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Did you ever notice that when you put the words "The" and "IRS" together, it spells "THEIRS"?
Author Unknown

There's still time to make a regular IRA contribution for 2015! You have until your tax return due date (not including extensions) to contribute up to $5,500 for 2015 ($6,500 if you were age 50 by December 31, 2015). For most taxpayers, the contribution deadline for 2015 is April 18, 2016 (April 19, 2016, if you live in Maine or Massachusetts)

For more information or to make a contribution, please call us at 800.440.8807.

Tom

March 2016

Rates on the Rise: Strategies for Fixed-Income Investors

Can You Get to a Million Dollars?

What You Need to Know About Private Student Loans

Can you separate college financial aid myths from facts?

Bartholomew & Company Incorporated

Rates on the Rise: Strategies for Fixed-Income Investors

A long period of low yields has been challenging for many fixed-income investors, but owning bond investments in a rising interest-rate environment could become even trickier. When interest rates go up, the prices of existing bonds typically fall. Consequently, the Federal Reserve's rate-setting decisions could affect the entire fixed-income market.

Still, bonds are a mainstay for conservative investors who prioritize the preservation of principal over returns, and for retirees in need of a predictable income stream. Although diversification does not guarantee a profit or protect against investment loss, owning a diversified mix of bond types and maturities is one way to manage interest-rate and credit risk in your portfolio.

Consider duration

Overall, bonds with shorter maturities are less sensitive to interest-rate fluctuations than long-term bonds. A bond's maturity is the length of time by which the principal and interest are scheduled to be repaid. A bond's duration is a more specific measure of interest-rate sensitivity that takes cash flow (interest payments) into account.

For example, a five-year Treasury bond has a duration of less than five years, reflecting income payments that are received prior to maturity. A five-year corporate bond with a higher yield will have an even shorter duration, making it slightly less sensitive to interest-rate fluctuations. If interest rates increase 1%, a bond's value is generally expected to drop by approximately the bond's duration. Thus, a bond with a five-year duration could lose roughly 5% in value. (U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest.)

Build a ladder

Bond laddering is a buy-and-hold strategy that could also help cushion the potential effects of rising rates. This process puts your money to work systematically, without trying to predict rate changes and time the market.

Buying individual bonds provides some certainty, because investors know how much they will earn if they hold a bond until maturity, unless the issuer defaults. A ladder is a portfolio of bonds with maturities that are spaced out at regular intervals over a certain number of years. When short-term bonds from the low rungs of the ladder mature, the funds are reinvested at the top end of the ladder. As interest rates rise, investors may be able to increase their cash flow by capturing higher yields. A ladder may also help insulate bond portfolios from volatility, because higher yields on new bonds may help offset any paper losses on existing holdings.

Bond ladders may vary in size and structure, and could include different types of bonds depending on an investor's time horizon, risk tolerance, and goals. Individual bonds are typically sold in minimum denominations of $1,000 to $5,000, so creating a bond ladder with a sufficient level of diversification might require a sizable investment.

Rise with rates

Adding a floating-rate component to a bond portfolio may also provide some protection against interest-rate risk. These investments (long offered by U.S. corporations) have interest payments that typically adjust based on prevailing short-term rates.

The U.S. Treasury started issuing floating-rate notes with two-year maturities in January 2014. Investors receive interest payments on a quarterly basis. Rates are tied to the most recent 13-week Treasury bill auction and reset weekly, so investors are paid more as interest rates rise and less as they fall.

***Note:** Bonds redeemed prior to maturity could be worth more or less than their original cost, and investments seeking to achieve higher yields also involve a higher degree of risk. Interest payments are taxed as ordinary income. Treasury bond interest is subject to federal income tax but exempt from state and local income taxes.*

Can You Get to a Million Dollars?

In trying to accumulate $1 million (or any other amount), you should generally consider how much you have now, how much you can contribute in the future, how much you might earn on your investments, and how long you have to accumulate funds. But remember, there are no guarantees--even when you have a clearly defined goal. For example, the market might not perform as expected, or you may have to reduce your contributions at some point.

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful. Review your progress periodically and be prepared to make adjustments when necessary.

Often in life, you have investment goals that you hope to reach. Say, for example, you have determined that you would like to have $1 million in your investment portfolio by the time you retire. But will you be able to get there?

In trying to accumulate $1 million (or any other amount), you should generally consider how much you have now, how much you can contribute in the future, how much you might earn on your investments, and how long you have to accumulate funds.

Current balance--your starting point

Of course, the more you have today, the less you may need to contribute to your investment portfolio or earn on your investments over your time horizon.

