QUARTERLY RETIREMENT REVIEW

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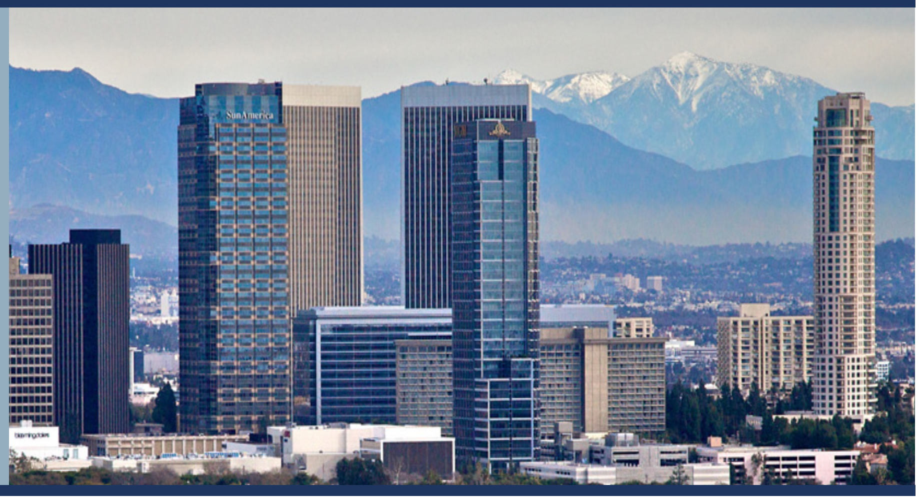


HISTORICAL INVESTMENT LESSONS

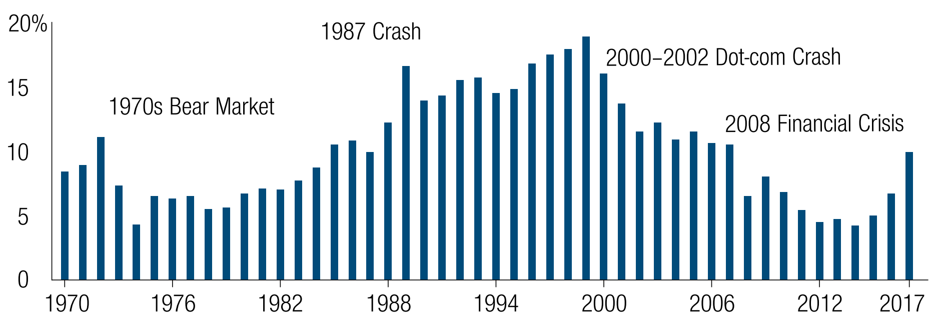
Investment history teaches, but we only gain insights after we've worked to understand what really happened. Ten years ago, the U.S. economy was in the middle of the worst recession since the Great Depression, and equity markets were in freefall. The international banking crises and the bankruptcy of Lehman Brothers were part of a stock market crash that would continue for several more months.

It is important to note, however, that the financial crises offered investors the opportunity to learn valuable lessons about the fundamentals of investing. Unfortunately, some investors reached the wrong conclusions which may still be holding them back from reaching their future goals.

Steady Gains Over Time

The S&P 500 Index has never lost ground during any rolling 15-year period starting back in 1926—and, as shown in the chart, the many recent financial crises haven't changed this fact.

Annualized returns over 15-year periods ending between December 31, 1970, and December 31, 2017



Source: T. Rowe Price

Past performance cannot guarantee future results. Charts are shown for illustrative purposes only and are not indicative of any specific investment. Investors cannot invest directly in an index.

Looking back:

Investors experienced a financial one-two punch in the form of falling home prices and declining portfolio values. For some, financial lives were turned upside down, with seemingly no relief in sight. With the benefit of hindsight, we know the market hit bottom on March 9, 2009, but in late 2008, there was little to be confident about.

The S&P 500 Index recouped losses by November 23, 2012, roughly three and a half years after the market bottom. Unfortunately, not every investor chose to ride out the downturn. In addition to locking in their losses, those who acted on their emotions still may be holding on to fear-based investment mind sets. Yet, the stock market has posted steady gains over time.

