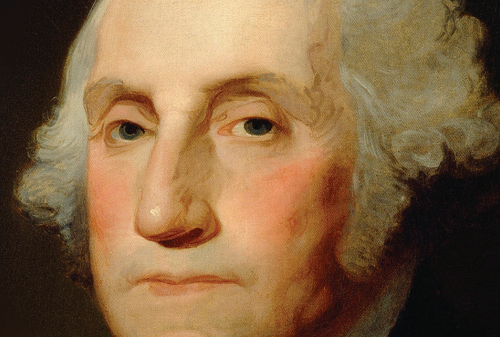




Financial Stuff

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JUNE 2020



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CJ – Social Chairman

THE WIDOW'S MITE

We have helped hundreds of single women and widows. Their financial circumstances usually benefit greatly from our knowledge and experience. *For example, taxes.* When the husband dies, how does that impact the tax return? Or for a single mom, does she file head of household? Qualify for earned income credits? Child credits? Tuition credits? Another example is assets at the death of the spouse. How are those handled? Do they have to be retitled? Any taxes due? What about the house? Are there required minimum distributions (RMD) on the retirement accounts? Do the estate documents need to be updated? *The common theme is the need for prompt and professional advice.* JFR is answering these questions and more every day.

(Source: *Advisor Perspectives*, Franklin Templeton)

WHAT ABOUT THE CHILDREN?

You're close to retirement, your plan is in place and you have downsized into a smaller house. All is well. **AND THEN** the phone rings. Your son wants to move in with his wife and 2 kids while they pay off their debts. Instead of saying no, your paternal instincts start going off! How can we help? There's not enough room in our condo. Should we buy a bigger house? Pay off their debts? Buy them a house? *Uh oh...* Will we end up living with our son and his family for the rest of our lives? What will our other kids think? JFR is dealing with these situations regularly. It's easier for us because you always come first. We can crunch the numbers without being distracted by the family dynamics. (Source: *Advisor Perspectives*)

MOM? I HATE TO ASK, BUT...

Recent research by *Merrill Lynch* and *Age Wave* revealed parents spend \$500 billion annually helping their adult children, twice the amount they put into their retirement accounts. 50% of these helpers said paying their children's bills was jeopardizing their own retirement. The study also found that nearly 80% of parents give their adult children some form of financial support. An incredible number. Part of the problem is legitimate due to the growing cost of education and weak wage growth. **BUT!** It doesn't change the reality of the risk many are taking. When is it time to say no? One red flag is when you can't see the end. When the children are showing no signs of not needing your help anymore. The first step is to start talking. Are your children going to let you move in with them when you are broke? How are they going to take care of you if they can't take care of themselves today? In addition to communication, set limits. Don't forget that if you have multiple children and only helping one, your other children are watching and keeping score! What else can you do? Come and see us for a family meeting. Let us show your children how everyone will be broke at age 70. Or 80. Let us help you say no! Another possibility is to downsize your own lifestyle. What's that old saying? *"A picture is worth 1,000 words?"* A drastic move, but it may be necessary. (Source: *Merrill Lynch, Age Wave, Kiplinger*)



UP AND DOWN

Mountain climbing can be dangerous. Professionals use experienced guides familiar with the mountain to help with both the ascent and descent. More accidents and deaths occur on the way down than on the way up. Retirement has much in common. We spend most of our lives accumulating money on the way to the “*peak*” and often have no plan how to come down. Many financial advisors have little to no experience with sending clients money. How much to spend each year, which investments to spend first, when to take Social Security, who gets what’s left... We have hundreds of retired clients and many more less than 10 years away. It’s never too early to prepare for retirement. One big risk on the way down is longevity. Most plan to live longer than their parents. We see it all here and have many clients who have been retired 30+ years. For 65 year old married couples, there is a 60%+ chance that one or both will make it to 90. What about market risk? We’re seeing it again. While over time the market averages are predictable, your specific road can be different dependent on when you retire. And how about inflation? Most of us recognize inflation when we’re buying things, but few appreciate how significant it is over time. 3% inflation doubles the cost of living in 24 years. In just the past 20 years, inflation has eroded purchasing power by 51% while health insurance premiums have increased by 239%. While Social Security has a cost of living adjustment, nearly all guaranteed annuities do not.

