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THE FINANCIAL FORMULA

Giving You The Financial Information You Need

December 2016

Happy Holidays to all of our readers! Please enjoy this month's edition of The Financial Formula, and let us know if you have any questions - Happy New Year everyone!

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In This Issue

Auto makers increased promotions for the post-Thanksgiving sales period and kept themselves on track for a record year.

November 2016 Market Recap

(*For the month ended November 30, 2016.*)

The presidential election season may have been marked by volatility and crosscurrents, but the aftermath produced a strong upward surge. For example, the S&P 500 increased more than 100 points (5.5%) from its trough on the Friday before the election to its month-end close. Other major benchmarks produced similar results. Auto makers upped their game for this year's Black Friday sales promotions. Early signs suggested that most automakers boosted their deliveries in November.

Through 11/30/16*	November	YTD	1-Year	3-Year Annualized	5-Year Annualized	Closing Value
S&P 500	3.4%	7.6%	5.7%	6.8%	12.0%	2,198.81
Dow Jones Industrial Average	5.4%	9.7%	7.9%	5.9%	9.7%	19,123.58
NASDAQ Composite	2.6%	6.3%	4.2%	9.5%	15.2%	5,323.68

Source: DST Systems, Inc. The S&P 500, Dow Jones Industrials, and NASDAQ Composite are unmanaged indexes. It is not possible to invest directly in an index. Past performance is no guarantee of future results. Not responsible for any errors or omissions.

*Price only. Does not include dividends.

Economy Watch Latest data suggest that the economy grew at an annual rate of 3.2% in the third quarter, more than double the pace of the second quarter's 1.4%. The commerce department said growth was paced by increases in consumer spending and stronger exports.

Consumer Indicators Consumer prices as measured by the labor department's Consumer Price Index rose 0.4% in October, driven by above-average increases in fuel and housing costs. Annual inflation for the most recent 12 months was 1.6%. Unemployment edged down to 4.6%, with gains in professional and business services and in health care, the department said.

Bond Market Update Bond yields edged up from their near-historic lows in November, implying a corresponding slide for indicative bond prices. For example, the 10-year Treasury constant maturity yield closed November at 2.37%, up about 0.50% from the previous month.

Financial Capability in the United States: How Do You Stack Up?

On many fronts, the financial situation of Americans has improved over the past several years.

Managing one's personal finances is a complex task that requires focus, judgment, and discipline. There are budgets to maintain, various types of debt to manage, long-term goals to plan for, savings and investments to select and oversee. And in today's uncertain economic environment, keeping all of these components on an even keel takes more than a little skill.

To measure how well Americans are coping with their financial responsibilities, the FINRA Investor Education Foundation sponsors the National Financial Capability Study (NFCS), a multi-year research project first commissioned in 2009, again in 2012, and most recently in 2015, the results of which were published in July 2016.

The NFCS focuses on four key components of financial capability: Making ends meet, planning ahead, managing financial products, and financial knowledge and decision making. Drawing on responses from more than 27,000 American adults from all 50 states and the District of Columbia, the NFCS is one of the largest and most comprehensive financial capability studies in the country.

Key Findings

On many fronts, the financial situation of Americans has improved over the past several years. For instance, when asked about their comfort level with covering expenses and paying bills, nearly half of the respondents -- 48% -- said they "find it not at all difficult," compared with 40% in 2012 and 36% in 2009. Similar improved responses -- 46%, 40%, and 35% respectively -- were tallied when survey participants were asked if they had set aside three months' worth of expenses in an emergency fund. While still improving, fewer numbers of respondents -- 31%, 24%, and 16% -- claimed to be satisfied with their overall financial condition.[1]

Demographic Breakdown

When analyzed through a demographic filter, certain groups face heightened struggles in specific areas:[1]

Have been late with mortgage payments …

Millennials (18 to 34-year olds)	29%
Generation-X (35 to 54-year olds)	16%
Baby boomers (55+)	7%

In case of emergency, probably/certainly could not come up with $2,000 in 30 days …

High school education or less	45%
Some college	36%
College or more	18%

Have difficulty with medical costs …

Women	31%
Men	24%

Debt: A Widespread Problem

Overall, debt continues to be a problem for many Americans.[1]

