the Federal Reserve's QE programs.

By quarter's end, some signs of an economic pickup had emerged: Europe's stock markets were lifted, and indicators showed improved money supply credit, household confidence and retail sales (which had improved 3.7% annually).

Fading oil prices meant reduced inflation in emerging market economies. Several took swift action against deflation risks: India and China cut their benchmark interest rates twice in Q1, and easing also occurred in Indonesia, Thailand, Australia, South Korea and Singapore. Asia Pacific factories were not exactly humming: China's official manufacturing PMI barely showed growth in March at a reading of 50.1, and there were significant drops in factory orders in Japan and Indonesia and exports in South Korea by March.

World Markets

The first quarter brought some sizable stock market gains – just not in the United States. The onset of quantitative easing in the eurozone sent that region's indices soaring – the DAX jumped 22.03% for the quarter, the FTSE MIB 21.80%, the STOXX 600 15.99% and the CAC 40 17.91%. In addition, England's FTSE 100 advanced 3.15%. This helped the Kendall Capital portfolios with their above average allocation to the international markets.

Every consequential Asia Pacific benchmark posted a Q1 gain except Pakistan's KSE 100, which retreated 5.91%. The Shanghai Composite advanced 15.87%, the Sensex 1.67%, the Nikkei 225 10.06%, the Jakarta Composite 5.58%, the Kospi 6.55%, the Hang Seng 5.49% and the S&P/ASX 200 8.88%. In the Americas, Argentina's MERVAL rose 26.32%, Mexico's IPC All-Share 1.34%, Canada's TSX Composite 1.85% and Brazil's Bovespa 2.29%.

As for the key Dow Jones and MSCI indices, the Europe Dow went +1.22%, the Global Dow +0.66%, the Asia Dow +7.02% and the Dow Jones Americas +0.31%. The MSCI World Index rose 1.82%; the MSCI Emerging Markets Index gained 1.91%.

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Commodities Markets

The quarter saw a 7.9% fall for the broad Thomson Reuters/Jefferies CRB Index and an 8.97% rise for the U.S. Dollar Index. So Q1 gains were rare.

Looking at the performance of CRB components, we see unleaded gas way out in front of other energy futures – ahead of everything else, in fact, with a 7.6% Q1 advance. Oil slipped another 10.6%, natural gas 12.7% and heating oil 8.1%. Light sweet crude ended Q1 at a NYMEX price of $47.60.

Amid crops, cotton posted a 3.5% quarterly improvement. Elsewhere, losses abounded: corn declined 3.9%, soybeans 4.8%, cocoa 5.9%, oats 10.9%, wheat 14.0%, sugar 14.2% and coffee 19.6%.

Gold ended Q1 just $0.90 lower on the COMEX, going -0.1% for the quarter to settle at $1,183.20 an ounce on March 31. That same day, silver settled at $16.60 an ounce. Silver had a much better Q1, going +6.4%. Palladium futures fell 7.9% in the quarter, platinum futures 5.5%.

Real Estate

By quarter's end, the annual change in new and existing home sales was nicely positive. The year-over-year difference is what matters most, and the latest available reports from the Census Bureau and National Association of Realtors showed new home sales up 24.8% on an annualized basis and resales up 4.7% in the past 12 months.

The housing industry also closely watches a markedly lagging indicator as well as an indicator of future sales activity. In March, the latest available S&P/Case-Shiller home price index (January) had an overall year-over-year gain of 4.5% versus 4.6% in December. NAR's pending home sales index rose 1.2% in January, and then another 3.2% in February. A look at construction activity in February (as recorded by the Census

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What Beneficiaries Need To Know

What do you do when an account owner passes away

By Carol Petrov

If your loved ones have invested, saved or insured themselves to any degree, you may be named as a beneficiary to one or more of their accounts, policies or assets in the event of their deaths. While we all hope "that day" never comes, we do need to know what to do financially if and when it does.

