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May 2014

The Fed's Great Unwind and Your Portfolio

Saving for the Future: Start Now or Start Later?

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Graph: The Best of Times, the Worst of Times, and 2013



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INVESTING PERSPECTIVES

The Fed's Great Unwind and Your Portfolio

After more than five years of unprecedented support for the economy, the Federal Reserve Board has begun to reduce its purchases of bonds. And though the Fed has said interest rates may stay low even after unemployment has fallen to 6.5%, higher rates increasingly seem to be a question of timing. Both of those actions can affect your portfolio.

Bond purchases: the tale of the taper

In the wake of the 2008 credit crisis, the Fed's purchases of Treasury and mortgage-backed bonds helped keep the bond market afloat, supplying demand for debt instruments when other buyers were hesitant. Fewer purchases by one of the bond markets' biggest customers in recent years could mean lower total overall demand for debt instruments. Since reduced demand for anything often leads to lower prices, that could hurt the value of your bond holdings.

On the other hand, retiring baby boomers will need to start generating more income from their portfolios, and they're unlikely to abandon income-producing investments completely. Those boomers could help replace some of the lost demand from the Fed. Also, the Fed's planned retreat from the bond-buying business has roiled overseas markets in recent months; when that kind of uncertainty hits, global investors often seek refuge in U.S. debt.

Rising interest rates

When interest rates begin to rise, investors will face falling bond prices, and longer-term bonds typically feel the impact the most. Bond buyers become reluctant to tie up their money for longer periods because they foresee higher yields in the future. The later a bond's maturity date, the greater the risk that its yield will eventually be superseded by that of newer bonds. As demand drops and yields increase to attract purchasers, prices fall.

There are various ways to manage that impact. You can hold individual bonds to maturity; you would suffer no loss of principal unless the borrower defaults. Bond investments also can be laddered. This involves buying a portfolio of bonds with varying maturities; for example, a

five-bond portfolio might be structured so that one of the five matures each year for the next five years. As each bond matures, it can be reinvested in an instrument that carries a higher yield.

If you own a bond fund, you can check the average maturity of the fund's holdings, or the fund's average duration, which takes into account the value of interest payments and will generally be shorter than the average maturity. The longer a fund's duration, the more sensitive it may be to interest rate changes. **Note:** *All investing involves risk, including the loss of principal, and your shares may be worth more or less than you paid for them when you sell. Before investing in a mutual fund, carefully consider its investment objective, risks, fees, and expenses, which are outlined in the prospectus available from the fund. Read it carefully before investing.*

For those who've been diligent about saving, or who have kept a substantial portion of their investments in cash equivalents such as savings accounts or certificates of deposit, higher interest rates could be a boon, as rising rates would increase their potential income. The downside, of course, is that if higher rates are accompanied by inflation, such cash alternatives might not keep pace with rising prices.

Balancing competing risks

Bonds may be affected most directly by Fed action, but equities aren't necessarily immune to the impact of rate increases. Companies that didn't take advantage of low rates by issuing bonds may see their borrowing costs increase, and even companies that squirreled away cash could be hit when they return to the bond markets. Also, if interest rates become competitive with the return on stocks, that could reduce demand for equities. On the other hand, declining bond values could send many investors into equities that offer both growth potential and a healthy dividend.

Figuring out how future Fed decisions may affect your portfolio and how to anticipate and respond to them isn't an easy challenge. Don't hesitate to get expert help.



No matter how you save to reach a future goal, there is an advantage to putting your savings and earnings to work for you as early as possible.

All examples are hypothetical and are not guaranteed. Fees and taxes are not shown and could reduce the amount available.

**All investment involves risk, including the possible loss of principal.*

Saving for the Future: Start Now or Start Later?

There are many ways to try to reach a future goal. You can save now, or you can save later (or perhaps do both). But there is an advantage to putting your savings and earnings to work for you as early as possible.

Compound earnings

If you save \$1,000 now and invest it at an assumed 6% annual rate of return, in 1 year you would have \$1,060, in 2 years about \$1,124, and in 10 years about \$1,791. Your earnings compound as you earn returns on your earnings. Your \$1,000 initial investment increases through compounding to \$1,791.*

Compounding at work

For example, let's say you start saving now. You save \$5,000 at the beginning of each year in years 1 to 20 and put it into an investment that earns a hypothetical 6% annually. At the end of 30 years, you will have accumulated about \$349,150.

Alternatively, let's say you start 10 years later. You save \$5,000 at the beginning of each year in years 11 to 30. Once again, you earn an assumed 6% annually on that money. At the end of 30 years, you will have accumulated about \$183,928.

In each of these examples, you've put aside a total of \$100,000. However, by starting now, you accumulate about \$165,222 more than if you start later, and all of that is from earnings. By starting now, rather than putting it off, you have put your money and the power of compound earnings to work for you.