Embracing the lessons:

Consider the following reaction some investors may have had during the 2008 financial crisis and valuable investing lessons that have held true in the decade since the downturn: Stocks are too risky.

Investing Lesson: Short-term volatility doesn't necessarily negate the long-term growth potential of stocks. Staggering declines in the S&P 500 Index shocked inexperienced and seasoned investors alike. Investors faced a difficult choice to either remain invested without knowing when the markets would go back up or get out in an attempt to avoid further losses, but with the consequence of missing out on the subsequent gains. Investors who exited the market during the downturn still may not have recouped their losses despite record stock market highs 10 years later. Meanwhile the S&P 500 has earned an average annual return of 7.6% since the market peak before the downturn.

EQUITIES

Don't Miss the Best Days

Watching your portfolio drop in value when the market is falling can be hard. But jumping into and out of stocks attempting to avoid further losses may not be a winning strategy in the long term.

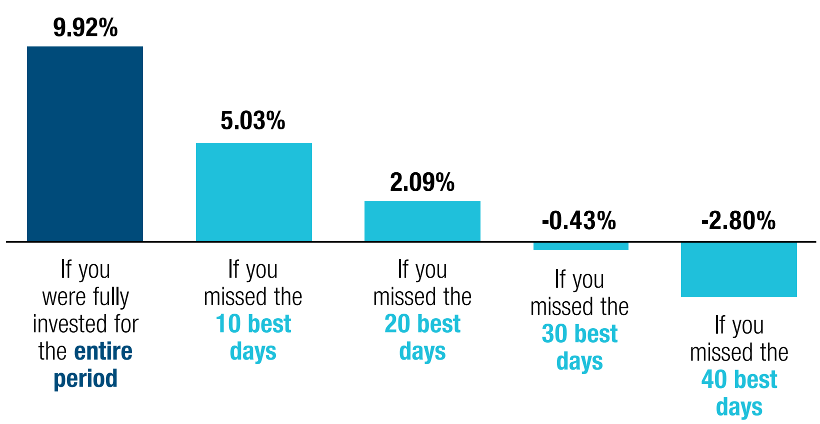
Some of the largest market rebounds come in the wake of major market downturns. These are the very moments when fear has led many individuals to remain on the sidelines. As a result, they may end up missing any gains from these big days.

By riding out a market downturn, you may be better positioned to collect the benefits of any subsequent recovery. Also, if you set your strategy in advance, you'll be more likely to rely on your plan—not your emotions—when market volatility returns.

Staying invested through thick and thin may be the best strategy for long-term growth.

The Price of Exiting the Market

Individuals often look for relief from market uncertainty by selling investments. But being out of the market can result in lost opportunity. (12/31/2002–12/31/2017)