- 40% feel they are carrying too much debt.
- 20% have unpaid medical bills.
- 47% of credit card holders carry a balance.
- 22% of credit card holders have been contacted by a collection agency in the past year

Financial Literacy: On Shaky Ground

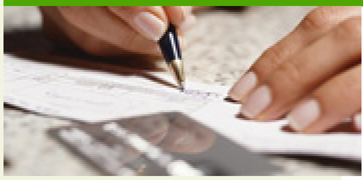
The 2015 NFCS revealed a deterioration in general financial knowledge among survey participants over previous years. The percentage of individuals considered to have a high level of financial literacy -- meaning they answered four or more questions on a five-question quiz correctly -- has declined steadily since the study's inception. In 2009, 42% of participants answered at least four questions correctly. That percentage dropped to 39% in 2012 and 37% in 2015.[1]

Commenting on the findings, FINRA Foundation Chairman Richard Ketchum said, "This research underscores the critical need for innovative strategies to equip consumers with the tools and education required to effectively manage their financial lives."[2]

For more on the study or for a state-by-state breakdown of results go to USFinancialCapability.org.

[1]*FINRA Investor Education Foundation, infographic, "Financial Capability in the United States 2016," July 12, 2016.*

[2]FINRA Investor Education Foundation, news release, "Americans' Financial Capability Growing Stronger, but Not for All Groups: FINRA Foundation Study," July 12, 2016.



Understanding and Managing Your Credit Score

Your credit score is a number that lenders use to gauge how likely you will be to repay your debts on time. As an informed consumer, you can make yourself more attractive to lenders by taking steps to boost your credit score.

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Your FICO® Score: The Standard Measure

The FICO® Score (an acronym for its creators, the Fair Isaac Corporation) is a standard gauge lenders use to measure a consumer's credit risk. According to myFICO.com, 90% of top lenders use FICO scores when making lending decisions. A typical credit score will range between 300 and 850 points. Although all lenders make decisions based on the particulars of the lending situation, generally speaking, the higher your credit score, the lower the perceived risk to the lender, the more attractive the interest rate you may be offered, and the more money you may save over time.

For instance, at current rates, a borrower with a credit score of between 760 and 850 can expect to pay a rate of 3.174% on a 30-year, $200,000 fixed-rate mortgage, according to myFICO.com's Loan Savings Calculator. By contrast, an individual with a score of between 620 and 639 can expect a rate of 4.763%, which amounts to an extra $183 in monthly payments and an additional $65,797 in total interest paid over the life of the mortgage.[1]

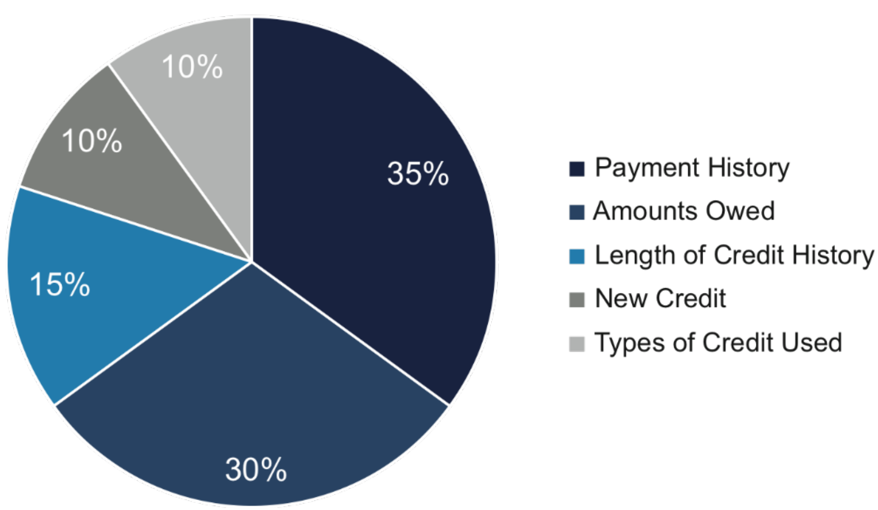
Key Factors

The three major credit reporting agencies -- Equifax, Experian, and TransUnion -- compile credit scores based on information provided by creditors. These agencies generate scores using a proprietary formula that assigns weightings to five main factors:

- **Payment history (whether you have missed or been late with any credit payments).** On-time payments are an important component of your credit score. Using your credit responsibly and paying bills on time are great ways to maintain a good credit score.
- **Credit utilization.** Credit utilization is defined as the total debt you have divided by the total available credit that is available to you. High credit utilization can be a warning sign of credit risk.
- **Length of credit history (how long various accounts have been open).** Credit history is a significant component of your credit score. Accordingly, the average age of your credit cards can be a strong indication of your credit history. Care should be used in keeping old accounts open and in good standing.
- **The amount of new credit on your record.** While opening one new credit card might be normal, opening several in a short span of time could be a warning sign to potential creditors that something is amiss in your financial life.
- **Mix of credit accounts.** Both the total number of credit accounts you have and the mix of credit you have will affect your credit score. A healthy mix of revolving credit cards, charge cards, installment loans and mortgages will also impact your credit score.

What's in a Score?

The percentages in the chart below reflect how important each of the five main categories is in determining how your FICO score is calculated.



Source: myFICO.com (Fair Isaac Corporation), retrieved April 2016.

[1]Source: myFICO.com. Interest rates as of October 17, 2016. The rates shown are averages based on thousands of financial lenders, conducted daily by Informa Research Services, Inc.

To Diversify Wealth, Think Outside the Business

Entrepreneurs with the means to invest for retirement above and beyond an employer-sponsored plan may want to consider a Roth IRA.

For business owners, diversifying your sources of wealth takes on added importance. Focusing too much on your business could leave you exposed in the event of an economic downturn or some other change in circumstances.

There are numerous strategies that can help diversify the wealth you have earned. Earmarking funds for retirement, using a trust to bequeath your legacy to heirs, and/or broadening your investment mix may be helpful in reducing reliance on your business.

Earmark Assets for Retirement

A small-business retirement plan may help an entrepreneur divert a portion of salary for use in his or her later years. Plans with high contribution limits, such as a 401(k) plan, may be especially helpful in this regard. If your business elects to sponsor a 401(k) plan, traditional and Roth-style plans present different types of tax benefits. Contributions to traditional 401(k) plans are tax deferred, which lowers taxation during the year the contribution is made. After age 70½, required minimum distributions (RMDs) are taxable. Contributions to Roth 401(k) plans are made with after-tax dollars, but RMDs during retirement are generally tax free.[1]

Entrepreneurs with the means to invest for retirement above and beyond an employer-sponsored plan may want to consider a Roth IRA. With a Roth IRA, the maximum annual contribution for the 2017 tax year is $5,500, plus an additional $1,000 catch-up contribution for those aged 50 and older. To contribute the full amount allowed, your modified adjusted gross income (MAGI) needs to be $118,000 or less if you are a single taxpayer or $186,000 or less if you are married and filing a joint tax return (in 2017). Contributions are taxable, but qualified distributions after age 59½ are tax free. RMDs are not required from Roth IRAs during your lifetime, which enhances their appeal as an estate planning vehicle. If you desire, you can leave the assets in a Roth IRA intact to bequeath to heirs.

Leaving a Legacy

As you age, estate planning is likely to become increasingly important. A trust can help you maintain control of assets during your lifetime, shield assets from taxes, and create a legacy for heirs. There are many types of trusts, and your ultimate selection may depend on whether you want the trust agreement to be revocable or irrevocable. Depending on the type of trust selected, a trust agreement can make it possible to use life insurance proceeds income- and estate-tax free, to remove your residence from your estate, to bequeath assets to grandchildren, or to capitalize on a low-interest-rate environment and potentially reduce estate taxes. You should discuss the many trust options available with your tax or legal advisor.

Your Investment Mix

When managing investments, the old saying about not putting all your eggs in one basket is especially important for entrepreneurs. Exposure to equities, fixed income, real estate, and other types of assets can potentially help to diversify your investment mix and protect the wealth you have accumulated. Although there are no guarantees, if one area within your portfolio declines in value, another could potentially increase or hold steady, possibly reducing your exposure to loss.

Your financial advisor can work with you to help define an overall investment strategy that is in line with your goals and objectives.

[1]*Early withdrawals may be subject to a 10% penalty tax in addition to regular income taxes on any investment earnings.*