- 1) **Review your expenses.** Break them down into how much you need to survive each month, how much for fun and how much to leave behind.
- 2) **Review your income.** How much is fixed? How much is variable? What is guaranteed? It’s important to understand the difference. Hopefully, your essential needs are covered by guaranteed income. What is your plan for more income as inflation requires over time?
- 3) **When should I take Social Security?** For most Americans, this will be their primary and/or only income source in retirement even though it was designed to be only a supplement. We help clients with this decision regularly. The primary considerations are when to start, your health, longevity assumptions, marital status, potential for changes and how survivor or divorced benefits work.
- 4) **Eliminating Income Gaps.** As we’re coming down the mountain, many things can happen. It’s important to plan for the possibilities.
- 5) **Plan/Adjust Accordingly.** The most common situation is essential expenses not being covered by guaranteed income. This is when the possibility of annuities is discussed. It’s important to remember that insurance is not free. They may be appropriate, but only after considering all the possibilities. The most important consideration is annuities rarely adjust for inflation. Realistic expectations combined with the ability to adjust is critical in retirement. Like the roads in Wayne County, life is rarely a completely smooth ride.

(Source: Advisor Perspectives, Kaiser Foundation, Fidelity)

HOW MUCH DO WE PAY IN TAXES?

The top 0.10% of American taxpayers have adjusted gross income (AGI) of \$2.37+ million. The top 1.00% of American taxpayers have AGI of \$515,371+. The top 5% have AGI of \$208,053+. The top 10% have AGI of \$145,135+. This data is from 2017 tax returns filed. The top 1% of American taxpayers received 21% of the \$10.9 trillion of AGI reported and they paid 39% of the \$1.6 trillion paid in federal income tax (FIT). The top 10% of taxpayers received 48% of GI and paid 70% of all FIT. *(Source: IRS, MFS, AARP)*

LIVE LONG AND PROSPER?

There is a Harvard Study which began in 1938 on the lives of 724 men and continues today with their 2,000 children. The basic question is what makes us happy? There is one consistent conclusion. Good relationships keep us happier and healthier. They reduce stress and improve memory. The study reveals loneliness impacts our health, mind and leads to a shorter life span. Other studies confirm the findings and tack on depression, cognitive decline, feelings of emptiness, abandonment, more doctor visits and poor quality of life. Loneliness among the elderly can be as high as 50%. Many are not alone, but feel like they are. Technology

is a blessing and a curse. More and more Americans, especially our youngsters, are spending several hours a day on line via their cell phone and/or computer. Thinking we need to be “*plugged in*” or “*current*,” we are actually isolating ourselves. We all know married couples who are no longer in love, show no affection and/or rarely communicate. Lack of touching is another bad omen. It is our first acquired sense and plays an important, often critical, part in successful relationships. Hugging someone for 10-15 seconds instead of 1-2 releases endorphins and oxytocin in our body that make us feel better and improve our health. Most of us can count our good friends on one hand. While that is a topic for another day, for 80+ years the Harvard Study concludes that we all need at least one good friend! *(Source: Harvard University, Advisor Perspectives, Wall Street Journal, AMA)*

If you want a real friend – that you can trust in Washington – go buy a dog!