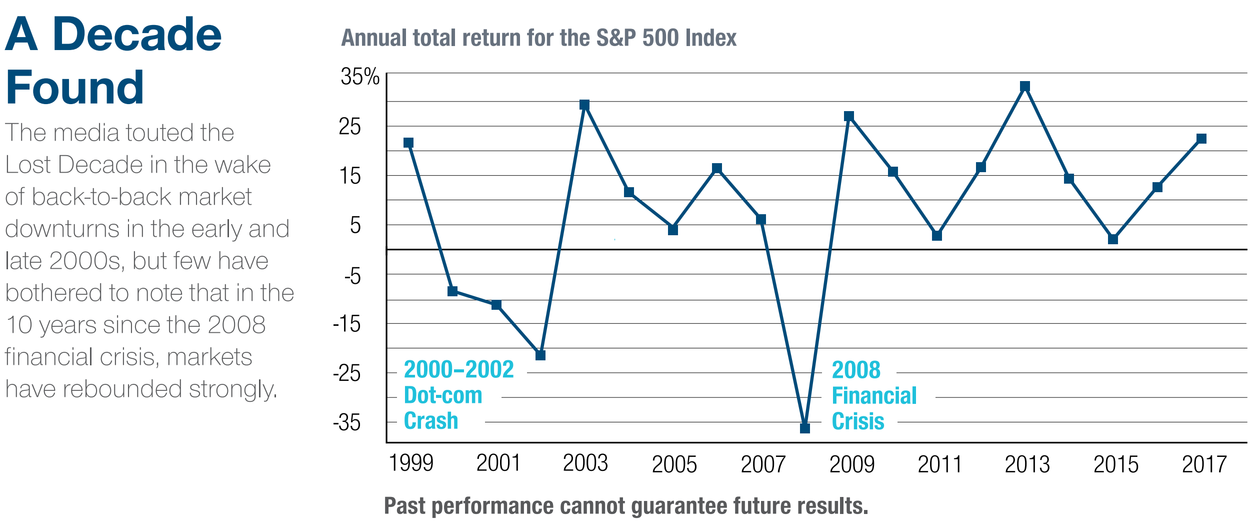


Data show average annualized returns based on price movements only and do not include reinvested dividends or compounding. The performance shown is that of the S&P 500 Stock Index, which measures the performance of large-capitalization companies that represent a broad spectrum of the U.S. economy. This chart is for illustrative purposes only. Investors cannot invest directly in an index. *Past performance cannot guarantee future results.*

Source: T. Rowe Price.

A DECADE FOUND

The media touted the "Lost Decade" in the wake of back-to-back market downturns in the early and late 2000s, but few have bothered to note that in the 10 years since the 2008 financial crises, markets have rebounded strongly. See the Chart Below:



Source: T. Rowe Price

The headlines stoked fear based on an assumption that individuals were invested entirely in, or had a high allocation to, U.S. equities and that the day-to-day volatility was something they should react to. What these headlines omitted, however, was that properly allocated investors with a significant stock portfolio would have decades to recover from any market decline. What many investors were reading in the headlines wasn't what was happening in their portfolios. Investors with shorter time horizons likely had exposure to bonds and even cash to help buffer the declines they experienced in their equity portfolios.

Markets regularly cycle through periods of less and more volatility. This pattern is why maintaining an asset allocation that is appropriate for your time horizon is so important; not to mention sticking to your plan regardless of what part of the volatility cycle you find yourself it.

In our opinion, the real lesson to take away from the 2008 financial crisis is not that the fundamentals of investing need to change, it's that those fundamentals really do work.

IS A ROTH CONVERSION RIGHT FOR YOU?

There is a fairly simple financial move that can create significant advantages for many investors: converting a Traditional individual retirement account (IRA) to a Roth IRA. While it may not be the right choice for everyone, Roth conversions can provide tax diversification and help many investors increase their future financial flexibility in retirement. Every investor may want to consider gaining some exposure to Roth IRAs. For retirees, having a Roth IRA can increase their after-tax income, since qualified withdrawals from the account are income tax-free and may be made at the discretion of the investor

Why Convert?

There are a number of benefits to owning a Roth IRA. The trade-off is that moving assets from a Traditional IRA to a Roth IRA generally requires paying taxes at the time of the account conversion rather than later, when you start taking withdrawals.

Deciding whether to convert assets to a Roth IRA depends largely on what you anticipate your future income tax bracket will be. The conversion could be especially beneficial if you expect to be in a higher tax bracket in retirement, you'll pay the taxes now at your lower current rate. That said, the move may be advantageous if you think your tax rate will stay the same and even in some cases if you expect it to decline. Having tax-free Roth assets can provide you with freedom to use that money to pay for expenses in retirement, such as a new roof or a special vacation, without increasing your annual taxable income. Conversely, if you used money from your Traditional IRA to pay for those expenses, those assets would be included in your taxable income and potentially could increase your marginal tax rate as well as your Medicare premiums.

Additionally, Roth IRAs do not have required minimum distributions (RMDs) which make them a valuable retirement and estate planning tool. If you don't need to make withdrawals during retirement, you can leave those assets and any tax-free earnings they generate to your heirs. The amount you pass on to heirs can continue to grow tax-deferred in their Inherited Roth IRAs. Your heirs will be required to take RMDs each year, and they can always withdraw more whenever they need it. Leaving a Roth IRA to a beneficiary is one way to generate potentially tax-free income for your loved ones.

