YOUR FINANCIAL FUTURE

Your Guide to Life Planning

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In This Issue

HIGHLIGHTS

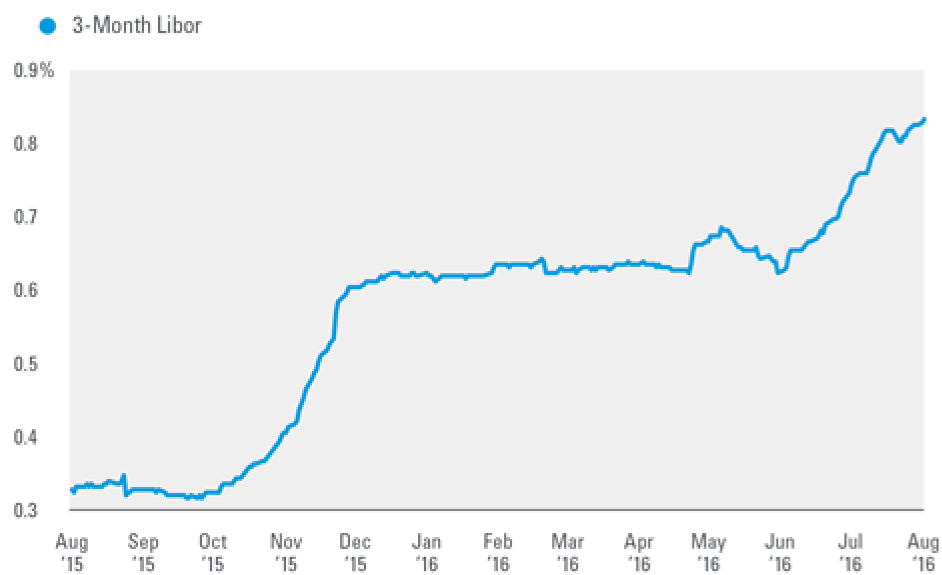
- 3-month U.S. dollar Libor has increased by 0.2% over the past two months, which carries almost the same impact as a full rate hike, even though the Fed has not raised rates since December 2015.
- Investors in bank loans may benefit if Libor continues to rise, given that the floating rates may start to move higher once the 1% Libor floor that many issues carry is exceeded.
- Major drivers of the increase in Libor include money market reform, regulation-driven Libor calculation changes, demand for U.S. dollars in foreign exchange markets, and an assist from Fed rate hike expectations.

A DEEPER LOOK AT THE RISE IN LIBOR

Libor has been on the rise in recent weeks and for many borrowers, the increase is almost equivalent to a Federal Reserve (Fed) rate hike. The London Interbank Offered Rate (commonly known as Libor) is a commonly used short-term interest rate benchmark. In addition to a measure of interbank lending rates, Libor is used as a reference rate on an estimated $350 trillion of bonds and debt contracts worldwide, including adjustable rate mortgages and floating rate bonds (known as bank loans).

Figure 1 shows that the last significant increase in 3-month U.S. dollar Libor was in late 2015, when the rate jumped by 0.31%, driven by a Federal Reserve (Fed) rate hike. Libor has increased by approximately 0.2% over the past two months; this time without the help of a Fed rate hike, leaving many wondering what is behind the rise. We will examine several potential reasons for the increase, determining which are likely, and which aren't.

1 3-MONTH U.S. DOLLAR LIBOR HAS INCREASED BY 0.2% SINCE JUNE



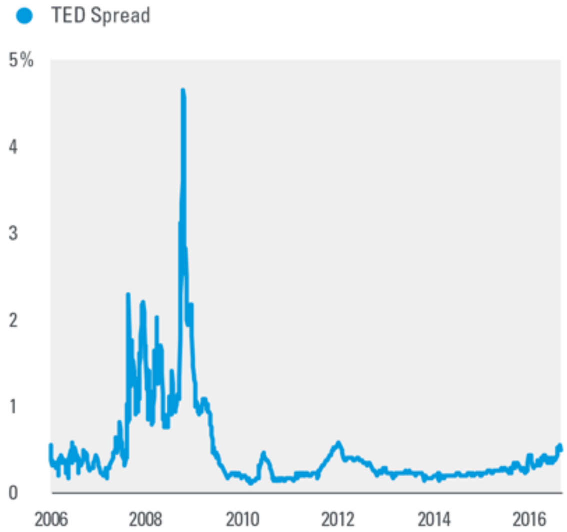
Source: LPL Research, FactSet 08/26/16

The 3-month U.S. Dollar (USD) Libor interest rate is the average interest rate at which a selection of banks in London are prepared to lend to one another in American dollars with a maturity of 3 months.

