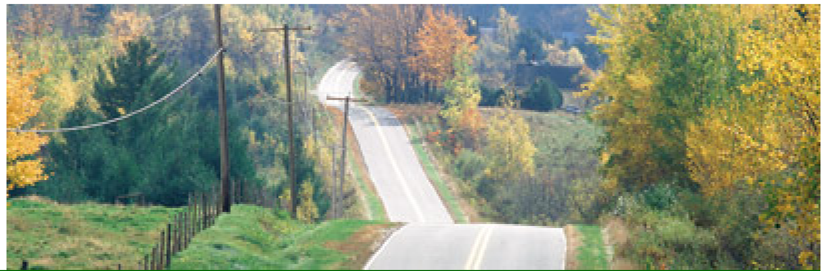

YOUR FINANCIAL FUTURE

Your Guide to Life Planning

September 2016

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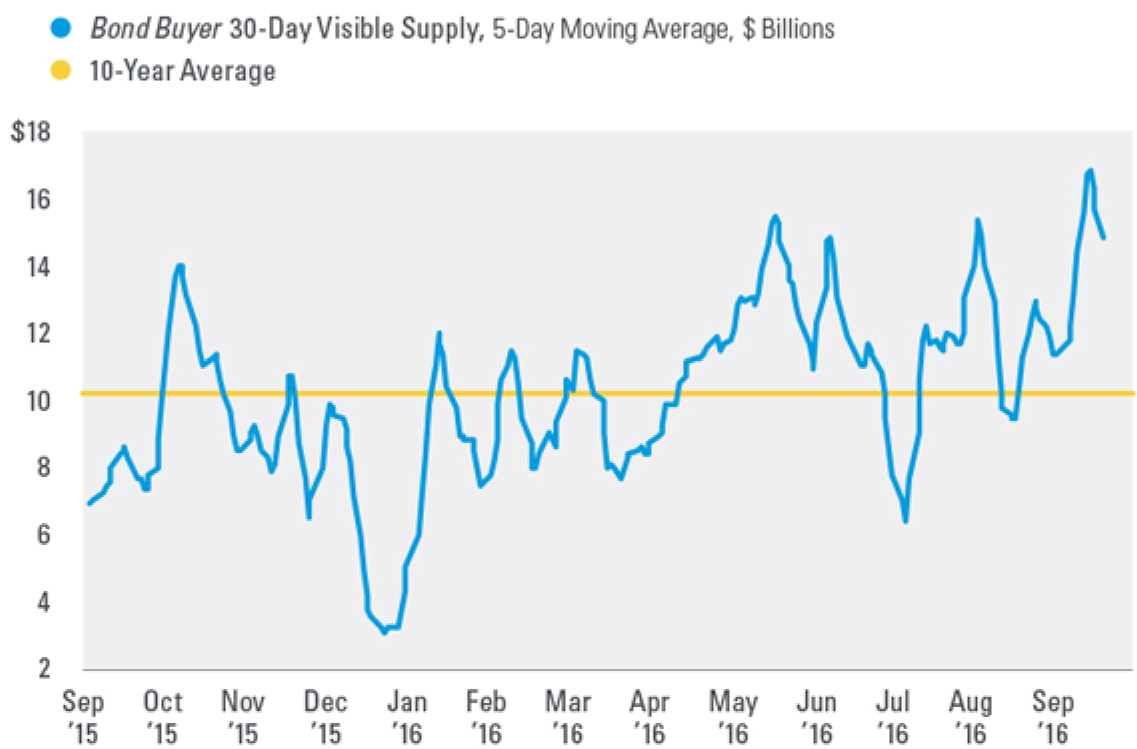
Highlights

- The municipal bond market is dealing with a surge of supply of epic proportions, both from new issuance and existing supply in the secondary market.
- Historically, supply surges have often led to imbalances that resulted in price declines, but municipal bond prices have only showed minor cracks so far.
- Supply remains a negative overhang in the near term, but several other catalysts would likely be needed for a more severe pullback.