Time (accumulation period)

In general, the longer your time horizon, the greater the opportunity you have to accumulate $1 million. If you have a sufficiently long time horizon and a sufficiently large current balance, with adequate earnings you may be able to reach your goal without making any additional contributions. With a longer time horizon, you'll also have more time to recover if the value of your investments drops. If additional contributions are required to help you reach your goal, the more time you have to target your goal, the less you may have to contribute.

The sooner you start making contributions, the better. If you wait too long and the time remaining to accumulate funds becomes too short, you may be unable to make the large contributions required to reach your goal. In such a case, you might consider whether you can extend the accumulation period--for example, by delaying retirement.

Rate of return (earnings)

In general, the greater the rate of return that you can earn on your investments, the more likely that you'll reach your investment goal of $1 million. The greater the proportion of the investment portfolio that comes from earnings, the less you may need to contribute to the portfolio. Earnings can benefit from long time horizons and compound rates of return, as returns are earned on any earlier earnings.

However, higher rates of return are generally associated with greater investment risk and the possibility of investment losses. It's important to choose investments that meet your time horizon and tolerance for risk. And be realistic in your assumptions. What rate of return is realistic given your current asset allocation and investment selection?

Amount of contributions

Of course, the more you can regularly contribute to your investment portfolio (e.g., monthly or yearly), the better your chances are of reaching your $1 million investment goal, especially if you start contributing early and have a long time horizon.

Contributions needed

Now that the primary factors that affect your chances of getting to a million dollars have been reviewed, let's consider this question: At a given rate of return, how much do you need to save each year to reach the $1 million target? For example, let's assume you anticipate that you can earn a 6% annual rate of return (ROR) on your investments. If your current balance is $450,000 and you have 15 more years to reach $1 million, you may not need to make any additional contributions (see scenario 1 in the table below); but if you have only 10 more years, you'll need to make annual contributions of $14,728 (see scenario 2). If your current balance is $0 and you have 30 more years to reach $1 million, you'll need to contribute $12,649 annually (see scenario 3); but if you have only 20 more years, you'll need to contribute $27,185 annually (see scenario 4).

Scenario	**1**	**2**
Target	$1,000,000	$1,000,000
Current balance	$450,000	$450,000
Years	15	10
ROR	6%	6%
Annual contribution	$0	$14,728

Scenario	**3**	**4**
Target	$1,000,000	$1,000,000
Current balance	$0	$0
Years	30	20
ROR	6%	6%
Annual contribution	$12,649	$27,185

Note: *This hypothetical example is not intended to reflect the actual performance of any investment. Actual results may vary. Taxes, fees, expenses, and inflation are not considered and would reduce the performance shown if they were included.*

Students and parents borrowed $106.1 billion in education loans in 2014-2015. (Source: Trends in Student Aid, College Board, 2015)

What You Need to Know About Private Student Loans

It's an unfortunate trend in college pricing--the average cost of tuition and fees at four-year public and private institutions are significantly higher than they were just a decade ago. For example, the average published tuition and fee price of a full-time year at a public four-year institution is 40% higher, after adjusting for inflation, in 2015-16 than it was in 2005-06. (Source: Trends in College Pricing, College Board, 2015) As a result of these rising costs, many individuals have to rely on student loans to help fund their college education.

Will I have to take out private loans to finance my college education?

What can be surprising to many first-time student borrowers is how little federal student loan debt they may be allowed to take on. Currently, the maximum amount students can borrow for college in federal Direct Stafford Loans is $5,500 during their first year, $6,500 during their second year, and $7,500 during their third and fourth years. (Source: Federal Student Aid, U.S. Department of Education, 2015)

In most cases this amount is not nearly enough to cover the cost of attending a four-year college, and many student borrowers must look to private student loans to help close this gap. And while taking out private loans to pay for college is a fact of life for many individuals, there are some important questions you'll want answered before taking out these types of loans.

What is the interest rate on the loan?

Private student loans tend to have higher fixed interest rates than federal Direct Stafford Loans. However, depending on the lender, you may be able to choose a loan that offers a lower variable interest rate.

Keep in mind that with a fixed rate, the interest rate remains the same from the day you take out the loan until the day you pay it off. With a variable rate, your interest rate may initially be lower than a fixed rate but then will be adjusted periodically to keep up with changes in market conditions. If your interest rate rises, your monthly payment and/or the number of payments required will increase.

What repayment options are available?