HARRY TRUMAN

RISK & REWARD

We are constantly talking about this with clients and prospects. One retired client recently mentioned that greater wealth is accumulated by investing most or all of his money in stocks. Historically this has been true. Over the long-term, stocks outperform bonds. If your only goal is to accumulate wealth, then stocks give you the best chance of pursuing your goal. The founder of the American Association of Individual Investors (AAII), James Cloonan, has long advocated this approach. He refers to short-term market volatility as “phantom risk.” The biggest financial risk most of us face is outliving our money; a.k.a. longevity. A long life requires more money for expenses. Not having enough money is what Cloonan refers to as “real risk,” i.e. not having money when you need it. The best way to address both risks is to have too much money rather than too little. The best way to have too much is to spend less and save more. The icing on the cake is to invest more in stocks rather than less. Our brains don't think this way! Our minds react to today's risks rather than tomorrow's. We don't like to lose. This mindset doesn't work well with investments. We focus on what's happening today, the “phantom risk,” make poor decisions, and increase the “real risk” of not having enough money when we need it. Many simply can't handle the risk and must put most or all of their money in lower paying investments. Few are able to focus strictly on long-term returns and never panic. The lost wealth caused by panicking can be greater than going with a strategy that has lower returns. Allocating money is a very personal decision. It affects every aspect of your life. (Source: AAII, Kiplinger, WSJ, IBD)

MONEY IN MOTION

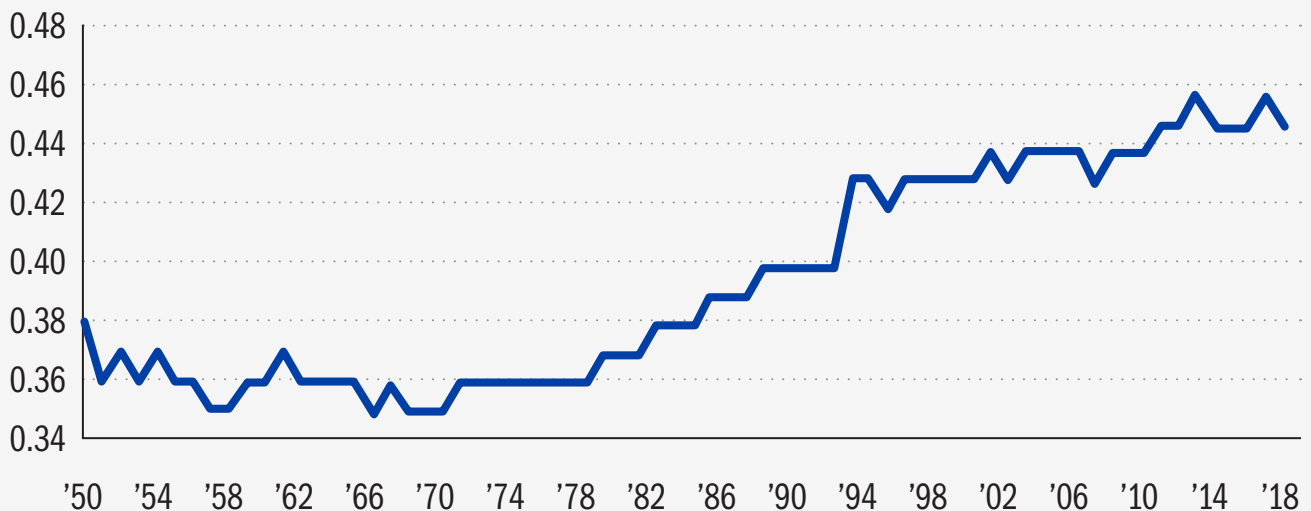
When money is in motion, someone is usually getting paid. Sometimes moving money is worth it, but other times it is not. Before putting your money in motion, understand the costs and benefits. The tax “cuts” under the 2017 TCJA (Tax Cut Jobs Act) legislation, include significant changes to the estate exemption level. Remember when it was \$625,000? Today, it is ~\$11,000,000+ and will stay that way until 2026 when it drops back to ~\$5,000,000. Approximately 1% of American households have net worths exceeding \$10,000,000. Three percent exceed \$5,000,000. Twelve percent have \$1,000,000. According to current estimates, there are ~330 million people living in America. Approximately 3.3 million of us have net worths of \$10,000,000+ and about 10,000,000 have \$5,000,000+. I am reading reports and articles almost daily on TCJA and what people should be doing. Combined with the new required minimum distribution (RMD) rules about to take effect under the Secure Act, many Americans will want to revisit their estate plans. **BUT!** It may be that doing nothing is the best option. Seven years is a long time in Washington and there is a good chance the rules will change again before 2026. As mentioned many times before, review your estate plan every 3-5 years. (Source: CBO, US Census Bureau, IRS, Wall Street Journal, Financial Advisor)