BANK FEARS ARE NOT A DRIVER

For many, the rise in Libor brings back memories of the 2008 financial crisis, when banks became fearful of lending to one another, leading to an increase in the rates they charged each other for short-term loans. Recent headlines surrounding Brexit, Italian bank fears, and other scary headlines have no doubt amplified concerns that bank weakness may be driving Libor higher. However, a look at the TED spread (3-month Libor minus the 3-month Treasury yield [Figure 2]), a measure of interbank lending fears that gained notoriety during the financial crisis, shows that the recent increase (driven by the rise in Libor) is nowhere near what was experienced in 2008.

2 THE TED SPREAD REMAINS MUTED AND NOWHERE NEAR 2008 LEVELS



Source: LPL Research, FactSet 08/26/16

The TED spread measures the difference between three-month Libor rate and the yield on three-month Treasury bills and is an effective measure of the liquidity available to banks.

Other measures of bank stress, such as credit default swap (CDS) spreads for banks, which reflect the cost of insuring against default, have come down from post-Brexit levels and do not suggest the presence of bank solvency fears. Stronger balance sheets (especially in the U.S.) and supportive policy from global central banks (in Europe and Japan) may also act as a tailwind for banks, potentially reducing the risks of systematic problems like those seen in 2008.

MONEY MARKET REFORM IS A MAJOR DRIVER

Money market reform is a more likely driver of the increase in Libor. New rules for money market funds (MMFs) will go into effect on October 14, 2016. Among the most important, prime MMFs will move to a floating net asset value (NAV), while government MMFs will be allowed to retain the existing fixed NAV of $1.00. This decision has led institutional investors to sell approximately $293 billion of prime money market holdings year to date (according to ICI data), with approximately $280 billion moving into government MMFs. This movement is decreasing demand for common holdings of prime money markets, such as commercial paper and CDs, leading to higher rates for short-term instruments that influence Libor.

An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the Fed seeks to preserve the value of your investments at $1.00 per share, it is possible to lose money investing in the fund.

THE IMPACT OF CALCULATION CHANGES

In 2012, several major banks were found guilty of manipulating Libor for their own benefit, and both British and EU regulators have been working since that time to improve the calculation of major benchmarks. The ICE Benchmark Administration (IBA), the body responsible for calculating Libor, has published a roadmap that will make the benchmark calculation tie more closely to actual transactions (as opposed to estimates). It will also bring in transactions outside of the traditional interbank market, such as non-financial corporate loans, in order to make the benchmark more reflective of actual conditions. While the new calculation isn't required yet, IBA issued guidance to firms that are involved in calculating Libor around the time that Libor started increasing. Additionally, on June 30, 2016, the European Union officially adopted benchmark regulation that has many similar provisions, suggesting that at least part of the increase in Libor may be due to a change in calculation methodology.

FOREIGN DEMAND FOR DOLLARS

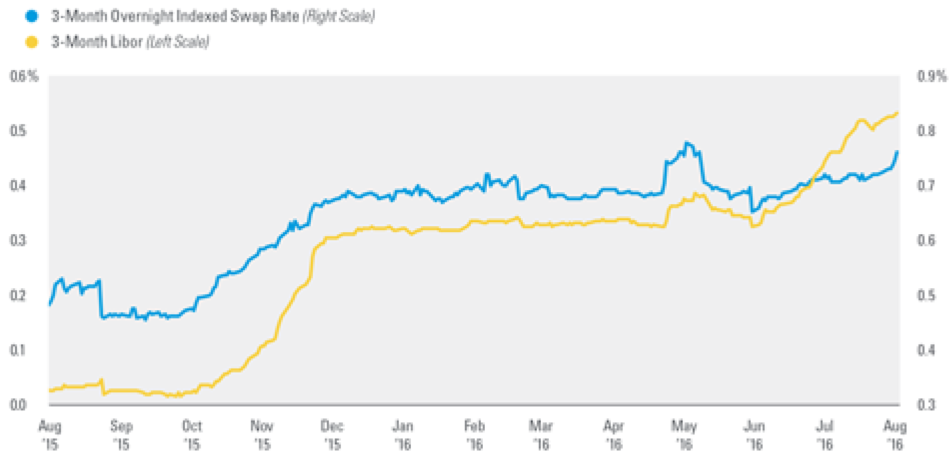
At least a portion of the rise in Libor is, counterintuitively, related to negative rates in other parts of the world. U.S. Treasury yields, while near all-time lows, remain attractive relative to the negative yields on foreign government bonds. This has driven overseas demand, but in order to purchase Treasuries or other dollar based assets, foreign investors first must purchase dollars in foreign exchange markets. Foreign demand for dollars has pushed funding costs higher, putting upward pressure on U.S. dollar Libor.

