YOUR FINANCIAL FUTURE

Your Guide to Life Planning

February 2014

"Making a positive impact on as many lives as I can." Please contact me if you have friends and family who would enjoy receiving this newsletter!

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In This Issue

Using a HSA or FSA to Help You Manage Your Health Care Costs

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Even with the Affordable Care Act taking effect this year, health care costs continue to mount. According to a recent study, the average health care premium rate rose 3.3% from 2012 to 2013, while out-of-pocket costs -- including co-payments, coinsurance, and deductibles -- jumped an alarming 12.8%.[1]

Depending on the types of plans offered by your employer, you could have access to two types of savings accounts that allow you to make tax-free contributions to help you pay your medical expenses: a health savings account (HSA) and a flexible spending account (FSA).

Health Savings Accounts

A health savings account is a tax-advantaged savings account set up in conjunction with a high-deductible health plan (HDHP). You are eligible for an HSA if you are enrolled in a qualified HDHP, are not covered by another health plan, are not eligible for Medicare benefits, and are not a dependent of another person for tax purposes.

The maximum contribution to an HSA for 2014 is $3,300 for single coverage or $6,550 for family coverage. If you are over age 55, you can contribute an additional $1,000 regardless of whether you have single or family coverage.

Contributions are made via payroll deduction on a before-tax basis, meaning they reduce your taxable income. Note that unlike IRAs and certain other tax-deferred investment vehicles, no income limits apply to HSAs. Any funds not used one year can be saved and used in future years. Earnings on HSAs are not subject to income taxes.

Eligible expenses include most of the out-of-pocket costs not fully covered by your health plan, including co-payments, deductibles, vision care, prescriptions, over-the-counter medicines, dental care, tests, and medical supplies, among others. See IRS Publication 502 for a more detailed list of qualifying expenses. If funds are withdrawn for any purposes other than qualifying health care expenses, you will be required to pay taxes on amounts withdrawn plus a 10% penalty.

Flexible Spending Accounts

A flexible spending account (FSA), offered as an elective benefit by many employers, permits you to contribute to an account that is designated for out-of-pocket costs not covered under the plan. All amounts contributed are pretax, and funds are not taxed when spent on qualifying health care costs.

Before contributing to an FSA, you must first designate how much you want to contribute for the year, based on an estimate of your expected out-of-pocket costs. The maximum amount you can contribute to your FSA is $2,500 per year. You do not pay federal income tax or employment taxes on the salary you contribute or on any amounts your employer may contribute to the FSA.

Typically, amounts contributed that are not spent by the end of the plan year are forfeited. However, the IRS recently changed this regulation. If your employer elects to change the restrictions in its plan, you could be allowed to keep up to $500 of your balance to use in the following year. Regardless, it is important not to significantly overestimate the qualifying expenses you expect to incur during the year.

As with an HSA, the eligible expenses for an FSA include most of the out-of-pocket costs not fully covered by your health plan. See IRS Publication 502 for a more detailed list of qualifying expenses.

Which One Is Right for You?

Whether an HSA or FSA will suit your needs depends largely on the out-of-pocket costs you expect to incur and how accurately you can predict them. Ultimately, the decision boils down to your particular circumstances and needs.

[1]*Source: AON Hewitt, AON Hewitt Health Value Initiative Database, October 2013.*