*Worry does not empty tomorrow of its sorrow.
It empties today of its strength.*

CORRIE TEN BOOM

INCREASING INCOME INEQUALITY HAS HELPED FUEL ECONOMIC ANXIETY

Gini Coefficient for the United States* (as of December 31, 2018)



Sources: Strategas Research Partners and U.S. Census Bureau.

*The Gini Coefficient is a summary measure of income inequality that indicates the dispersion of income across the entire income distribution. The coefficient ranges from 0, indicating perfect equality, to 1, perfect inequality. A higher coefficient indicates higher-income individuals are receiving larger percentages of total national income. It is not an absolute measure of income or wealth.

PLANNING FOR WOMEN

A recent UBS survey revealed that women are more conscious of the long-term financial needs, but not necessarily better prepared. The survey found women often defer to their spouses under the assumption he is more knowledgeable and is taking care of everything. Women should be involved with the planning since the odds are the husband will pass first. We work with many women who are single, widowed and divorced. The basics are to have a plan and a basic understanding of everything. The plan should have a summary of your accounts, how they're titled, where they are held and who is the beneficiary on each account. You also need estate plan documents (will, trust, POAs and health care directives). These documents should be reviewed every 3-5 years with your attorney. If you are working, then keep a file with all the necessary information on your retirement plan, insurance and benefits. Understand how your benefits work. Keep an estimate of your Social Security benefits and what options are available to you based on your own earnings record as well as your spouse if widowed or divorced. Your children may also be eligible for benefits until age 18 if either spouse dies or becomes disabled. As you approach retirement, research your health care options through the State exchanges, your employer, spouse's employer and Medicare. Understand any other insurance you may have; life, disability, long term care, car, home, liability, renter... Develop a plan to be debt free prior to retirement or as soon as possible after. Review everything annually with us to make sure you are on track. Have a basic or detailed budget. We work very hard to simplify your lives as much as possible, but we all need to understand how the money flows. Have a long term care (LTC) plan, which may or may not involve insurance. Women tend to outlive men, but that doesn't mean

they do so in good health. Disability and chronic health problems are common as we age. Women often serve as the caregiver and lose important years out of the workforce. If you do have LTC coverage, then understand how it works and let key family members know where the information is. There are many ways to plan for LTC. If you have never discussed the options with us, then schedule an appointment to do so. We see many women each year who are overwhelmed by a divorce, death of a spouse, medical emergency... Let us help you be prepared and educated before an unexpected or unplanned event happens. Knowledge is power. (Source: UBS, Commonwealth, WSJ)

THE BULL IS DEAD...

