RBC Wealth Management

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2nd Quarter 2016 Market Commentary

Elusive gains and Brexit

On May 21, 2015, the S&P 500 Index closed at 2,130.82, an all-time high for this broad measure of 500 large US companies (St. Louis Federal Reserve). In the year since, it has failed to recapture that level.

On April 20th of this year, we finished at 2,102.40 and May closed out at 2,096.96, but there hasn't been a new high in over a year (St. Louis Federal Reserve). It is not uncommon for the major indexes to go through periods where gains are elusive or we experience unwanted volatility.

On June 23rd, the people of the United Kingdom voted to leave the European Union. While somewhat counterintuitive, a post-Brexit world may actually be helping stocks in the U.S., as nervous cash in Europe seeks the perceived safety of U.S. markets.

What's an investor to do?

We recognize that currently, we are in a period of uncertainty. As the economic recovery enters its eight year, the expansion is no longer young. It's been a substandard economic recovery, global uncertainty is high, and we are in an unusual election cycle.

For long-term investors, it's important to look past short-term volatility and stick with a disciplined approach. As many of you have heard us say, attempts to outguess the market are usually met with frustration. In order to successfully time the market, you have to get it right twice: getting out and getting back in.

We reiterate what deep down we all know: side-stepping corrections and finding the bottom is exceedingly difficult. More likely than not, investors find themselves buying back in at higher levels. Traffic jams and unexpected slowdowns are sometimes encountered on the journey to one's financial goals. Over the long term, however, a disciplined approach that eschews an emotional response has historically been the most profitable way to reach one's goals. While declines in the major averages that exceed 20% can be unnerving, they have always run their course historically, setting the stage for another upward cycle that takes shares to new highs.

Bottom Line

There are things we simply cannot control, such as the stock market, interest rates, or the economy. What we do control, however, is the investment plan. So we encourage you to adhere to the one we've agreed upon, unless you've experienced a change in circumstances that means adjustments to the plan need to be made.

When stocks are galloping ahead, some clients begin asking about a more aggressive exposure to equities. Likewise, when shares are down, some want to take a more conservative stance. This was especially true in 2009 when we experienced the worst economic slump since the Great Depression. It was a difficult time, and we strongly encouraged that we maintain a presence in shares. While bear markets are difficult, they are an inevitable part of the investment landscape. But always remember, storms end and rainbows follow.

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College Savings
If you have young children, and you're wondering when is the best time to start saving for college, the answer is: now.

College costs are high. The current average cost for tuition, fees, room and board at a four-year private college is $42,419 per year, according to the College Board. For a four-year out-of-state public school, the corresponding cost is $32,762 annually.*

These numbers can be daunting. But if you start saving early, you will be in a better position to meet college costs. One of the best savings vehicles available is a Section 529 College Savings Plan (named after the portion of the IRS code that authorizes these accounts).

- **You may realize significant tax benefits —** In a 529 College Savings Plan, your contributions to the plan can be withdrawn tax-free (federal) if the proceeds are used for qualified higher education expenses.** Many states also offer taxpayers a tax incentive to use in-state plans.
- **You can contribute very large amounts —** You can contribute up to $70,000 per beneficiary to a 529 plan ($140,000 for married individuals filing jointly) in the first year of a five-year period without incurring any federal gift-tax consequences, provided you do not make any additional gifts to the same beneficiary in the same five-year period.*** Contribution limits can vary by state.
- **You get estate planning benefits***—** When you move money into a 529 plan, you're moving it out of your taxable estate. Yet, as the account owner, you still retain control of the funds. That's an estate-planning benefit not available through many other vehicles.
- **You control withdrawals —** as long as you are the account owner of the 529 plan, you control all withdrawals for the life of the account. You can even change beneficiaries, if you choose.
- **You have flexibility —** You can transfer to another 529 plan or change investment options without changing the beneficiary. Both options are limited to one transfer in a 12-month period.

529 plans offer important benefits. Consider putting a 529 plan to work for you and your family.

We hope you've found this review to be educational and helpful. As we always emphasize, it is our job to assist you! If you have any questions or would like to discuss any matters, please feel free to give us a call at your convenience.

-The Abrahamson Investment Group
Kirk, Mike, Dana, & Colby

* Based on the 2014-2015 average total costs of a four-year college education, including tuition, fees, room and board: $32,762 for public out-of-state, $42,419 for private (Trends in College Pricing © 2014 The College Board). Assumes 7% annual inflation adjustments (*FinAid.org*).

** For more information regarding college savings plans, please visit *www.collegesavings.org*. Participation in a 529 plan does not guarantee the investment return on contributions, if any, will be adequate to cover future tuition and other higher education expenses. State programs vary, therefore you should carefully review individual program documents before investing or sending money. Federal income tax on the earnings and a 10% penalty on distributions for non-qualified expenses may apply.

*** RBC Wealth Management does not provide tax or legal advice. We will work with your independent tax/legal advisor to help create a plan tailored to your specific needs. Accelerated gifts are normally subject to an add-back feature in the event of death of the giftor.