1-244504

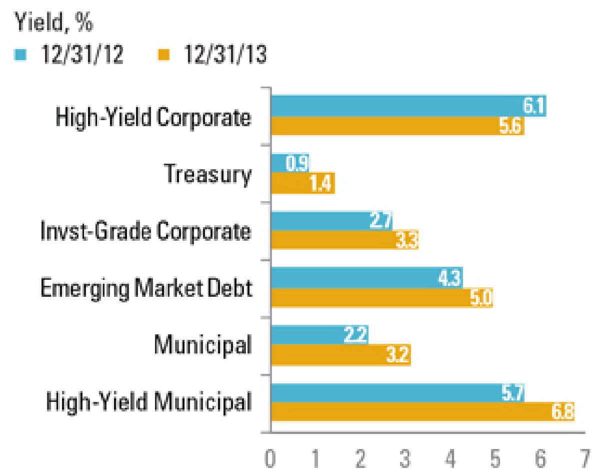
Search For Income | Fourth Quarter 2013

New Year, New Yields

Higher yields are the saving grace for income-seeking investors after a difficult 2013. Most of the price declines and yield increases occurred over the second and third quarters of 2013, but yields on most high-quality fixed income sectors ended the year near two-and-a-half year highs. This results in an opportunity for investors to lock in more attractive yields than at any time during the past couple of years [Figure 1].

Please note: all return figures are as of December 31, 2013 unless otherwise stated.

1 Stabilization in September Helped Yields Finish the Quarter Little Changed



Source: LPL Financial Research, Barclays Index data 12/31/13

Indices: Barclays US Treasury Index, Barclays Municipal Bond Index, Barclays Capital U.S. Corporate Index, Barclays EM USD Aggregate, Barclays Capital High Yield Municipal Bond Index, Barclays US Corporate High Yield

All Barclays indexes mentioned herein are unmanaged and cannot be invested into directly. The returns do not reflect fees, sales charges or expenses. Index performance is not indicative of any particular investment. Past performance is no guarantee of future results.

We expect 2014 to be gentler to bond investors compared with 2013, but the battle of rising interest rates and lower prices is likely continue. Bond market total returns could likely be flat as yields rise with the 10-year Treasury yield ending the year at 3.25 - 3.75%. (Based upon our expectation for a 1% acceleration in U.S. gross domestic product [GDP] over the pace of 2013, a reduction in Federal Reserve [Fed] bond purchases, and lower bond valuations.) Our view of yields rising beyond what the futures market has priced in warns of the risk in longer-maturity bonds now that conditions have turned for the bond market. Please see our Outlook 2014 publication for additional information. The twin forces that drove yields higher in 2013 - the onset of a reduction in Fed bond purchases and stronger economic growth - may likely to continue to pressure high-quality bond yields higher and prices lower. For 2014, we expect better economic growth to be the primary driver of higher bond yields.

For two of our income-generating ideas, high-yield bonds and bank loans, rising interest rates did not pose a problem. Both sectors stayed true to their historical resilience against rising interest rates and prices finished 2013 unchanged to higher. The average yield of high-yield bonds actually declined as a result. In general, lower-rated sectors of the bond market fared best in 2013, a trend we expect to continue. Lower-rated bond sectors are often more economically sensitive. An expanding economy in 2014 is likely to support good credit quality metrics - the ability of most borrowers to continue making timely interest payments - and keep defaults near historical low levels.

Both municipal bonds and emerging market debt (EMD) were among the laggards in a difficult 2013 but begin 2014 with higher yields and better valuations. In 2013, illiquid trading conditions and steady mutual fund outflows exacerbated price declines associated with rising interest rates for municipal bonds. Late in 2013, investors began to take note of cheaper valuations, as measured by municipal-to-Treasury yield ratios, and topquality yields approaching 5%, a key yield level.

View the complete report

Tracking #1-239039 (Exp. 01/15)

In Volatile Markets, Investors May Find Comfort in Dividends

Dividend payouts are often seen as a sign of a company's financial health and management's confidence in future cash flow.

As uncertainty at home and abroad roils the financial markets, income-minded investors seeking protection from the bumpy road ahead may find dividend-paying stocks offer an attractive mix of features and warrant a place in their equity portfolios.