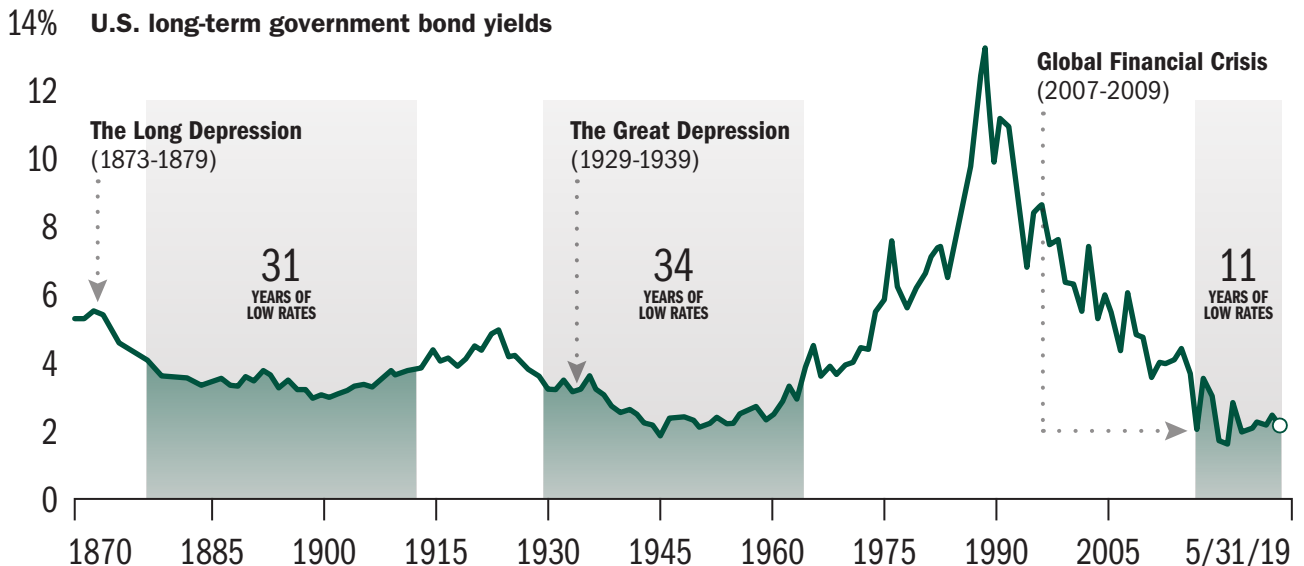
The bull market for the S&P 500 that began on 3/10/09 is now officially over. The bull lasted approximately 11 years. It peaked on 2/19/20 at 3386, gained +529% (total return) or an annualized gain of +18.3% per year (total return). It was the longest bull market since the end of WWII and produced the 2nd largest overall gain. After closing at an all-time high of 3386 on 2/19/20, the S&P 500 fell 26.7% to close at 2481 on 3/12/20. The fall was the 4th drop of at least 15% but the 1st of at least 20%. Since 1945, the stock market has had 12 bear markets, which is a decline of 20% or more. The most recent bear happening very quickly from 2/19/20 to 3/12/20. The good news is the market has always recovered. The average time to recover was 24 months. (Source: New York Life, BTN Research)

The learning of life is about what to avoid.

NASSIM TALEB

LOWER-FOR-LONGER RATES EXTEND THE CYCLE

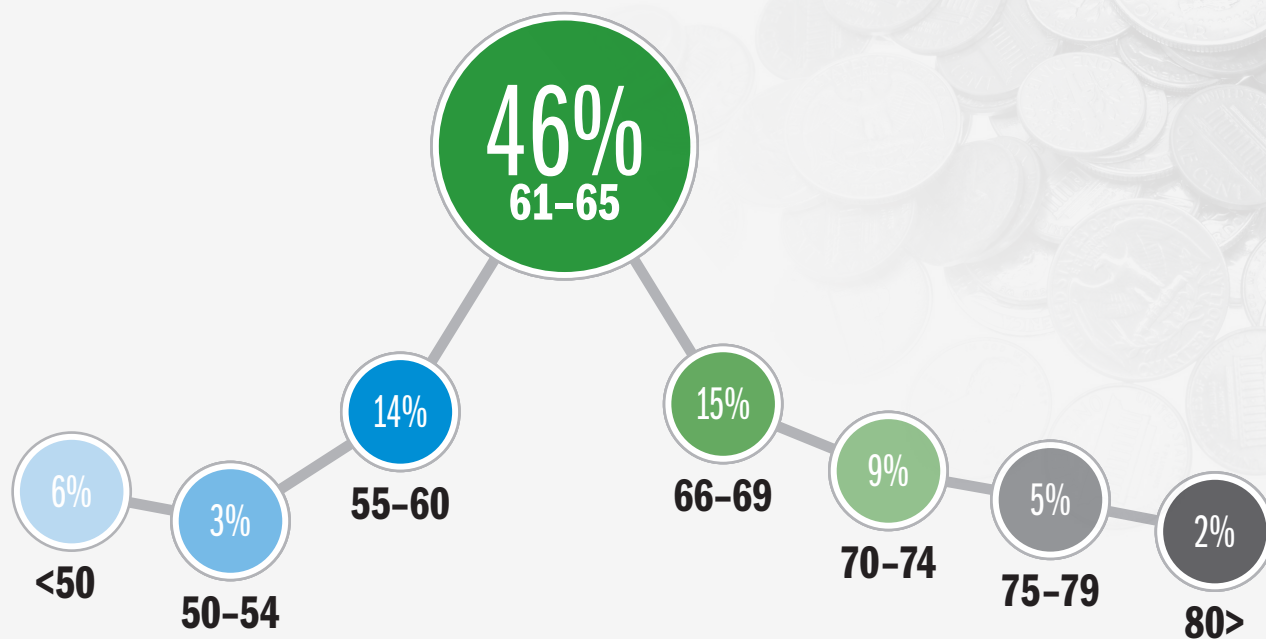
History shows that U.S. long-term rates can remain low for extended periods