Legally, just who is a beneficiary? IRAs, annuities, life insurance policies and qualified retirement plans such as 401(k)s and 403(b)s are set up so that the accounts, policies or assets are payable or transferrable on the death of the owner to a beneficiary, usually an individual named on a contractual document that is filled out when the account or policy is first created.

In addition to the primary beneficiary, the account or policy owner is asked to name a contingent (secondary) beneficiary. The contingent beneficiary will receive the asset if the primary beneficiary is deceased.

Some retirement accounts and policies may have multiple beneficiaries. Charities are also occasionally named as beneficiaries. If you have individually listed one (or more) of your kids or grandkids as designated beneficiaries of your 401(k) or IRA, that designation will usually override any charitable bequest you have stated in a trust or will.

A will is NOT a beneficiary form. When it comes to 401(k)s and IRAs, beneficiary designations are commonly considered first and wills second. Be mindful of who you select. If you willed your IRA assets to your son in 2008 but named the man who is now your ex-husband as the beneficiary of your IRA back in 1996, those IRA assets are set up to transfer to your ex-husband in the event of your death.

"A will is NOT a beneficiary form. When it comes to 401(k)s and IRAs, beneficiary designations are commonly considered first and wills second. "

If a retirement account owner passes away, what steps need to be taken? First, the beneficiary form must be found, either with the IRA or retirement plan custodian (the financial firm overseeing the account) or within the financial records of the person deceased. Beyond that, the financial institution holding the IRA or retirement plan assets should also ask you to supply:

- A certified copy of the account owner's death certificate
- A notarized affidavit of domicile (a document certifying his or her place of residence at the time of death)

"Before you make ANY decisions, you should welcome the input of your advisor at Kendall Capital, and discuss any limitations or consequences that may apply to your situation."

If the named beneficiary is a minor, a birth certificate for that person will be requested. If the beneficiary is a trust, the custodian will want to see a W-9 form and a copy of the trust agreement.

If you are named as the primary beneficiary, you usually have three options for claiming the assets, regardless of what kind of retirement savings account you have inherited:

1. Open an inherited IRA and transfer or roll over the funds into it.
2. Roll over or transfer the assets to your own, existing IRA.
3. Withdraw the assets as a lump sum (liquidate the account, get a check).

Before you make ANY decisions, you should welcome the input of your advisor at Kendall Capital, and discuss any limitations or consequences that may apply to your situation.

What if you are a spousal beneficiary? If that is the case, you may elect to:

- Roll over or transfer assets from a traditional IRA, Roth IRA, SEP-IRA or SIMPLE IRA into your own traditional or Roth IRA, or an inherited traditional or Roth IRA
- Withdraw the assets as a lump sum
- Roll over or transfer qualified retirement plan assets from a 401(k), 403(b), etc. into your own retirement account, or take them as a lump sum.

What if you are a non-spousal beneficiary? If this is so, you may elect to:

- Roll over or transfer assets from a traditional IRA, Roth IRA, SEP-IRA, SIMPLE IRA or qualified retire-

Beneficiaries, *continued on page 6*

New This Quarter... Strategy Updates

Thanks for your Feedback

Thanks to feedback our clients provided, we have included a summary of each of our 5 investment strategies in this quarter's mailing of performance statements. We utilize a combination of these strategies to meet their long term financial goals and objectives while at the same time taking into consideration opportunities available in the financial markets. For example, as your financial needs change, it may be necessary to convert one of your accounts from a Growth Strategy to a Preserve Strategy, so it is important to understand the pros and cons of each strategy we employ. Hopefully these summaries will answer the most common questions we hear pertaining to each investment strategy. For example, "What changes did we make and why?"

We also realized that our strategies are unique and don't exactly follow a common benchmark like the S&P 500 or the Dow Jones Industrial Average. In order to help one compare "Apples to Apples", we have created Custom Benchmarks which are composed of the same allocation as the underlying holdings. For example, our "Alternative Strategy" is designed to provide growth with an allocation to securities which are lowly-correlated to the domestic equity markets. The Alternative Strategy benchmark is composed of 6 commonly known benchmarks: 57% MSCI EAFE (Europe, Asian, Far East & Emerging Markets) & EMF (Emerging Market), 19% Barclays High Yield Bond, 9.5% Barclays Global Bond, 9.5% FTSE NAREIT All Equity REITS (real estate), and 5% US Treasury Bill 3-Month. Additionally, in order to provide a more specialized portfolio, we can also combine two of our strategies to work together in one account. In these cases, we have "Blended Benchmarks" to reflect the unique combination.