Municipal Supply Surge

Record new issuance for August has carried over into September and may be finally weighing on municipal bond prices. Supply surges have often led to imbalances that resulted in price declines, but municipal bond prices have only showed minor cracks so far. The *Bond Buyer* 30-day visible supply calendar (using a five-day moving average to smooth data) shows how new issuance surged in September 2016 [Figure 1]. On September 13, 2016, the 30-day calendar jumped to a record $19.2 billion, surpassing the prior peak in 2014. August 2016 witnessed record new issuance for the month, typically a very quiet month for new bond supply. The surge in new issuance has carried over into September and is only now showing signs of decelerating, but it remains elevated.

1 NEW MUNICIPAL BOND ISSUANCE HAS SURGED



Source: LPL Research, *Bond Buyer* 09/19/16

Not only has new issuance surged, but so has secondary market supply. The dollar amount of bonds looking to be sold, known as bid-wanteds, spiked higher-consistent with levels that often accompany periods of municipal bond weakness [Figure 2]. Many of these bonds have made their way to dealer inventories, with their measures also at highs, according to Bloomberg data. If broad bond market pressure continues, bloated dealer inventories could exacerbate any price declines as they may be reluctant to take on additional bonds.

Click here for Figure 2, Periods of Municipal Price Volatility Are Often Marked by a Surge of Bid-Wanteds

In the past, such episodes of high new issue supply, secondary supply, and rising dealer inventories have corresponded to municipal weakness. The municipal bond market is less liquid than many segments of the high-quality taxable bond market, making it more susceptible to supply swings.

FORCEFUL FLOWS

Strong investor demand has offset the potential impact of surging supply. Inflows into municipal bond funds have been positive for a remarkable 49 straight weeks according to Investment Company Institute (ICI) data. Flows have been not only positive but forceful, with inflows exceeding $1 billion per week for every week going back to late April 2016, with only two exceptions. Year to date through September 7, 2016, ICI municipal mutual fund inflows total a hefty $49 billion. Compare that with recently released Federal Reserve (Fed) data, which show the municipal bond market grew by $50 billion from January through June 2016.

Growth in the outstanding supply of municipal bonds has been almost completely absorbed by mutual fund investors alone. Including other classes of investors, such as banks (which increased municipal holdings by $25 billion), individual investors, and institutions, we can see the impact of demand absorbing supply.

VALUATIONS SHOW STRESS

The offset of strong demand to surging supply helps explain why municipal-to-Treasury yield ratios, a measure of valuations, remain on the expensive side of a three-year range [Figure 3]. Note that both average 10- and 30-year ratios have crept up in recent days, suggesting the municipal bond market is beginning to reflect the pressure of surging supply.

Click here for Figure 3, Valuations Have Cheapened in Recent Days, but Remain on the Expensive Side of a 3-Year Range

THE FED & BANK OF JAPAN

Recent municipal weakness reflects broad bond market weakness in response to a combination of hawkish commentary from Fed officials, European Central Bank (ECB) and Bank of Japan (BOJ) comments, and increased expectations of fiscal stimulus both domestically and in Japan. Treasury prices have moved lower ahead of this week's key Fed and BOJ meetings and have taken much of the bond market with them. Municipal weakness in recent weeks has been largely a result of broader market movements and not a result of the supply flood.

CONCLUSION

An unexpected Fed rate hike on Wednesday, September 21, could be the catalyst that crimps investment demand and causes heavy supply to push prices lower and yields higher. However, we view a rate hike as soon as this week as unlikely (see this week's *Weekly Economic Commentary*), and heavy supply as having only a near-term impact while investor demand remains elevated. We expect that absent an economic shock or unexpected spike in rates that damages investor perceptions of the municipal market, continued strong investor demand may help to offset headwinds of increased issuance and fair-to-expensive valuations, leaving us neutral on the asset class overall.

the value of fund shares is not guaranteed and will fluctuate.