Unlike federal student loans, which offer repayment programs such as pay as you earn, income-based repayment plans and student loan forgiveness, private lenders are not required to offer specific repayment assistance to borrowers struggling to make payments.

However, most private student loan companies do offer limited forms of repayment options, such as loan forbearance or extended repayment schedules. The types of repayment programs offered will vary from lender to lender.

Is a co-signer required?

Some private lenders may require borrowers to have a co-signer guarantee a loan, especially if a borrower has little or no credit history. Having a co-signer may also help you obtain a lower interest rate for your loan and improve your chances for loan approval.

The good news is that the co-signer doesn't necessarily have to be tied to the loan forever. Most lenders will allow borrowers to apply for a co-signer release after a certain number of on-time payments have been made and other loan conditions have been met.

Are the terms of the loan favorable?

As a result of recent increased regulatory scrutiny surrounding private loans, many of the larger lenders have improved the lending process by offering more attractive loan terms.

For example, certain lenders have eliminated "auto defaults," which is when a co-signer dies or declares bankruptcy and the lender demands that the loan be paid back immediately by the borrower. Others have made the process for obtaining a co-signer release easier and more transparent. Loan costs, discounts, terms, and conditions can differ greatly, depending on the lender. It's important to thoroughly research each potential lender and carefully compare all offers before signing a loan agreement.

Are other financing options available?

When it comes to using private loans to pay for college, student borrowers should try to graduate with the least amount of private student loan debt possible. It's generally a good idea to exhaust all federal student loan options and avoid taking out loans for the maximum amount that is offered by private lenders unless absolutely necessary.

Additional financing options should also be considered, such as:

- Parent PLUS loans
- Grants or scholarships
- Parent/family loans
- State-sponsored student loan programs
- Part-time employment

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Can you separate college financial aid myths from facts?

For all you parents out there, how knowledgeable are you about college financial aid? See if you know whether these financial aid statements are myth or fact.

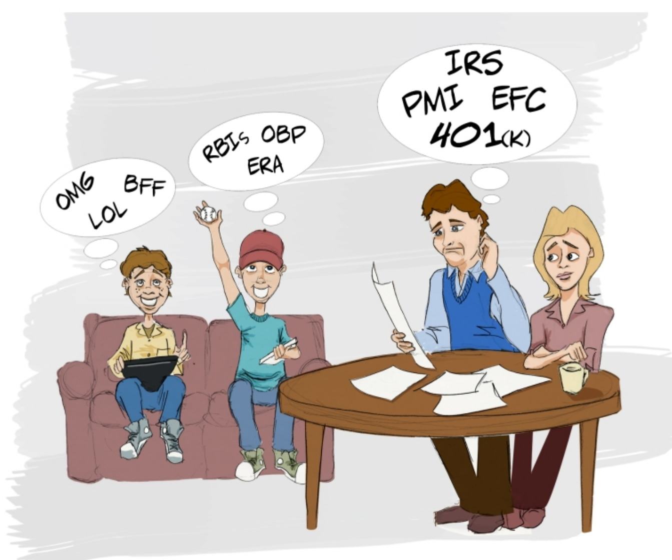
1. Family income is the main factor that determines eligibility for aid. Answer: Fact. But while it's true that family income is the main factor that determines how much financial aid your child might receive, it's not the only factor. The number of children you'll have in college at the same time is also a significant factor. Other factors include your overall family size, your assets, and the age of the older parent.

2. If my child gets accepted at a more expensive college, we'll automatically get more aid. Answer: Myth. The government calculates your expected family contribution (EFC) based on the income and asset information you provide in its aid application, the FAFSA. Your EFC stays the same, no matter what college your child is accepted to. The cost of a particular college minus your EFC equals your child's financial need, which will vary by college. A greater financial need doesn't automatically translate into more financial aid, though the more competitive colleges will try to meet all or most of it.

3. I plan to stop contributing to my 401(k) plan while my child is in college because colleges will expect me to borrow from it. Answer: Myth. The government and colleges do not count the value of retirement accounts when determining how much aid your child might be eligible for, and they don't factor in any borrowing against these accounts.

4. I wish I could estimate the financial aid my child might receive at a particular college ahead of time, but I'll have to wait until she actually applies. Answer: Myth. Every college has a college-specific net price calculator on its website that you can use to enter your family's financial information before your child applies. It will provide an estimate of how much aid your child is likely to receive at that college.

5. Ivy League schools don't offer merit scholarships. Answer: Fact. But don't fall into the trap of limiting your search to just these schools. Many schools offer merit scholarships and can provide your child with an excellent education.



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