The Fed, however, maintains dollar liquidity arrangements with other major central banks, allowing them to borrow dollars if market supply becomes too tight. Currency swap arrangements between the Fed and global central banks may therefore act as a cap to the rise in Libor. If Libor climbs too high, market participants may be able to borrow from a central bank. These liquidity provisions are likely helping to weaken the upward pressure that dollar funding is putting on Libor, though other drivers remain in place.

FED RATE HIKE EXPECTATIONS ARE PART OF THE PUZZLE

The last major move in Libor, in late 2015, was driven by a Fed rate hike. Expectations for a rate hike have been increasing recently, with fed fund futures putting the chance of a rate hike at the Fed's December 2016 meeting at 54%. The Overnight Indexed Swap Rate tends to track rate hike expectations, and as Figure 3 shows, this measure has increased by 11 basis points (0.11%) since June 2016, though about half of this increase has come in the past two weeks, while Libor has been on a steadier upward trend. Changing rate hike expectations have played a role in the rise of Libor, but account for only about half of the increase.

3 FED RATE HIKE EXPECTATIONS ARE RESPONSIBLE FOR ABOUT HALF OF THE RECENT INCREASE IN LIBOR



Source: LPL Research, Bloomberg, FactSet 08/26/16

3-Month Overnight Index Swap (OIS) futures and options track the overnight effective Federal Funds rate. While the Fed Funds contracts track to the average effective Fed Funds rate over the course of a calendar month, the 3-Month OIS contracts track the compounded Fed Funds rate over a 3-month period.

POTENTIAL INVESTMENT IMPLICATIONS: BANK LOANS AND INVESTMENT GRADE CORPORATES

A major advantage of bank loans is their floating rates, which allow holders to receive higher interest payments as rates rise. The interest paid is generally determined by a specified spread above Libor, but approximately 92% of the bank loan market (based on the S&P/LSTA U.S. Leveraged Loan Index) has a Libor floor. Though floor rates can vary by issue, the average is 1%. Libor has been below this floor rate for some time, so investors haven't benefited from the rise in Libor so far.

A small segment of the corporate bond market also pays interest income tied to Libor, and investors in money market instruments, such as commercial paper, the corporate equivalent of a Treasury bill, have been benefiting. The average yield on 90-day AA-rated financial company commercial paper is 0.75% as of August 29, 2016, according to Fed data. The average yield held at roughly 0.55% through June 2016 before matching the recent increase in 3-month U.S. Libor.

Floating rate bank loans are loans issues by below-investment-grade companies for short-term funding purposes, with higher yield than short-term debt, and involve risk. These Lower-quality debt securities involve greater risk of default or price changes due to potential changes in the credit quality of the issuer.

CONCLUSION

There are several potential drivers of the recent rise in Libor, though banking fears are not one of them. It remains to be seen if the increase will stick, but if Libor starts to drop following the implementation of money market reform in mid-October 2016, it may be a sign that the increase was a transient event. However, if rates don't fall, or at least reconnect with Fed rate hike expectations, it may be an indication that benchmark regulations are a more important driver. Such a structural change would be more likely to persist and may have a greater impact on financial markets, especially for those who hold adjustable rate products such as floating rate bonds or for those who carry adjustable rate mortgages.

IMPORTANT DISCLOSURES

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance reference is historical and is no guarantee of future results. All indexes are unmanaged and cannot be invested into directly.

The economic forecasts set forth in the presentation may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values and yields will decline as interest rates rise, and bonds are subject to availability and change in price.

Government bonds and 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. However, the value of fund shares is not guaranteed and will fluctuate.