Source: Federal Reserve, Thomas Reuters, Fact Sheet.

NEARLY HALF OF PEOPLE RETIRE IN THEIR EARLY 60s

Percentage of Americans Retiring by Age Group



(Source: LIMRA Secure Retirement Institute Analysis of US Census Bureau March 2017)

TAPPING YOUR RETIREMENT PLAN?

Each situation is unique. Our basic advice is retirement plans are the last stop for emergency money because it is the most expensive due to taxes and possible penalties. Enter the government and the **2020 CARES Act!** They are waiving the 10% penalty if the money is needed due to the COVID-19 crisis. You can also borrow more from your retirement plan in 2020. Will you pay the loan back? If not, then it becomes 100% taxable. If you have questions, then give us a call. A little planning during a crisis can go a long way. (Source: Cares Act, John Hancock)

REMEMBER 2008!

The financial crisis was a nasty time. Like today, the problems were played down until **BANG!** The economy tanked, millions of jobs were lost and the stock market dropped 50%. **BUT!** We weren't locked up in our homes. We still had a life other than the 1997 National Spelling Bee on ESPN. Today, we have a financial and health crisis. *It's scary.* We don't know what's coming next. The stock market drop was quick. 30% in 3 weeks. It's the first time it fell that fast. If only we got out in February and back in on March 23rd. Timing the market rarely works. Billions of hours and dollars are spent trying to come up with a formula, but whatever works today doesn't tomorrow. The fundamentals are all we have.

"Spend less than you earn, Be/Become Debt Free and 'Divide Your Portions.'" We don't know what's coming next other than life has been advancing quickly for 200+ years. Prior to the industrial revolution, human knowledge doubled every 1,000 years or so. Now it's doubling every 3-7 years. For the moment, the market is

recovering. While technically we're in another bull market, 2008 suggests the trouble is not yet behind us. There are signs the coronavirus is peaking and the government is talking about reopening the economy. However, the 2nd quarter GDP could drop as much as 50%. More history being made to go with 36+ million filing for unemployment. We are in uncharted waters. Many things can happen before we get back to *"normal."* Whatever the new normal becomes is yet to be determined. We are in a world no one imagined just 3 months ago. Thankfully, Americans are resilient. We will be stronger for the war we find ourselves in today. (Source: WSJ, Horses Mouth)

A TRILLION HERE, A TRILLION THERE...

The national debt of the United States hit \$25 trillion in early May. Less than a month after hitting \$24 trillion in April. It took the United States 192 years, from 1789 to 1981, to accumulate the first \$1 trillion of our National Debt. (Source: Treasury Department)

No morn ever dawned more favorable than ours did; and no day was every more clouded than the present! Wisdom, and good examples are necessary at this time to rescue the political machine from the impending storm.