We welcome the feedback and see it as an opportunity for us to improve our service and education for our clients.

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Bureau) reveals building permits up 7.7% annually but housing starts decreased 3.3% in year, with a 17.0% drop in February putting the pace of new projects at a 13-month low.

Interest rates descended on most mortgage types during the quarter. The average rate on the 1-year ARM moved north 0.06% to 2.46% between Freddie Mac's December 31 and March 26 Primary Mortgage Market Surveys, but the average interest on 30-year and 15-year fixed rate loans lessened 0.18% (to 3.69% and 2.97%, respectively). Interest on a 5/1-year adjustable rate mortgage averaged 3.01% in the December 31 survey and 2.92% in the March 26 survey.

Looking Back…Looking Forward

Small caps rallied in Q1: the Russell 2000 gained 3.99%, wrapping up the quarter at 1,252.77. Other end-of-quarter settlements were as follows: S&P 500, 2,067.89; Dow, 17,776.12; Nasdaq, 4,900.88. The CBOE VIX "fear index" closed the third month of 2015 at -20.36%. The hottest stateside equities index in Q1 was the NYSE Arca Biotechnology Index, which gained 15.95%; the VIX was the coldest. The Nasdaq and S&P 500 both logged their ninth straight winning quarters.

Most stock market analysts were not very bullish about the US equity markets Q1 when it began, and the Dow and S&P essentially treaded (rough) water in the first three months of the year. Given the powerful dollar and low oil prices, the outlook for Q2 is similar. If America's growth is in fact moderating in 2015, it may slow the bulls but not quite halt them – and fundamental economic indicators could surprise to the upside this spring even if earnings are lackluster. Though we continue to see the most value for investor outside the United States or smaller cap domestic stocks with relatively a larger percentage of company revenue coming from domestic sales that will not be negatively impacted by the strong dollar.

% Change	Q1 Change	Q4 Change	1 Year Change	10 Year Change
DJIA	-0.26	4.58	8.01	6.92
NASDAQ	3.48	5.4	16.72	14.51
S&P 500	0.44	4.39	10.44	7.52
Real Yield	**3/31 Rate**	**1 Year Ago**	**5 Years Ago**	**10 Years Ago**
10 Yr TIPS	0.18%	0.60%	1.60%	1.79%

Source: online.wsj.com, bigcharts.com, treasury.gov – 3/31/15
Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends.

Becoming A Middle Class Millionaire:

How to Make it Happen in Montgomery County, Maryland

Published in Mongtomery Magazine, April 2015

In Montgomery County, anyone can become a Middle Class Millionaire. Really? Really!

Yes, Montgomery County is an expensive place to live. But, on the flip side, it's a highly educated community with affluent people. From 2009 to 2013, median annual income in Montgomery County averaged $98,221.

Thanks to Montgomery County's exceptional secondary and higher educational system and one of the strongest job markets in the nation, there is no better place than right here to become a millionaire. It's probably not going to happen overnight – it may take 20 years or more of hard work in a well-chosen career and disciplined saving.

But it's definitely doable in Montgomery County, MD. Here's how to make it happen.

Get Educated For Less

Young people who live in Montgomery County – particularly those who have come from other countries – have a tremendous opportunity to become well educated at a cost that is inexpensive compared to private universities in the D.C. area where tuition and fees can total $65,000 or more per year. Lower tuition and fees mean lower student loan debt, which liberates a graduate and gives him or her a strong financial foundation.

Currently, tuition and fees at Montgomery College add up to around $3,000 a year (based on 20 credit hours per year). That works out to about $8 a day, less than what it costs for two lattes at Starbucks.