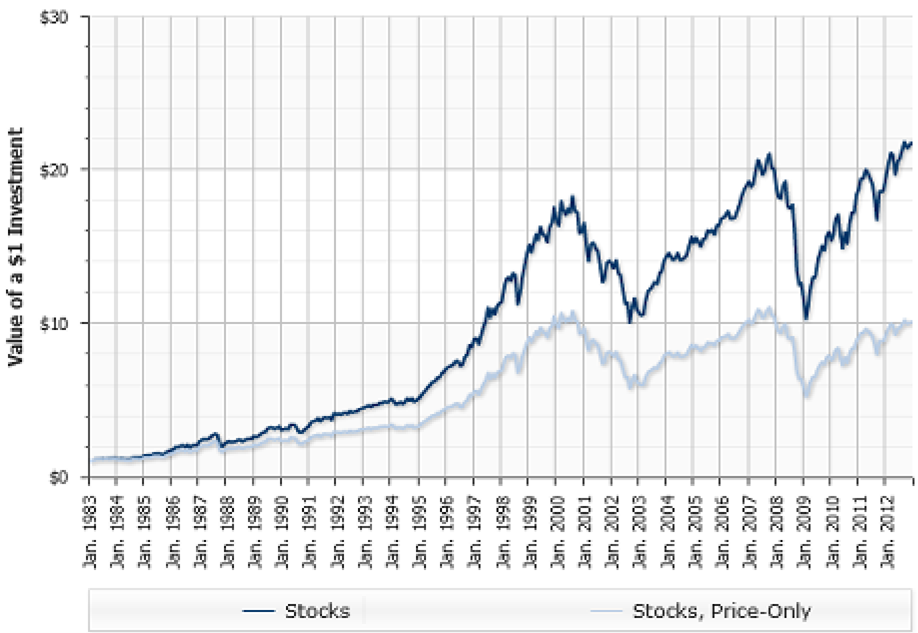
The appeal is simple: Dividend-paying stocks can provide investors with tangible returns on a regular basis regardless of market conditions.

The Benefits of Dividend-Paying Stocks

If you own stock in a company that has announced it will be issuing a dividend, or if you are proactively considering adding an allocation to dividend-paying stocks, history provides compelling evidence of the long-term benefits of dividends and their reinvestment.

- **A sign of corporate financial health.** Dividend payouts are often seen as a sign of a company's financial health and management's confidence in future cash flow. Dividends also communicate a positive message to investors who perceive a long-term dividend as a sign of corporate maturity and strength.
- **A key driver of total return.** There are several factors that may contribute to the superior total return of dividend-paying stocks over the long term. One of them is dividend reinvestment. The longer the period in which dividends are reinvested, the greater the spread between price return and dividend reinvested total return.
- **Potentially stronger returns, lower volatility.** Dividends may help to mitigate portfolio losses when stock prices decline, and over long time horizons, stocks with a history of increasing their dividend each year have also produced higher returns with considerably less risk than non-dividend-paying stocks. For instance, since 1990, the S&P 500 Dividend Aristocrats -- those stocks within the S&P 500 that have increased their dividends each year for the past 25 years -- produced annualized returns of 11.29% vs. 8.55% for the S&P 500 overall, with less volatility (13.91% vs. 15.04%, respectively).[1]

The Growth of Dividend-Paying Stocks, 1950-2012[2]



If you are considering adding dividend-paying stocks to your investment mix, keep the following thoughts in mind.

- **Dividend-paying stocks may help diversify an income-generating portfolio.** Income-oriented investors may want to diversify potential sources of income within their portfolios. Given current realities present in the bond market, stocks with above-average dividend yields may compare favorably with bonds and may act as a buffer should conditions turn negative within the bond market.
- **Dividends benefit from continued favorable tax treatment.** The extension of the Bush-era tax cuts helps to reinforce the current case for dividend stocks. The tax bill that passed in early 2013 made the 15% top tax rate on qualifying dividends and other forms of investment income permanent for most investors, though it did raise the

top rate to 20% for certain high-income investors. However, this is still lower than the 39.6% top rate on ordinary income.

Note that dividends can be increased, decreased, and/or eliminated at any time without prior notice.

[1]Volatility is measured by standard deviation. Past performance is no guarantee of future results.
[2]Source: Standard & Poor's. Stocks are represented by the S&P 500, an unmanaged index considered representative of the broad U.S. stock market. For the period January 1, 1950, through December 31, 2012. Past performance is not indicative of future results. Investors cannot invest directly in any index.