Municipal bonds are subject to availability, price, and to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rate rise. Interest income may be subject to the alternative minimum tax. Federally tax-free but other state and local taxes may apply.

RES 5635 0916 | Tracking #1-537196 (Exp. 09/17)

Of Market Bubbles and Busts: Learn to Spot Trouble in the Making

For long-term investors, the important point is to put performance in perspective and know that sharp increases in prices, in aggregate, are generally not sustainable over longer periods of time.

Recent stock market conditions in China present a classic illustration of the boom/bust cycle that periodically disrupts financial markets. While bubbles and subsequent busts occur in the investment world from time to time, there are typically some telltale signs to help investors recognize when there is trouble brewing.

When Is a Bubble a Bubble?

Most investors now agree that the U.S. stock market boom of the late 1990s -- particularly the boom in technology stocks -- represented a classic bubble. That cycle saw the NASDAQ Composite index grow more than 200% between February 1997 and February 2000, and then fall 66% by August 2002.[1] But at what stage was it considered a bubble? In 1996, Alan Greenspan famously accused investors of "irrational exuberance," yet markets went on to score strong gains for three more years. Investors who heeded Greenspan's warning at the time would have missed out on one of the best performing periods in market history. But they also would have avoided the subsequent bust. The key, of course, is timing.

While even the experts cannot time markets, there are some warning signs that may point to a bubble in the making:

- **High valuations:** When valuations, measured by P/E ratios, rise significantly above their long-term averages, this should raise concern. Over the long term, valuations tend to revert to the mean.
- **Disconnect with fundamentals:** In general, a company's stock price is based on its sales, earnings, financial strength, and future prospects. When these fundamentals go in a different direction from prices, it should wave a red flag.
- **Hype:** Beware whenever you hear the words: "This time it's different." Those who lived through the tech bubble in the late 1990s may recall "the new paradigm" that was often cited by hawkers of overpriced stocks.

Of course recognizing a bubble in the making is the easy part. Determining when it is about to burst is a different story. For long-term investors, the important point is to put performance in perspective and know that sharp increases in prices, in aggregate, are generally not sustainable over longer periods of time. So if you do spot a bubble in the making, use caution and be sure to work with a professional.

[1]Wealth Management Systems Inc. and Yahoo! Finance Interactive Charts. For the periods indicated. The NASDAQ Composite Index is a broad-based, market-capitalization-weighted index that includes all domestic and international based common stocks listed on the NASDAQ Stock Market including many of the world's top technology and Internet stocks.

1-425697

It is critical to understand the effects of inflation on a retirement portfolio, because a retirement account in the future probably won't have the same purchasing power that it has today.

How Taxes and Inflation May Affect Your Retirement Portfolio

Benjamin Franklin famously stated that the only two certainties in life are death and taxes. But there's at least one more that could probably be added to the list: inflation.

Inflation is the sustained, ongoing increase in the general level of prices for goods and services. As prices rise over time, the purchasing power of every dollar goes down. Due to inflation, one dollar in ten years will likely purchase less than the same dollar would today.

How Inflation Is Measured

The rate of inflation in the United States is measured by the Consumer Price Index (CPI), which calculates monthly changes in the prices paid for a representative basket of goods and services. Over the past three decades, inflation in the United States has risen at an annualized rate of 2.69%.[1] This has shrunk the purchasing power of $1 in 1985 to just $0.45 today.[2]

It is critical to understand the effects of inflation on a retirement portfolio, because a retirement account in the future probably won't have the same purchasing power that it has today. For example, a $1 million portfolio today would need to grow to $1.7 million in 20 years to have the same purchasing power.[2]

But inflation is not the only potential hazard to the long-term purchasing power of your retirement nest egg.

The Tax Man Cometh

Let's go back to Mr. Franklin, because taxes may also impact how much money you actually get to put in your pocket when you begin taking distributions from your retirement account in the future.