Years	Start Now	Start Later
1 - 10	\$5,000	
11 - 20	\$5,000	\$5,000
21 - 30		\$5,000
Saved	\$100,000	\$100,000
Earnings	\$249,150	\$89,928
Total	\$349,150	\$183,928

Now, let's look at a different situation. Let's say you would like to start later but accumulate the same amount as if you had started putting money aside now. In this case, you would need to save more, about \$8,954 at the beginning of each year in years 11 to 30, in order to accumulate \$349,150 after 30 years.

In this example, you would need to save a total of about \$179,085. That's \$79,085 more than if you had started earlier, when compounding could have helped make up that difference. Compound earnings don't have as much time to

work for you when you postpone getting started.

Years	Start Now	Start Later
1 - 10	\$5,000	
11 - 20	\$5,000	\$8,954
21 - 30		\$8,954
Saved	\$100,000	\$179,085
Earnings	\$249,150	\$170,065
Total	\$349,150	\$349,150

Strike a balance

Of course, you could accumulate even more if you do both. For example, if you set aside and invest \$5,000 at the beginning of each year in years 1 to 30 and earn an assumed 6% annually on that money, at the end of 30 years, you will have accumulated about \$419,008. This is substantially greater than the \$183,928 accumulated if you invest \$5,000 in years 11 to 30, while somewhat greater than the \$349,150 accumulated if you invest \$5,000 in years 1 to 20.

But maybe you can't afford to set aside \$5,000 now. Could you manage \$3,000 this year, increase that amount for next year by 3% to \$3,090, and continue to increase the amount set aside by 3% each year? If that money earns an assumed 6% annually, you will have accumulated about \$351,520 at the end of 30 years, slightly more than the \$349,150 accumulated if you save \$5,000 each year in years 1 to 20.

Compared to saving \$5,000 a year for 30 years, you've contributed almost as much here (\$142,726 compared to \$150,000), but your earnings are substantially less (\$208,794 compared to \$269,008) because your largest contributions came in later years and had less time to work for you.

Year	Constant	Increasing
1	\$5,000	\$3,000
2	\$5,000	\$3,090
...		
29	\$5,000	\$6,864
30	\$5,000	\$7,070
Saved	\$150,000	\$142,726
Earnings	\$269,008	\$208,794
Total	\$419,008	\$351,520





The appeal of MOOCs

The combination of quality courses, robust online learning technology, and the wide availability of broadband, coupled with the very high cost of a traditional college education, makes it likely that the popularity of MOOCs--which stands for "massive open online courses"--will only grow in the future, whether people enroll to earn serious credentials or simply for their own enjoyment and curiosity.

What's New in the World of Higher Education?

Whether your son or daughter is expecting college decisions any day now or whether you're planning ahead for future years, here's what's new in the world of higher education.

Costs for 2013/2014

Question: What goes up every year no matter what the economy at large is doing? Answer: The cost of college. The reasons are many and varied, but suffice it to say that this year, like every year, college costs increased yet again.

For the 2013/2014 year, the average cost at a 4-year public college is \$22,826, while the average cost at a private college is \$44,750, though many private colleges charge over \$60,000 per year (Source: The College Board, Trends in College Pricing 2013). Cost figures include tuition, fees, room and board, books, and a sum for transportation and personal expenses.

What's a parent to do? For starters, check out net price calculators. Now required on all college websites, net price calculators can help families estimate how much grant aid a student might be eligible for at a particular college based on his or her individual academic and financial profile and the school's own criteria for awarding institutional aid. You'll definitely want to spend some time running numbers on different net price calculators to see how schools stack up against one another on the generosity scale.

New rates on federal student loans

Last summer, new legislation changed the way interest rates are set for federal Stafford and PLUS Loans. Rates are now tied to the 10-year Treasury note, instead of being artificially set by Congress. For the current academic year (July 1, 2013, through June 30, 2014), the rates are:

- 3.8% for undergraduate students borrowing subsidized and unsubsidized Stafford Loans
- 5.4% for graduate students borrowing unsubsidized Stafford Loans
- 6.4% for parents borrowing PLUS Loans

The rates are determined as of June 1 each year and are locked in for the life of the loan.

A renewed focus on IBR

Federal student loans are the preferred way to borrow for college because they offer a unique repayment option called "income based repayment," or IBR. Under IBR, a borrower's monthly student loan payment is based on income and family size and is equal to 10% of discretionary income. After 20 years of on-time payments, all remaining debt is generally forgiven (loans are forgiven after 10 years for

those in qualified public service).

Enrollment in the program has been relatively modest, but last fall, the Department of Education contacted borrowers who were having difficulty repaying their student loans to let them know about IBR. The department also put the IBR application online and has made it possible for applicants to import information from their tax returns.