1-044954

Independent Investor | January 2014

A Clean Slate: Review and Rebalance Your Portfolio

There is no better time to take a fresh look at your investment strategies than the beginning of the new year. And while there is no one-size-fits-all approach to investing for the future, reviewing your goals annually can help you stay on track from month to month--and year to year.

Progress Check

The goal of an investment review is to make sure you're in position to pursue important short- and long-term goals during the coming year. However, it is difficult to get a clear vision of the future without first reviewing whether you have managed to stay on track during the past year.

For example, ask yourself the following questions:

- Are your savings and investing goals still realistic, or might you now need to accumulate more (or less) money than originally planned?
- Has the time frame for any of your financial goals--such as your retirement date--changed in the past year?
- Have you been contributing as much as possible to your tax-deferred retirement accounts? The 2013 and 2014 contribution limits are $17,500 for employer-sponsored retirement accounts, such as 401(k)s and 403(b)s, plus another $5,500 in catch-up contributions if you are over the age of 50. For traditional and Roth IRAs, the limits are $5,500 with another $1,000 in catch-up contributions.

Correcting for Asset Allocation "Drift"

You should also be aware that your asset mix, or asset allocation, is always subject to change.[1] That's because investment performance could cause the value of some of your assets to rise (or fall) more than others. When an asset allocation shifts due to market performance, it is said to have "drifted" or become unbalanced.

To better appreciate how performance differences can affect a portfolio over time, consider what might have happened to a hypothetical portfolio of 70% U.S. stocks, 10% bonds, 10% foreign stocks and 10% cash equivalents if left untouched for the 20-year period ended December 31, 2012.
In this example, the original 70% allocation to domestic stocks would have grown to 79.4%, while all the other allocations would have shrunk, reducing their intended risk reduction role in the portfolio. As always, past performance is no guarantee of future results.[2]
Bonds haven't been as volatile as stocks over long periods of time, but recent history shows that they too can experience performance patterns that may alter asset allocation over time. Consider the divergence of the stock and bond markets in 2008 and how that affected asset allocations. While the S&P 500 lost 37% during this period, long-term U.S. government bonds gained 23%. A portfolio composed of 50% of each at the start of the year would have shifted to an allocation of 34% stocks and 66% bonds at year's end.[3]

Seeing the Whole Picture

If you have multiple investment accounts, determining whether to rebalance may involve several steps, beginning with a check of your overall allocation.[4] This entails figuring how your money is divided among asset classes in each account and then across all accounts, whether in taxable brokerage, mutual fund or tax-deferred accounts.

How often should you rebalance, and what are some general guidelines? The usual answer is anytime your goals change; otherwise, at least once a year. However, to keep close tabs on your investment plan and make sure it doesn't drift far from your objectives, you may prefer to set a percentage limit of variance, say 5% on either side of your intended target that would trigger a review and possible rebalancing.

How you go about rebalancing will depend on your particular circumstances. If you are making regular contributions to a retirement plan, the easiest way to adjust the makeup of your contributions is to build up underweighted assets. This avoids transaction costs and does not require liquidating and reinvesting assets, which can have tax consequences. In general, it's a good idea to avoid liquidating existing assets unless the tax consequences work in your favor.

If you must rebalance assets outside of your retirement plan, try to do it in another tax-deferred account such as an IRA, again to avoid immediate tax consequences. And if you're looking for new money to help rebalance your portfolio, consider using a lump-sum payment such as a bonus or tax refund.

[1]Asset allocation does not assure a profit or protect against a loss.
[2]Source: Wealth Management Systems Inc. The performance shown is for illustrative purposes only and is not indicative of the performance of any specific investment. The hypothetical returns used do not reflect the deduction of fees and charges inherent to investing. Your results will vary. Example is for the 20 years ended December 31, 2012. Domestic

