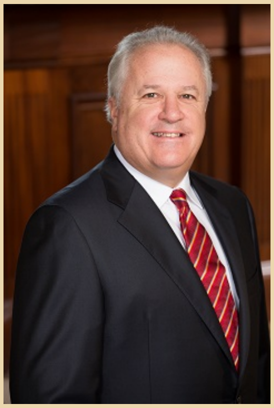


Bartholomew & Company, Inc.
Thomas J. Bartholomew, AIF®, President
370 Main Street, Suite 1000
Worcester, MA 01608
508-753-8807
800-440-8807
tom@bartandco.com
www.bartandco.com

If you make a good income each year and spend it all, you are not getting wealthier.
You are just living high.
Wealth is what you accumulate, not what you spend.

Thomas J. Stanley, *The Millionaire Next Door: The Surprising Secrets of America's Wealthy*

October 2015

Correlation and Portfolio Performance

Different types of investments are subject to different types of risk. On days when you notice that stock prices have fallen, for example, it would not be unusual to see a rally in the bond market.

Asset allocation refers to how an investor's portfolio is divided among asset classes, which tend to perform differently under different market conditions. An appropriate mix of investments typically depends on the investor's age, risk tolerance, and financial goals.

The concept of correlation often plays a role in constructing a well-diversified portfolio that strikes a balance between risk and return.

Math that matters

In the financial world, correlation is a statistical measure of how two securities perform relative to each other. Securities that are positively correlated will have prices that tend to move in the same direction. Securities that are negatively correlated will have prices that move in the opposite direction.

A correlation coefficient, which is calculated using historical returns, measures the degree of correlation between two investments. A correlation of +1 represents a perfectly positive correlation, which means the investments always move together, in the same direction, and at a consistent scale. A correlation of -1 means they have a perfectly negative correlation and will always move opposite one another. A correlation of zero means that the two investments are not correlated; the relationship between them is random.

In reality, perfectly positive correlation is rare, because distinct investments can be affected differently by the same conditions, even if they are similar securities in the same sector.

Correlations can change

While some types of securities exhibit general trends of correlation over time, it's not uncommon for correlations to vary over shorter periods. In times of market volatility, for example, asset prices were more likely to be driven by common market shocks than by their respective underlying fundamentals.

During the flight to quality sparked by the financial crisis of 2008, riskier assets across a number of different classes exhibited unusually high correlation. As a result, correlations among some major asset classes have been more elevated than they were before the crisis. There has also been a rise in correlation between different financial markets in the global economy.[1] For example, the correlation coefficient for U.S. stocks (represented by the S&P Composite Total Return index) and foreign stocks (represented by the MSCI EAFE GTR index) increased from 0.75 over the last 25 years to 0.89 over the last 10 years.[2]

Over the long run, a combination of investments that are loosely correlated may provide greater diversification, help manage portfolio risk, and smooth out investment returns. Tighter relationships among asset classes over the last decade may be a good reason for some investors to reassess their portfolio allocations. However, it's important to keep in mind that correlations may continue to fluctuate over time because of changing economic and market environments.

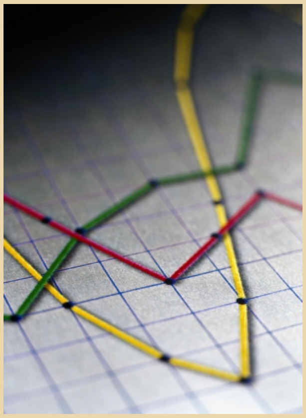
The performance of an unmanaged index is not indicative of the performance of any particular investment. Individuals cannot invest directly in an index. Past performance is no guarantee of future results. All investing involves risk, including the possible loss of principal. Asset allocation and diversification strategies do not guarantee a profit or protect against investment loss; they are methods used to help manage investment risk.

Investing internationally carries additional risks such as differences in financial reporting, currency exchange risk, as well as economic and political risk unique to the specific country. This may result in greater share price volatility. When sold, investments may be worth more or less than their original cost.