At the same time, financial aid opportunities abound at Montgomery College. In addition to Federal Pell Grants and Maryland State Grants, more than 300 foundation scholarship opportunities provided by businesses, organizations and individuals are available to Montgomery College students.

Typically, a student can complete a bachelor's degree in four years by taking the first two years at a community college and then transferring to a four-year college or university. With the annual cost per student at a community college averaging about half the annual cost at local public and private universities (according to the American Association of Community Colleges), students who go the Montgomery College route can save $10,000 or more during the first two years.

When the time comes to transfer, Montgomery College students can take advantage of another higher educational opportunity that is unique to Montgomery County – The Universities at Shady Grove (USG), an innovative partnership of nine universities on one campus in Rockville, associated with the University System of Maryland (USM).

Each of the partner universities – Bowie State University, Salisbury University, Towson University, University of Baltimore, University of Maryland/Baltimore, University of Maryland/College Park, University of Maryland/Eastern Shore, UMBC and University of Maryland University College – provide its most highly sought after academic programs and awards its own degrees. USG, in turn, provides centralized on-site student, academic and administrative services.

> The Universities at Shady Grove (USG) is an innovative partnership of nine universities on one campus in Rockville, associated with the University System of Maryland (USM).

This unique integrated approach allows USG to offer easily accessible pathways to 80 upper-level undergraduate, graduate degree and certificate programs, creating outstanding career opportunities for students while providing regional employers with a highly educated, skilled workforce. For full-time Maryland residents, tuition and fees range from around $2,500 to $4,000 per semester, depending on the institution.

As with Montgomery College, financial aid opportunities are plentiful at USG institutions. In addition to federal and state grants awarded on the basis of financial need, various private scholarships provided by local businesses, foundations, community organizations and individual donors are available for students at USG. Dr. Stewart Edelstein, Executive Director at the USG, stated in a recent speech that more than 70% of USG students receive some type of financial assistance.

Choose the Right Career

To become a middle class millionaire, a person needs to choose a career with high earning potential. That's where Science, Technology, Engineering and Mathematics (STEM) degrees have a big advantage. Just look at the average salary ranges in Montgomery County, MD in the following STEM fields:

- Computers and Mathematics
  - Entry-level: $56,419
  - Experienced: $115,825

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Beneficiaries, *continued from page 3*

ment plan into an inherited IRA

- Withdraw the assets as a lump sum.

What if a qualified (i.e., irrevocable) trust is named as the beneficiary? If that is the circumstance, the trustee has two choices:

- Transfer assets from a traditional IRA, Roth IRA, SEP-IRA, SIMPLE IRA or qualified retirement plan into an inherited IRA
- Withdraw the assets as a lump sum.

The next calendar year will be very important. Inheritors of retirement accounts have until September 30th of the year following the original account owner's death to review and remove beneficiaries, and until December 31st of that year to divide the IRA assets among multiple beneficiaries. Usually, December 31st of the year after the original retirement plan owner's passing is the deadline for the first RMD (Required Minimum Distribution) from an inherited traditional or Roth IRA.

"Usually, December 31st of the year after the original retirement plan owner's passing is the deadline for the first RMD (Required Minimum Distribution) from an inherited traditional or Roth IRA."

Now, how about U.S. Savings Bonds? If you are named as the primary beneficiary of a U.S. Treasury Bond, you have three options:

- Redeem it at a financial institution (you will need your personal I.D. for this).
- Get the security reissued in your name or the names of multiple beneficiaries. You do this via Treasury Department Form 4000, which you must sign before a certifying officer at a bank (not a notary). Then you send that signed form and a certified copy of the death certificate to a Savings Bond Processing Site.
- Do nothing at all, as the primary beneficiary automatically becomes the bond owner when the original bond owner passes away.