stocks are represented by the total returns of Standard & Poor's Composite Index of 500 stocks, an unmanaged index that is generally considered representative of the U.S. stock market. Bonds are represented by the total returns of the Barclays Aggregate Bond index. Money markets are represented by the total returns of the Barclays Month Treasury Bills index. Non-U.S. stocks are represented by the total returns of the Morgan Stanley Capital International Europe, Australasia, Far East (EAFE®) index. It is not possible to invest directly in an index. Past performance is not a guarantee of future results.
Investing in stocks involves risks, including loss of principal. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and are subject to availability and change in price. Foreign investments involve greater risks than U.S. investments, including political and economic risks and the risk of currency fluctuations, and may not be suitable for all investors. Treasury bills are guaranteed by the U.S. government as to the timely payment of principal and interest, and, if held to maturity, offer a fixed rate of return and fixed principal value.
[3]Source: Wealth Management Systems Inc. The performance shown is for illustrative purposes only and is not indicative of the performance of any specific investment. Your results will vary. Stocks are represented by the S&P 500, bonds by long-term U.S. government bonds, which are guaranteed by the U.S. government as to the timely payment of principal and interest, and, if held to maturity, offer a fixed rate of return and fixed principal value. Investors cannot invest directly in any index. Past performance does not guarantee future results.
[4]Rebalancing strategies may involve tax consequences, especially for non-tax-deferred accounts.

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. We suggest that you discuss your specific situation with a qualified tax or legal advisor.

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Tracking#: 1-234895

How to Manage an Inheritance

Ideally, the money should bring you closer to financial independence, but many heirs don't know how to handle a windfall and end up no better off than they were before.

Over half of American retirees expect to leave an inheritance for their loved ones, with an average value of more than $176,000.[1] If you have recently received a bequest or are anticipating inheriting sizeable assets, now is the time to plan. Here are some tips to help you manage an inheritance.

- **Wait and develop a strategy.** Start by parking the money in the bank and take an inventory of your financial life. Are you on track for retirement? Do you have adequate insurance? Do you have significant debt? Are you supporting a family?
- **Pay down your high-interest debt.** Near the top of your priority list should be eliminating consumer debt, especially high-rate credit card debt. But think twice about paying off your mortgage, unless owning your home outright is an important goal for you. Your mortgage interest rate is likely low, and the money may be better used elsewhere. The same goes for paying off college loans at low interest rates.
- **Save, save, save.** Next step should be to turn to your savings, which may include funding an emergency fund of about six months' living expenses, putting aside money for retirement, and setting up accounts for your childrens' education and other life expenses.
- **Don't rush to spend.** Ideally, the money should bring you closer to financial independence, but many heirs don't know how to handle a windfall and end up no better off than they were before. Take small steps when making your decisions. Instead of quitting your job right away, consider working part-time. If thinking about purchasing a luxury sports car, try renting one first. The goal is to avoid making irrational decisions you might later regret.
- **Do your research.** If you've inherited a traditional IRA, research the options available before making changes. If you're not a spouse, you can't roll the inherited IRA into your own. Non-spouses are required to take taxable minimum distributions every year based on life expectancy. Instead of treating the distribution as an annual windfall to be spent, plan to integrate it into your long-term strategy.
- **Find a suitable long-term investment strategy.** Constructing a portfolio that generates passive income is the slow-and-steady approach that will lead to financial independence. To achieve stability and income growth, you'll need to mix stocks and fixed-income investments, but don't speculate by sinking it all into volatile equities or go too conservative by keeping it too heavily invested in cash or fixed-income securities. The point is to make the money work for you without unnecessary risk.
- **Hire an expert.** Managing an inheritance gets easier with professional financial help. Consulting a financial planner, investment professional, or tax accountant will help you maximize your current plan or help you develop a plan if you don't have one. If you know you'll inherit, you can begin planning ahead of time, but if the inheritance comes as a surprise, a professional can provide a better idea of your options. Be sure to get an objective opinion that is based on your entire financial picture and a thorough understanding of your goals.

This communication is not intended to be legal and/or tax advice and should not be treated as such. Each individual's legal and/or tax situation is different. You should contact your legal and/or tax professional to discuss your personal situation.

[1]*Source: HSBC, "The Future of Retirement: Life after work?" December 2013.*

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