International debt securities involves special additional risks. These risks include, but are not limited to, currency risk, *geopolitical and regulatory risk, and risk associated with varying settlement standards. These risks are often heightened for investments in emerging markets.*

A credit default swap (CDS) is designed to transfer the credit exposure of fixed income products between parties. The buyer of a credit swap receives credit protection, whereas the seller of the swap guarantees the credit worthiness of the product. By doing this, the risk of default is transferred from the holder of the fixed income security to the seller of the swap.

Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate, and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.

Commercial paper are unsecured promissory notes for a specified amount to be paid at a specified date, and are issued by finance companies, banks, and corporations with excellent credit. They are issued at a discount, with minimum denominations of $100,000. The main purchasers are other corporations, insurance companies, commercial banks, and mutual funds. Because commercial paper is usually sold in round lots of $100,000, very few retail investors buy paper.

INDEX DESCRIPTIONS

The S&P/LSTA Leveraged Loan Index (LLI) is a capitalization-weighted syndicated loan index based upon market weightings, spreads and interest payments. It covers the U.S. market back to 1997 and currently calculates on a daily basis.

This research material has been prepared by LPL Financial LLC.

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Tracking #1-530845 (Exp. 08/17)

Compensation Strategies for Senior Executives

Before a strategy can be devised for managing stock options, recipients need to know what type of options they are holding: nonqualified stock options (NSOs) or incentive stock options (ISOs).

Many corporations strive to create special compensation packages for their executives that reward these key employees for the extra value, experience, and expertise they bring to their jobs and their employers.

Known as executive compensation or incentive packages, these can take many different forms. Company stock options are some of the most common executive perks in the marketplace today.

Company Stock Options

A stock option is a simple contract that gives an employee the right to purchase shares of company stock at a preset price for a specified period of time. The option to buy becomes valuable only if the stock's price rises above the preset price at the time the employee decides to "exercise" the option and purchase the shares. The window of time for exercising an option will vary depending on the details of a particular contract -- but if it is not exercised within the specified time, the option will expire. Thus, the key to managing company stock options effectively is timing: knowing when to exercise and/or sell the stock to maximize its value and minimize any potential income tax consequences.

Nonqualified Versus Incentive Stock Options

Before a strategy can be devised for managing stock options, recipients first need to know what type of options they are holding: nonqualified stock options (NSOs) or incentive stock options (ISOs). The key difference between NSOs and ISOs is the way in which they are taxed. NSOs require holders to pay income tax on the paper profit they earn when the options are exercised. For individuals in the highest income tax brackets, this rate could be as high as 39.6%. When the stock is eventually sold, any additional price appreciation is taxed as either short-or long-term capital gains, depending on the holding period.

By comparison, ISOs are taxed only when they are sold, and if the recipient holds the stock long enough to satisfy a special holding period any proceeds from the sale qualify for the more favorable long-term capital gains tax treatment. Although ISOs do not trigger income tax when they are exercised, the holder may be required to pay the alternative minimum tax (AMT). The AMT is a secondary tax developed by the IRS to prevent high-net-worth individuals from reducing their federal income taxes too dramatically through deductions and other legal tax breaks. In the case of ISOs, AMT comes into play in the year in which you exercise an option and buy shares. AMT liability is triggered when the fair market value of the stock, when exercised, exceeds the preset exercise price -- otherwise known as the spread. The actual amount of AMT that may be owed will vary according to many variables.

Other Executive Perks

Some other forms of incentive compensation include the following:

- **Split-dollar life insurance --** This is an arrangement in which the costs and benefits of a life insurance policy are shared by the executive and the company. Split-dollar life insurance may enable executives to receive more life insurance protection than they could afford on their own.
- **Executive bonus plans --** This is simply compensation that is provided to executives in addition to their regular salary. Also referred to as Section 162 plans, these often take the form of profit-sharing bonuses paid near the end of the year that reward executives for successful performance.
- **Phantom stock--** Shares of so-called phantom stock track the value of real company stock and pay out dividends to executives based on company performance of a specified date in the future. They allow executives to reap many of the benefits of stock ownership without the company actually having to issue shares.

Being aware of the many types of executive compensation features available through your company -- and their associated tax consequences -- is crucial. It is wise to seek out the assistance of a tax professional who can analyze the tax and financial implications that a particular strategy may have on your long-term investment outlook.