[1] International Monetary Fund, 2015

[2] Thomson Reuters, 2015, for the period 12/31/1989 to 12/31/2014

Three Tax Planning Concepts



An additional 3.8% net investment income tax may apply to some or all of your net investment income if your modified adjusted gross income exceeds certain thresholds. This tax does not apply to qualified plans and IRAs or to tax-free income.

Distributions from qualified plans and IRAs prior to age 59½ may be subject to a 10% penalty tax unless an exception applies. Nonqualified distributions from HSAs, ESAs, and 529 plans may also be subject to a penalty tax.

You might also consider the effect of state income tax.

There are many ways to potentially reduce your tax burden. Here are three tax planning concepts that you should be familiar with.

Tax deferral

When you defer taxes to later years, any earnings compound without being reduced by income taxes. As a result, your investment may grow at a faster rate than if earnings were subject to income tax each year. In some cases, such as with a qualified plan or a traditional IRA, tax deferral may be combined with an initial tax deduction or exclusion from income for contributions.

Tax deferral can be provided by tax-advantaged accounts that generally defer any taxation until distributions are made. Examples include qualified plans and IRAs, annuities, health savings accounts (HSAs), Coverdell education savings accounts (ESAs), and 529 plans. Taxation of capital gains is generally deferred until property is sold. Tax deferral may also be available through the use of strategies such as installment sales and like-kind exchanges.

Tax deferral can be the most beneficial when you defer tax until a time when your tax rate will be lower, or at least when it will be no higher. If your tax rate will be higher later, there may still be an advantage to tax deferral, but you'll need to run the numbers to determine whether the benefits of tax deferral might overcome the higher tax rate.

Example: *You make a nondeductible contribution of $5,000 to a traditional IRA. Assume you will be subject to a 28% income tax rate, both now and in the future. If you earn a 5% annual rate of return for 20 years, the $5,000 will grow to $13,266, with an after-tax value of $10,952. (If you made a deductible contribution of $5,000 to a traditional IRA and placed any tax savings from the deduction in a side fund, the after-tax value of the IRA plus the side fund after 20 years would generally be even greater.) If instead you simply saved $5,000 in an account that is taxable each year, the $5,000 would grow at a 3.6% after-tax rate to $10,095 in 20 years. This is $857 less than with the tax-deferral advantage of making a nondeductible contribution to a traditional IRA.**

Tax-free income

Interest income from municipal bonds can generally be received free of federal income tax. Qualified distributions from Roth IRAs, Roth 401(k)s, HSAs, ESAs, and 529 plans can also be received free of federal income tax. In some cases, such as with a Roth IRA, tax deferral may be combined with tax-free income.

Example: *You make a nondeductible contribution of $5,000 to a Roth IRA. If you earn a 5% annual rate of return for 20 years, the $5,000 will grow to $13,266, with no federal income tax on qualified distributions.**

Special tax rates

The tax rate on long-term capital gains and qualified dividends is generally 0% for taxpayers in the 10% and 15% tax brackets, 15% for taxpayers in the 25% to 35% tax brackets, and 20% for taxpayers in the 39.6% tax bracket. In some cases, such as with stock, special tax rates may be combined with tax deferral.

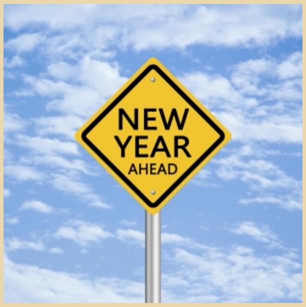
Example: *You purchase stock that pays no dividends for $5,000. Assume you will be subject to a 15% capital gain tax rate, both now and in the future. If the stock increases 5% in value each year and you hold on to the stock for 20 years, the $5,000 will grow to $13,266, with an after-tax value of $12,027.**

Example: *You purchase a dividend-paying investment for $5,000. Assume you will be subject to a 15% capital gain tax rate, both now and in the future. If you earn a 5% annual rate of return consisting of qualified dividends and long-term capital gains that are taxable each year, the $5,000 will grow at a 4.25% after-tax rate to $11,460 in 20 years.**

Note: *To the extent that distributions from tax-advantaged accounts such as qualified plans and IRAs, annuities, HSAs, ESAs, and 529 plans are subject to tax, ordinary income tax rates apply; they generally do not qualify for special capital gain tax rates.*

*These hypothetical examples are for illustrative purposes only, and the results are not representative of any specific investment or mix of investments. Actual results will vary. Investment fees and expenses have not been deducted. If they had been, the results would have been lower. You should consider your personal investment time horizon and income tax brackets, both current and anticipated, when making an investment decision, because they may further impact the results of the comparison. These illustrations assume a fixed annual rate of return; the rate of return on your actual investment portfolio will be different, and will vary over time, according to actual market performance, and could include losses. This is particularly true for long-term investments. It is important to note that investments offering the potential for higher rates of return also involve a higher degree of risk to principal.