The Cost of Conversion:

Before converting, consider each of the following strategies for paying taxes.

1. Stagger the conversion. If a Roth IRA conversion would push you into a higher federal tax bracket, consider conducting multiple partial conversions over a period of a few years.
2. Generally speaking, it's ideal to pay taxes on the conversion from a taxable account. This method may have the smallest tax consequences.
3. If you don't have enough savings in a taxable account to pay the taxes, consider taking a tax-free withdrawal from an

existing Roth IRA. Note that for those under age 59½, only contributions can be taken tax-free. Generally, if you're age 59 ½ or older and have held the account for at least five years, however, you can take tax-free withdrawals of both contributions and earnings.

4. If neither a taxable account nor an existing Roth IRA is available to pay the taxes, you can consider withdrawing from a Traditional IRA. One consequence is that this would result in additional taxes on the amount you withdraw to pay the conversion taxes. And if you tap in to the Traditional IRA when you're younger than age 59 ½, your withdrawal will be subject to a 10% early withdrawal penalty. The Chart below may help you in making your decision:

A Comparison of IRAs

Both Traditional IRAs and Roth IRAs offer unique tax advantages.

With a Traditional IRA, you have to start taking required minimum distributions (RMDs) from the account each year once you reach age 70½. Since this withdrawal amount generally is treated as ordinary income, you may be obligated to pay taxes on withdrawals. With a Roth IRA, there are no RMDs, and you can make qualified withdrawals without paying taxes.

	Traditional IRA	Roth IRA
Taxes on withdrawals	Withdrawals of pretax contributions and earnings are taxed as ordinary income	Generally, withdrawals of contributions and converted assets are tax-free. Withdrawals of investment earnings are also income tax-free if: ▪ you've held the account for at least five years, and ▪ you are age 59½ or older
Required minimum distributions (RMDs)	Must take your first RMD by April 1 of the year after the year you turn age 70½	None
Early withdrawal penalties	Withdrawals of contributions and earnings prior to age 59½ may be subject to a 10% penalty (with some exceptions)	Withdrawals of earnings that are not qualified distributions may be subject to a 10% penalty (with some exceptions). Withdrawals of converted assets may be subject to a 10% penalty (with some exceptions) before the converted account is five years old
Advantages[1]	▪ Tax-deferred potential growth ▪ Tax-deductible contributions (when applicable)	▪ Tax-deferred potential growth ▪ Tax-free qualified withdrawals ▪ No RMDs ▪ Heirs can take potentially tax-free withdrawals from Inherited Roth IRAs
Considerations	▪ Withdrawals of pretax contributions and earnings are taxed as ordinary income ▪ RMDs begin at age 70½	▪ Contributions are not tax-deductible ▪ Heirs must take RMDs
Spousal beneficiaries[2]	Subject to RMD rules	No RMDs
Non-spousal beneficiaries	Non-spousal beneficiaries can take distributions from an Inherited IRA before age 59½ without incurring the 10% early withdrawal penalty. They also can designate their own beneficiaries for the Inherited IRA. ▪	

[1]Subject to phase-out based on IRA owner's modified adjusted gross income for deductibility to a Traditional IRA or for contributions to a Roth IRA.

[2]If spouse elects to treat the Inherited IRA as his/her own.

*A qualified distribution is tax-free if taken at least five years after the year of your first Roth contribution and you've reached age 59½, become totally disabled, died, or met the requirements for a first-time home purchase.

Source: T. Rowe Price

HAS ANYTHING CHANGED?

S.L. Reed & Company can help:

401(k) Rollover from Previous Employer
Rollover IRA out of a Retirement Plan
Traditional or ROTH IRA
Taxable Accounts
Annuities
Insurance

Additionally, we can work with you on:

Managed Accounts

For Assistance call:

Ken Kilpo (310) 893-3016

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