What about savings & checking accounts? Bank accounts are often payable-on-death (POD) assets. If specified in a will, all a beneficiary needs to claim the assets is his or her personal identification and a certified copy of the death certificate. There is no need for probate. (Some states limit charities and non-profits from being POD beneficiaries of bank accounts.) However, if the account is not specifically listed in the will, then it's likely the cash will have to be transferred to an Estate Account. This can be a time-consuming process at a time when cash flow is most important. Please discuss your options with your banker or financial advisor when you have an "Individually Named" account.

What about Non-IRA Investment Accounts? Unlike banks, most brokerage firms require the POD instructions to be listed on the account prior to death. Think of this as adding a beneficiary to a non-IRA account. It is a simple form for the owner to sign and the account will avoid probate like an IRA account. Check with your brokerage firm on how to add this feature and you'll save your beneficiaries time and money!

How about real estate? Lastly, it is worth noting that about a dozen states use transfer-on-death (TOD) deeds for real property. If you live in such a state, you have to go to the county recorder or registrar, usually with a certified copy of the death certificate and a notarized affidavit which informs the recorder or registrar that ownership of the property has changed.

> *"Success is a journey, not a destination. The doing is often more important than the outcome.*
>
> *Arthur Ashe"*

The Upper Uppers

By Jason Tkach

What does it take to be a "one percenter?" How much do you have to earn before you fall into this rarified zone?

A new study written by socioeconomists Estelle Sommeiller and Mark Price, looked at state-level tax data from the Internal Revenue Service over the past 35 years. They've created a chart which looks at annual income at the threshold of the top 1% in each U.S. state. If you live in Connecticut, you're a "one percenter" if you earn more than $678,000 a year, higher than New York's threshold of $506,000, the $539,000 threshold in New Jersey, $555,000 in Washington, D.C. or $532,000 in Massachusetts. California ($438,000) and Texas ($423,000), which are considered wealthy states, actually came in behind North Dakota ($502,000).

States with the lowest threshold include West Virginia ($243,000), Kentucky and Alabama ($263,000) and Maine ($274,000). If somebody earning a good income in Connecticut or New York wanted to break into the one-percent category, he/she could move to a less competitive state.

Nationwide, the total share of income going to the upper 1% rose by about 12 percentage points since 1979. The one-percenters in Connecticut make a little over 33% of all income in that state, and in New York, the percentage is 32.6%. Elsewhere, the range is generally in the 14% to 22% range, up from the 7-11% range back in 1979.

Millionaire, *continued from page 5*

- Architecture and Engineering
  - Entry-level: $57,928
  - Experienced: $118,274
- Healthcare (Practitioners and Technical Occupations)
  - Entry-level: $47,717
  - Experienced: $127,091
- Accounting
  - Entry-level: $53,432
  - Experienced: $105,962

Start Saving Money

Once a young person in Montgomery County has obtained an affordable four-year degree and found a good paying job that has solid opportunity for income growth, the third step on the path to becoming a millionaire is to start saving money. With a disciplined approach, a person can save a million dollars relatively quickly.

Let's take the median income for Montgomery County ($98,221) as an example. This is a realistic number for anyone in the STEM fields noted above. By saving 10 percent ($9,822) per year in a 401(k) plan and realizing a stock market return of 9.8 % per year (the average return on stocks in the S&P 500 since 1923), this thrifty individual will become a millionaire in 26 years.

If this person is able to save the same 10% per year with a 50% employer match, then he or she would become a millionaire in 22 years.

The Bottom Line

Ultimately, becoming a middle class millionaire is up to the individual. It takes the right education, hard work in a well-paying career and financial discipline over the long term.

It also takes the right launching pad – exactly the kind of progressive and affluent environment found in Montgomery County, MD. Whether it's affordable higher education, compassionate treatment of the underprivileged or access to well-paying careers with low unemployment, Montgomery County has it all.

For my money, there is no better place to work, play and live – and make the most of opportunities to become a Middle Class Millionaire.

Congratulations to Matthew and Paola Bruening on the Birth of their Twins

April 3, 2015

Lucas Daniel

6 lbs 15 oz

20 3/4 in

Vanessa Marie

6 lbs 0 oz

19 1/4 in

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