2015 Year-End Tax Planning Basics



As the end of the 2015 tax year approaches, set aside some time to evaluate your situation and consider potential opportunities. Effective year-end planning depends on a good understanding of both your current circumstances and how those circumstances might change next year.

Basic strategies

Consider whether there's an opportunity to defer income to 2016. For example, you might be able to defer a year-end bonus or delay the collection of business debts, rents, and payments for services. When you defer income to 2016, you postpone payment of the tax on that income. And if there's a chance that you might be paying taxes at a lower rate next year (for example, if you know that you'll have less taxable income next year), deferring income might mean paying *less* tax on the deferred income.

You should also look for potential ways to accelerate 2016 deductions into the 2015 tax year. If you typically itemize deductions on Schedule A of Form 1040, you might be able to accelerate some deductible expenses--such as medical expenses, qualifying interest, or state and local taxes--by making payments before the end of the current year, instead of paying them in early 2016. Or you might consider making next year's charitable contribution this year instead. If you think you'll be itemizing deductions in one year but claiming the standard deduction in the other, trying to defer (or accelerate) Schedule A deductions into the year for which you'll be itemizing deductions might let you take advantage of deductions that would otherwise be lost.

Depending on your circumstances, you might also consider taking the opposite approach. For example, if you think that you'll be paying taxes at a higher rate next year (maybe as the result of a recent compensation increase or the planned sale of assets), you might want to look for ways to accelerate income into 2015 and possibly defer deductions until 2016 (when they could potentially be more valuable).

Complicating factors

First, you need to factor in the alternative minimum tax (AMT). The AMT is essentially a separate, parallel federal income tax system with its own rates and rules. If you're subject to the AMT, traditional year-end strategies may be ineffective or actually have negative consequences--that's because the AMT effectively disallows a number of itemized deductions. So if you're subject to the AMT in 2015, prepaying 2016 state and local taxes probably won't help your 2015 tax situation, and, in fact, could hurt your 2016 bottom line.

It's also important to recognize that personal and dependency exemptions may be phased out and itemized deductions may be limited once your adjusted gross income (AGI) reaches a certain level. This is especially important to factor in if your AGI is approaching the threshold limit and you're evaluating whether to accelerate or defer income or itemized deductions. For 2015, the AGI threshold is $258,250 if you file as single, $309,900 if married filing jointly, $154,950 if married filing separately, and $284,050 if head of household.

IRA and retirement plan contributions

Deductible contributions to a traditional IRA and pretax contributions to an employer-sponsored retirement plan such as a 401(k) could reduce your 2015 taxable income. (Note: A number of factors determine whether you're eligible to deduct contributions to a traditional IRA.) Contributions to a Roth IRA (assuming you meet the income requirements) or a Roth 401(k) plan are made with after-tax dollars--so there's no immediate tax savings--but qualified distributions are completely free of federal income tax.

For 2015, you're generally able to contribute up to $18,000 to a 401(k) plan ($24,000 if you're age 50 or older) and up to $5,500 to a traditional or Roth IRA ($6,500 if you're age 50 or older). The window to make 2015 contributions to an employer plan generally closes at the end of the year, while you typically have until the due date of your federal income tax return to make 2015 IRA contributions.

Important notes

The Supreme Court has legalized same-sex marriage nationwide, significantly simplifying the federal and state income tax filing requirements for same-sex married couples living in states that did not previously recognize their marriage.