Many retirement plans allow participants to save money on a tax-deferred basis, but this isn't the same thing as saving on a tax-free basis. When you contribute money to a traditional IRA or 401(k), for example, your contributions are excluded from your current taxable income. In other words, you don't have to pay tax on the money today, but instead are deferring this tax until you begin taking distributions from the account typically during retirement.

In comparison, contributions to a Roth IRA or 401(k) are included in your current taxable income. And since you are paying taxes on the money now, you don't have to pay taxes again when you withdraw the funds during retirement.[3]

Pay Me Now, or Pay Me Later

One of the decisions you must make as part of your retirement strategy is whether to invest on a tax-deferred basis, and pay taxes when you withdraw the money, or invest tax free and pay the taxes now?

No one has a crystal ball to predict whether tax rates will be higher or lower in the future. That is why it is important to work with a financial planning expert who, using sophisticated retirement planning tools and software -- and taking your individual circumstances, risk tolerance, and goals into consideration -- can help you work through various inflation and tax scenarios to determine the most appropriate strategies for you.

This communication is not intended to be tax advice and should not be treated as such. Each individual's tax situation is different. You should contact your tax professional to discuss your personal situation.

[1]*United States Department of Labor -- Bureau of Labor Statistics. For the 30-year period ended June 30, 2015.*

[2]*Wealth Management Systems Inc. based on price inflation for the 30-year period ended June 30, 2015.*

[3]*Withdrawals from qualified plans taken before age 59½ are generally subject to a 10% additional federal tax -- on top of any regular income taxes owed -- although there are a few exceptions to this rule.*

1-425693

Market Watch | September 2016

Dear Valued Investor:

After a very quiet stretch for stocks in the second half of the summer, market volatility has returned in September. Much like shifting to busier fall schedules once September and the new school year begin, this pickup in volatility we've seen is normal from a historical perspective, but does require some adjustment after a quiet summer. Here are some of the key items to watch as we make our way through one of the most historically volatile months of the year.

What's been driving the recent increase in market volatility? Not surprisingly, the Federal Reserve (Fed) has been playing an important role. When central bank policy is helping to support the economy (sometimes called "loose monetary policy"), it tends to lower volatility. Market participants see central bank support as a backstop. Over the last month, there have been a number of Fed officials, including Chair Janet Yellen, who have signaled that an additional interest rate hike (the first since December 2015) may be warranted given improving economic data, including job growth in June and July that was well above expectations. Our view remains that these comments are likely aimed at acclimating markets to a December 2016 rate hike, considering the weaker August jobs report, but a September hike remains a possibility.

Although the Fed's gradual moves toward a more neutral role in the economy may increase market volatility, historically, at these early stages of rate increases, it has had little impact on stock returns. That's held true for this last year or so too. As of the end of August, the S&P 500 Index had a total return of a little over 6% since the Fed's first rate hike in almost 10 years, which occurred back on December 16, 2015. What may be more important for stocks is a pickup in earnings growth. Thomson Reuters estimates put third quarter earnings growth for the S&P 500 at near flat, followed by meaningful acceleration in the fourth quarter of 2016 and into 2017.

One other shift we've seen recently is the rise in the 10-year Treasury yield. Although this increase was jarring for some investors, it does not seem to be indicating the start of a major bond sell-off; instead, it is more likely that the market is already preparing for potentially reduced central bank stimulus overseas and an upcoming Fed rate hike. A market on guard for a rate hike is much less likely to be shocked by one, and thus potentially less likely to produce a significant sell-off.

We continue to see little evidence signaling we may be on the verge of a recession, despite increased financial market volatility. The chance of a recession in the next year is at about 20%, based on economic indicators that have historically led the economy. Economic data on the whole have improved over the last several months, although reports received in August and early September were not quite as strong. Absent a recession, an earnings rebound over the next several quarters, if it materializes, should help support financial markets.

