

\$60 per issue.  
Published 4 times  
per year: March,  
June, September  
and December.

# Indexing Advice

by Robert Gephart

1912 Cambridge Drive  
Saint Charles, IL 60174  
630-492-0720  
[rob@robertgephart.com](mailto:rob@robertgephart.com)  
<http://robertgephart.com/indexing-advice/>

For a comfortable retirement, spend less than you earn and invest the difference.

<b>DJIA: 18,011</b>	<b>S&amp;P 500: 2107</b>	<b>NASDAQ: 5070</b>	<b>10-yr Treasury: 2.12%</b>	<b>June 2015</b>
---------------------	--------------------------	---------------------	------------------------------	------------------

If you are looking for someone to manage your portfolio, please call to discuss options for investable assets above \$200,000.

Indexing Advice is a newsletter that recommends how to diversify your investments across different market sectors based on current market news and trends. It does so by recommending that you invest a specific percentage of your assets in specific market sector funds (see the table below for current recommendations). This allows you to apply this advice in your company retirement plan or in your own brokerage account. If timed properly, this approach will likely achieve above average returns while mitigating risk with diversified holdings. This newsletter is published 4 times per year. It is recommended that you re-balance your portfolio to the current recommended percentages at least annually (if not more frequently) in order to take advantage of changing market conditions. If the preferred ETFs are not available in your retirement plan/401k, select the closest match available. If you have any questions about your specific plan or any other financial matter, do not hesitate to call me at the number listed above.

Sector:	Prev.	Current	Preferred Exchange Traded-Fund (ETF) Name	Symbol
Large Cap Stocks	25%	45%	Vanguard S&P 500 ETF	VOO
Small Cap Stocks	30%	20%	Vanguard Russell 2000 ETF	VTWO
Emerging Markets	30%	20%	Vanguard FTSE Emerging Markets ETF	VWO
Intermediate Corp Bonds	15%	15%	Vanguard Intermediate-Term Corporate Bond ETF	VCIT

### Economic Outlook:

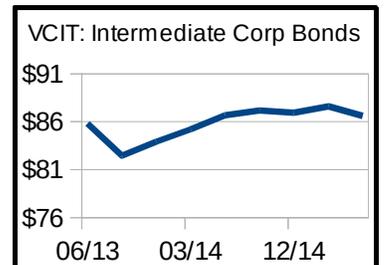
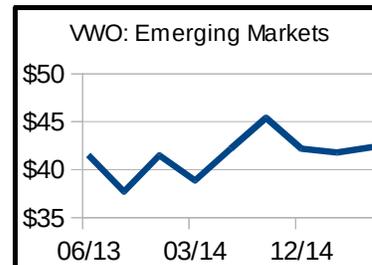
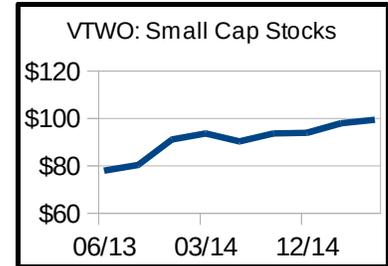
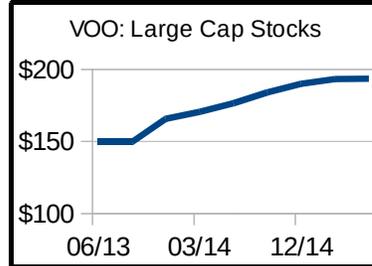
In both December and March, I wrote "At this time, the market is once again near record levels". Ditto again. As we head into June, the DOW, S&P, and Nasdaq are near record levels. Unemployment continues to drop. Real estate continues to recover. Things are actually getting better.

So now that things are getting better, what comes next? Rising interest rates. Later this year or early in 2016, the U.S. Federal Reserve Bank is going to start raising interest rates. This is going to do a couple of things. First, it is going to make it more expensive to borrow money. Second, it is going to attract money from overseas (where interest rates are really low) to be invested in U.S. dollar based assets (which will earn them a higher level of interest). These actions are pushing me to change the allocations for this issue. The rise in interest rates will hurt small companies more than large companies, so I am decreasing our small cap allocation. Also, the movement of overseas money to the United States will hurt overseas investments. I am decreasing the Emerging Markets allocation by the same amount.

We are in a slow growth, muddle-through, economy. This is very different than what we have been used to. In our current mode of 2% growth versus the 4-6% growth we experienced in the last decade, the economy has a lot less wiggle room to stay on track. This constant tension of growth or contraction (the U.S. economy contracted in the first quarter due to the cold weather) has been driving a lot of market swings this year.

While the market is near record levels, the market really hasn't done much this year. I believe that that is going to change in the second half of the year. As the summer gets on, we should see the economy and the stock market pick up. This should give us a decent gain for the year. That is why I am confident in increasing the large cap allocation.

Yours truly, Robert Gephart, CFP®



### Learn Something New:

Effective for 2015 (this year), the IRS increased the maximum amount of money that can be set aside in retirement accounts. If you have not done so, you need to review your 401k withholding and IRA contribution plans to make sure that you are taking full advantage of these tax deferral vehicles.

The maximum amount that you can put into a 401k account has increased from \$17,500 to \$18,000. If you are age 50 or older, you are also allowed an additional contribution of \$6,000 to bring your total 401k withholding to \$24,000 per year.

Even if you are contributing to a 401k at work, you are also allowed to contribute to an IRA as long as your contribution does not exceed earned income. For 2015, the maximum amount that you can contribute to an IRA is still \$5,500. If you are age 50 or older, you can contribute up to \$6,500. These contribution amounts apply to both Traditional (Roll-over) IRA's and Roth IRA's.

Traditional IRA's allow you defer your taxes until you withdraw the money out of your IRA account. You are allowed to deduct the amount of your IRA contribution from your income for this year's tax return. Remember that an IRA is a retirement account, so most distributions taken out of a Traditional IRA before age 59 1/2 are penalized. After age 59 1/2, distributions count as current income for tax purposes. The advantage of the IRA is that you will be paying taxes when you are in a lower tax bracket. If you do not start taking distributions from your IRA account before 70 1/2, the government requires you to start taking distributions at that time.

Roth IRA's allow you to grow your capital tax free. There are income limits that prevent people in higher tax brackets from contributing to a Roth IRA. Consult your tax advisor before contributing to a Roth IRA. You are not allowed to take an income tax deduction for contributions to a Roth IRA. Distribution of earnings before age 59 1/2 are penalized, but after 5 years you are allowed to withdraw any Roth IRA contributions from your account. After age 59 1/2, distributions are free of any tax. Since the government is not allowed to tax your distributions, you are never required to take distributions from your Roth IRA.

ETFs are subject to market risk, including possible loss of principal. Any recommendations or comments made above are just that - recommendations and/or comments. These recommendations/comments come without any guarantee of success. Increasing life expectancies require investors to fund their retirements for decades. Therefore, this newsletter does not take the investor's age into account, instead investing for the long-term prospects of return over the short-term aspect of safety. An emergency fund should be available so that investors do not need to draw down invested assets for daily living expenses during a prolonged downturn in the market. All charts are reproduced from data gathered at <http://finance.google.com> using quarterly data points. I do not receive any compensation from any companies whose products are recommended above. In order to remove any conflict of interest, I am not invested in any of the ETFs listed above, but am invested in similar products. Only YOU understand your complete financial situation. Take your entire financial situation into account before making any investing decisions.