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

Tracking # 1-387029

Do You Know Who Your Beneficiaries Are?

Many IRA owners may not be aware that after their death, the primary beneficiary -- usually the surviving spouse -- may have the right to transfer part or all of the IRA assets into another account.

Many investors have taken advantage of pretax contributions to their company's employer-sponsored retirement plan and/or make annual contributions to an IRA. If you participate in a qualified plan program you may be overlooking an important housekeeping issue: beneficiary designations.

An improper designation could make life difficult for your family in the event of your untimely death by putting assets out of reach of those you had hoped to provide for and possibly increasing their tax burdens. Further, if you have switched jobs, become a new parent, been divorced, or survived a spouse or even a child, your current beneficiary designations may need to be updated.

Consider the "What Ifs"

In the heat of divorce proceedings, for example, the task of revising one's beneficiary designations has been known to fall through the cracks. While a court decree that ends a marriage does terminate the provisions of a will that would otherwise leave estate proceeds to a now-former spouse, it does not automatically revise that former spouse's beneficiary status on separate documents such as employer-sponsored retirement accounts and IRAs.

Many IRA owners may not be aware that after their death, the primary beneficiary -- usually the surviving spouse -- may have the right to transfer part or all of the IRA assets into another account. Take the case of the IRA owner who has children from a previous marriage. If, after the owner's death, the surviving spouse moved those assets into his or her own IRA and named his or her biological children as beneficiaries, the original IRA owner's children could legally be shut out of any benefits.

Also keep in mind that the law requires that a spouse be the primary beneficiary of a 401(k) or a profit-sharing account unless he/she waives that right in writing. A waiver may make sense in a second marriage -- if a new spouse is already financially set or if children from a first marriage are more likely to need the money. Single people can name whomever they choose. And nonspouse beneficiaries are now eligible for a tax-free transfer to an IRA.

The IRS has also issued regulations that dramatically simplify the way certain distributions affect IRA owners and their beneficiaries. Consult your tax advisor on how these rule changes may affect your situation.

To Simplify, Consolidate

Elsewhere, in today's workplace, it is not uncommon to switch employers every few years. If you have changed jobs and left your assets in your former employers' plans, you may want to consider moving these assets into a rollover IRA. Consolidating multiple retirement plans into a single tax-advantaged account can make it easier to track your investment performance and streamline your records, including beneficiary designations.

Review Your Current Situation

If you are currently contributing to an employer-sponsored retirement plan and/or an IRA contact your benefits administrator -- or, in the case of the IRA, the financial institution -- and request to review your current beneficiary designations. You may want to do this with the help of your tax advisor or estate planning professional to ensure that these documents are in synch with other aspects of your estate plan. Ask your estate planner/attorney about the proper use of such terms as "per stirpes" and "per capita" as well as about the proper use of trusts to achieve certain estate planning goals. Your planning professional can help you focus on many important issues, including percentage breakdowns, especially when minor children and those with special needs are involved.

Finally, be sure to keep copies of all your designation forms in a safe place and let family members know where they can be found.

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Tracking # 1-387030

Kids & Money: Important Lessons Start Early in Life

To ensure that important life goals remain at the forefront of your children's -- and likely heirs' -- priorities throughout their lifetimes, incorporate the use of incentives in your estate plan.

Today many affluent families are concerned about the potentially adverse effect of wealth on younger generations. As a result, the goals that many high-net-worth parents and grandparents have set for their children or grandchildren reflect core values, an honest work ethic, and a desire to give back to the greater community.

Walking the Talk

The skills and knowledge needed to help children achieve these goals should be developed early in life and continue well into adulthood. The following strategies can assist older family members in becoming positive financial role models for children.

Start early -- Parents can start talking to children about money at as young as age three. Between four and five, you can explain the importance of good spending habits, and by age six or seven, you can help children open a bank savings account. By the time children reach their mid-teens, they should start seeking after-school and summer employment.

Support education -- Personal finance education helps instill such pragmatic money management skills as setting a budget, balancing a checkbook, understanding the role of debit/credit cards, and developing strategies for funding college. Encourage your child's school to offer personal finance as an elective "life skills" course, send your teen to a community college/adult education class, or tap the many educational resources available online.

Lead by example -- Your children will learn the most valuable lessons about money from examples you set. A few simple rules: Enjoy the fruits of your labor -- but don't go overboard. Set a healthy example regarding credit card use. Pay your bills on time. Save and review your savings plan on a regular basis. Above all, be consistent.