U.S. elections will also continue to grab headlines over the next almost two months. America will go to the polls on Tuesday, November 8, with presidential debates scheduled for September 26, October 9, and October 19. Early voting starts as early as Friday, September 16, when battleground state North Carolina becomes the first state to mail out absentee ballots. Markets historically have not signaled any real preference for one party or the other, but markets do dislike uncertainty and volatility could pick up pre-election if polls continue to be close; however, both candidates have the capacity to settle markets once the election is behind us.

While uncertainty around the election and the Fed bears watching closely, we continue to believe that the most important factors in reaching financial goals are not short-term market drivers but sound advice, a good plan, and patience. The school year often begins with a new assignment book for students to help them learn to stay on track (although, as with so many things, these days there's an app for that). Although we do want to check in on our progress from year to year or as circumstances require, the "assignment book" in financial planning typically covers decades and requires slow, steady progress. Staying focused on those long-term goals can help maintain perspective as we enter a potentially more volatile fall.

As always if you have any questions, I encourage you to contact me.

IMPORTANT DISCLOSURES
The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual security. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance referenced is historical and is no guarantee of future results. Indexes are unmanaged and cannot be invested into directly.

Economic forecasts set forth may not develop as predicted.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values and yields will decline as interest rates rise, and bonds are subject to availability and change in price.

Government bonds and Treasury bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value.

However, the value of fund shares is not guaranteed and will fluctuate.

The S&P 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Investing in stock includes numerous specific risks including: the fluctuation of dividend, loss of principal and potential illiquidity of the investment in a falling market.

This research material has been prepared by LPL Financial LLC.

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Tracking # 1-535884 (Exp. 09/17)

Where You Live Matters: Counting the Cost of Long-Term Care

While the impact of long-term care can be staggering on one's finances, it can also take a significant toll on families and careers.

It probably comes as no surprise that the cost of long-term care services -- including nursing homes, assisted-living facilities, and home-based care -- continues to rise steadily across the country.

Among the various services tracked by Genworth's annual *Cost of Care Survey*, home-based care costs are rising at a slower pace than other forms of care. Specifically, Genworth's most recent report found that, on a national basis, home-based care costs rose just 1% to 1.5% over the last five years, while costs at nursing homes and assisted-living facilities have increased 2.5% to 4% over the same five-year period.[1]

Genworth also tracks long-term care cost data on a regional and state-by-state basis. For planning purposes -- either your own or for an aging parent or other loved one -- this is vital information to know and discuss with your financial professional when forecasting retirement income scenarios.

Following are the 10 most expensive states for a private room in a nursing home -- the top-of-the-line care tracked by the annual study -- and the most expensive mode of care available today. Along with the median annual cost for each state is the comparable median annual cost for home health aide services.

Top 10 States for Cost[2]

State	Median Annual Nursing Home Cost (private room)	Median Annual Home Health Aide Cost
1. Alaska	$281,415	$59,488
2. Connecticut	$158,775	$50,336
3. Massachusetts	$139,580	$57,200
4. New York	$136,437	$52,624
5. Hawaii	$135,050	$56,056
6. New Jersey	$127,750	$48,506
7. New Hampshire	$122,275	$54,912
8. Delaware	$117,895	$50,336
9. Pennsylvania	$113,150	$47,911
10. Maryland	$110,230	$45,760
National Median Cost	*$91,250*	*$45,760*

Is your state among the most expensive listed above? If not, review the Genworth 2015 Cost of Care Survey to find cost information for all types of long-term care services in your state.

While the impact of long-term care can be staggering on one's finances, it can also take a significant toll on families and careers. To learn more about strategies for coping with this potential need, speak with your financial advisor.

[1] *Financial Planning, "LTC: 10 Most Expensive States for Nursing Homes," April 27, 2015.*

[2] *Genworth 2015 Cost of Care Survey*, March 20, 2015.

Tracking # 1-387038

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