A government push for information

Last summer, as part of his push to make college more affordable, President Obama announced a proposal that would require colleges to report the average debt load and earnings of graduates (in addition to the information on tuition costs and graduation rates that they already report), with the availability of federal financial aid being linked to those ratings. In response, most colleges have cried foul, claiming that average debt is not a valid indicator of affordability because colleges have vastly different endowments and abilities to award institutional aid, and that post-graduation salaries can depend on variables outside of a college's control. No reporting requirement has been finalized yet, but the trend is clearly toward the government requiring colleges to make their costs and return on investment as transparent as possible so families can make more informed choices.

The growth of MOOCs

You may have heard the term "MOOCs," and going forward, it's likely you'll hear it a lot more. MOOCs stands for "massive open online courses," and these large-scale, online classes have the potential to revolutionize higher education. One of the earliest MOOCs was a course on artificial intelligence at Stanford University in 2011, which attracted 160,000 students from all over the world (though only 23,000 successfully completed the course, earning a certificate of recognition).

Today, hundreds of MOOCs are offered free of charge by many well-known, leading universities. The piece of the puzzle that has yet to be solved is what credit or degree will be given when courses are completed and how pricing will work. But the combination of quality courses, robust online learning technology, and the wide availability of broadband, coupled with the very high cost of a traditional college education, makes it likely that the popularity of MOOCs will only grow in the future, whether people enroll to earn serious credentials or simply for their own enjoyment and curiosity.



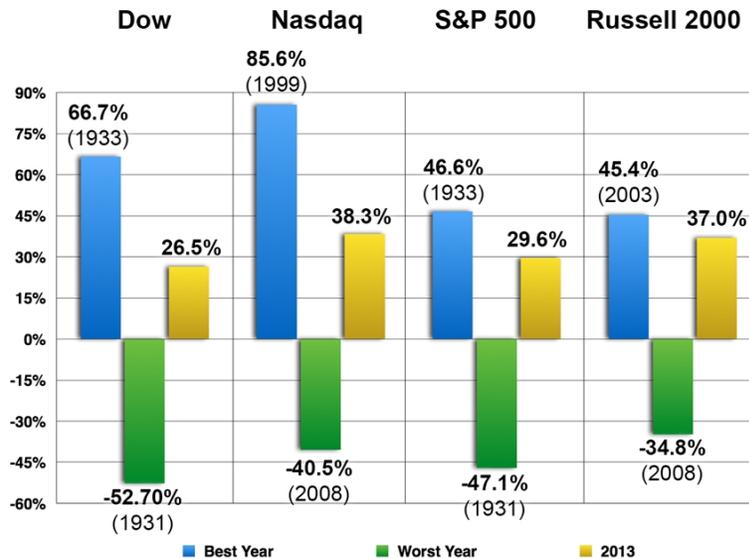
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Graph: The Best of Times, the Worst of Times, and 2013



In 2013, the Standard & Poor's 500 had its best year since 1997, while the Dow Jones Industrial Average set 52 new record closing highs and the Nasdaq hit a level it hadn't seen in more than 13 years. Here's how 2013's price gains compare to each index's best and worst years since 1926 by percentage gain as listed in the "Stock Trader's Almanac 2014." **Note:** All investing involves risk, including the possible loss of principal.



What will happen to my digital assets if I die or become incapacitated?

In today's digital age, many individuals live at least a part of their life online. Whether you share your life with others

through e-mail, Facebook posts, and tweets, or simply have a number of online, password protected accounts, you'll want to make plans for the disposition of all of your digital assets in the event of your death or incapacity.

Unfortunately, the laws governing digital assets are not well settled. Only a small number of states have estate laws that specifically cover digital assets, and those laws are relatively new and untested. As a result, you should consult an estate planning attorney for information on how digital assets are handled in your particular state.

For the most part, websites, blogs, and registered domain names are transferable under standard property and copyright laws. However, certain online accounts (e.g., e-mail, social media accounts) may not be transferrable, depending on the site's terms of service. Terms of service vary widely from site to site. Some sites will allow a person with the appropriate legal authority to access your

accounts upon your death. Others will put your accounts in a "memorial state" or permanently delete your account upon proper notification of your death.

The most important step you can take to protect your digital assets is to include them in your estate plan, just as you would your physical assets. Your first step should be to identify and inventory all of your digital assets. Make a list of where your assets are located and how they are accessed (e.g., username and password). Next, indicate what you wish to happen to your digital assets (e.g., transfer to an heir or terminate) and who will be responsible for carrying out those wishes (e.g., an executor). Be sure to refer to this inventory in your will (but keep it separate since your will eventually becomes public information).

If privacy issues surrounding your digital assets are a real concern, a number of online websites securely store all of your digital asset information and allow you to leave legacy instructions for a designated beneficiary or executor. The costs of these types of services vary, depending upon the services offered.