Use incentives -- To ensure that important life goals remain at the forefront of your children's -- and likely heirs' -- priorities throughout their lifetimes, incorporate the use of incentives in your estate plan. What exactly is an incentive trust? It is an estate planning tool designed to reward desired behaviors or impose appropriate penalties for undesirable behaviors. It also provides a way to address the needs of beneficiaries who require special assistance. Common themes guiding incentive trusts are education, moral and family values, and business/vocational choices, as well as charitable and religious interests.

Encourage philanthropy -- Affluent families often use philanthropy to convey the message that their success has been the result of hard work and good fortune, and that success comes with the responsibility to give something back. If you want to ensure future generations of volunteers and donors, you must model for children various ways to give of their time, their talents, and their money. Once children understand the scope of their contributions, philanthropy often becomes a real and meaningful part of their lives.

If you are interested in developing a legacy plan that incorporates some of the ideas mentioned here, consider seeking the guidance of a financial and estate planning professional. Together you can create a plan that instills financial responsibility in children for generations to come.

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Art and Collectibles: Planning for the Transfer of Your Treasured Property

Passing along property during your lifetime may be one way to minimize estate taxes.

For many individuals collecting artwork, jewelry, antiques, and other vintage treasures is a lifelong passion. Deciding what is to become of your valuable personal assets when you are no longer around to care for them is not something to take lightly, particularly when it comes to planning for the distribution of your estate.

Let's say over the years you have accumulated several valuable oil paintings. Ask yourself: Do I want to pass my collection on to family members? Do they have the expertise to manage valuable or fragile assets? Would a museum be a better home? Is it economically feasible to keep my collection intact, or will I need to sell some pieces to cover various expenses?

If you don't address these questions while you are here and able to do so, it is likely that your estate executor or attorney -- who may not have your passion for art -- will do so for you when you're gone. Deciding what to do with a treasured collection generally involves three tasks: assessing value, naming beneficiaries, and communicating your intentions.

Assessing Value

Putting a price tag on your collectibles is, pardon the pun, more art than science. Viewers of the "Antiques Road Show" on PBS know that the appraised value of unique property sometimes surprises even the owner. You'll want to consult a professional appraiser who specializes in your type of collectible. Location, too, may be a consideration. If you own a prized statue from a local sculptor, you may want to speak to a nearby appraiser who is familiar with the regional market.

A paper trail -- receipts, newspaper articles, old photos, and letters -- that can help trace the history of, for example, an antique Smith & Wesson revolver collection could enhance your appraisal. After all, if sold at auction, a gun proved to be fired by Teddy Roosevelt would most certainly bring in a higher bid than one owned by an anonymous cowboy. Needless to say keeping good records that include the tax basis and appraised value of collectibles will come in handy when assessing capital gains, identifying gift and donation deduction amounts, and submitting insurance claims should such property become lost or damaged.

Naming Beneficiaries

When drafting a will, be specific in bequeathing your tangible and personal property. Doing so will help you avoid the potential for family discord by noting item-by-item who gets what and under what circumstances. For added clarity, it may be wise to identify primary and alternative beneficiaries for such items.

Gifts to Charity; Weighing the Tax Implications

You may want to consider making a charitable gift to a museum or other reputable institution. Passing along property during your lifetime may be one way to minimize estate taxes. By consulting with your tax advisor, you might decide to make a gift during your lifetime that offers an immediate tax deduction. In contrast, bequeathing a gift postmortem may mean missing out on any income tax benefits while you are alive.

A formal gift agreement will spell out the terms of the transfer. For instance, would you want a particular item to be on a permanent or restricted exhibit? Should your gift be made anonymously or should the piece include your family's name engraved on a plaque?

Preserving Your Valuables for Posterity

It is important to leave sufficient liquidity at your death to avoid the unintended sale of a treasured collection to raise fast cash. Creative life insurance strategies may be employed to match the value of the donation. A trust professional working with your attorney can explain other strategies that may help execute your charitable wishes and extend your legacy for future generations.

Communicate Your Intentions

No matter what approach you choose, it is important to communicate clearly with family members and other third-party beneficiaries. Write your wishes down to mitigate chances for misunderstanding. With proper planning, you can enjoy your passion and take advantage of potential tax benefits at the same time.

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