A host of popular tax provisions (commonly referred to as "tax extenders") expired at the end of 2014. Although it is possible that some or all of these provisions will be retroactively extended, currently they are not available for the 2015 tax year. Among the provisions: deducting state and local sales taxes in lieu of state and local income taxes; the above-the-line deduction for qualified higher-education expenses; qualified charitable distributions (QCDs) from IRAs; and increased business expense and "bonus" depreciation rules.

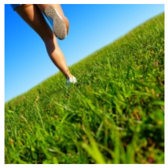
AMT "triggers"

You're more likely to be subject to the AMT if you claim a large number of personal exemptions, deductible medical expenses, state and local taxes, and miscellaneous itemized deductions. Other common triggers include home equity loan interest when proceeds aren't used to buy, build, or improve your home; and the exercise of incentive stock options.

Required minimum distributions

Once you reach age 70½, you generally must start taking required minimum distributions (RMDs) from traditional IRAs and employer-sponsored retirement plans (an exception may apply if you're still working and participating in an employer-sponsored plan). Take any distributions by the date required--the end of the year for most individuals. The penalty for failing to do so is substantial: 50% of the amount that should have been distributed.

Bartholomew & Company, Inc.
Thomas J. Bartholomew, AIF®, President
370 Main Street, Suite 1000
Worcester, MA 01608
508-753-8807
800-440-8807
tom@bartandco.com
www.bartandco.com



My employer now offers wellness benefits as part of its employee benefits package. But what are they?

It's no surprise that your company has started offering wellness benefits, since many employers are already offering these types of programs as part of an overall employee benefits package. According to the Society for Human Resource Management (SHRM), in 2015, 80% of organizations provided wellness resources and information, and 70% of organizations offered some type of wellness program to their employees. (Source: 2015 Employee Benefits, Society for Human Resource Management, 2015)

When it comes to running a business, wellness benefits are definitely a win-win for most employers. Not only do they potentially reduce health-care costs by promoting healthier living, but they may also boost employee productivity and morale. The types of wellness programs vary among employers, but they typically cover a variety of healthy living issues, such as:

- Smoking cessation
- Exercise/physical fitness
- Weight loss
- Nutritional education
- Health screenings

More recent additions to the wellness benefits arena include fitness/activity tracking, credit for registering and participating in marathons/races, and company-sponsored seasonal weight-loss challenges.

For employees, wellness benefits not only can help them adopt and live a healthier lifestyle, but can also provide them with financial benefits. Currently, employers that offer wellness programs are allowed to offer incentives to employees of up to 30% of the cost of their health-care premium (up to 50% for smoking cessation). These incentives are usually in the form of premium discounts and/or cash rewards.

It's important to note that with certain types of wellness incentives, such as cash bonuses or gift certificates, the value of the reward may be treated as taxable wages. As a result, it may be subject to payroll taxes.

How do I compare my health insurance options during open enrollment?

The decisions you make during open enrollment season regarding health insurance are especially important, since you generally must stick with the options you choose until the next open enrollment season, unless you experience a "qualifying" event such as marriage or the birth of a child. As a result, you should take the time to carefully review the types of plans offered by your employer and consider all the costs associated with each plan.

With most health insurance plans, your employer will pay a portion of the premium and require you to pay the remainder through payroll deductions. When comparing different plans, keep in mind that even though a plan with a lower premium may seem like the most attractive option, it could have higher potential out-of-pocket costs.

You'll want to review the copayments, deductibles, and coinsurance associated with each plan. This is an important step because these costs can greatly affect what you end up paying out-of-pocket. When reviewing the costs of each plan, consider the following:

- Does the plan have an individual or family deductible? If so, what is the amount that will have to be satisfied before your insurance coverage kicks in?
- Are there copayments? If so what amounts are charged for doctor visits, specialists, hospital visits, and prescription drugs?
- Will you have to pay any coinsurance once you've satisfied the deductible?

You should also assess each plan's coverage and specific features. For example, are there coverage exclusions or limitations that apply? Which expenses are fully or partially covered? Do you have the option to go to doctors who are outside your plan's provider network? Does the plan offer additional types of coverage for vision, dental, or prescription drugs?

In the end, when reviewing your options, you'll want to balance the coverage and features offered under each plan against the plan's overall cost to determine which plan offers you the best value for your money.