GEORGE WASHINGTON (1786)

AGING IN PLACE

What is best is a moving target, but the most popular today are living on one floor, sharing your home and/or moving into a smaller home in the same neighborhood or area. The term “*forever home*” is a popular synonym. When the day comes, the first step is start early. If you wait until you fall or get sick, then it is more stress than fun, and likely will be more expensive and difficult. The key, as we’re learning during the pandemic, is to avoid isolation. It is a growing problem in America for all age brackets. The youngsters are buried in their cell phones and the elderly not able to get to activities easily. An important part of any change is mobility. Just being able to get places quickly and easily helps avoid isolation. The second step is to remember the stress of any move. We see the good and the bad. Many clients make good decisions, but then don’t implement properly. The most common mistake is moving too fast. The third step is to have a good handle on your finances. Some put too much money in an old home. It avoids a move, but if it takes \$75,000 to make your home senior friendly, but doesn’t increase the value of the home, then consider alternatives first. The fourth step (*which applies to all of us!*) is simplify. Downsizing the home makes as much sense as any step you take. Remember that it costs money to live anywhere. Smaller homes are usually less expensive, but the savings may not be as much as you think. Crunch the numbers! As more seniors downsize, the extra demand is increasing the purchase prices and living expenses. What about an “*active adult*” community? We have clients in several of them, with nearly all very happy. They maintain independence in their own home, with multiple activities and friends just outside the door. Questions? As always, don’t hesitate to contact us. (Source: Kiplinger, Wall Street Journal)

The market can stay irrational longer than you can stay solvent.

JOHN MAYNARD KEYNES

RETIREMENT PLAN CHANGES FOR 2020

One Year Only! As we’ve discussed many times, retirement funds should be the last stop for emergency money. It is normally the most expensive source of money. **BUT!** On March 27, 2020, Congress passed the CARES Act. This “*stimulus*” package waives the Required Minimum Distributions (RMDs) for 2020. This applies to regular and beneficiary accounts. As always, there are a few catches. Call the office if you want to turn off your RMD and/or discuss the options. Has the Coronavirus hit your household? The CARES Act provides easier access to your retirement plan in 2020. You can borrow up to \$100,000 and/or withdraw that much without a penalty. The legislation also allows you to pay the taxes on the withdrawal over 3 years. The CARES Act is 880 pages long and also provides expanded unemployment benefits, business grants, employer payroll and retention credits, payroll protection, education grants, mortgage forbearance and emergency loans. (Source: Pacific Life, The Street)

SINGLE WOMEN!

Retirement alone is different than life with your husband and/or his life without you. When we’re crunching numbers, for couples it’s important to cover the “*what ifs*.” When the husband dies first, the road often turns for the wife. Or if you’re already alone, your life expectancy is longer than a man’s. Your household wealth will more likely disappear dependent on living arrangements. Life insurance may be the answer for couples, but it gets expensive after age 60 and not an option if the husband has health risks. Single, widowed or married, the possibilities need to be visible as times passes; i.e. keeping insurance policies up to date along with other financial documents and arrangements. What will the elder years actually be like? Prepare accordingly. And as we’re learning today, what if something happens that no one was prepared for? Picture it like a chain of lakes on the west side of the state. The lakes are connected, but they each have their own personality and routine. (Source: Financial Advisor, Wealth Magazine)

MOST AMERICANS RETIRE EARLY NOT BECAUSE THEY WANT TO...

65 is considered the traditional age, but a recent survey by Allianz Life reconfirmed 50%+ of Americans retire sooner; *usually for reasons outside their control*. 34% due to job loss and 25% for health reasons. The numbers will likely increase in 2020 due to the pandemic shutting down our economy. As we see regularly here, sometimes life changes our plans! Those who anticipate and plan for life’s unexpected events are better prepared. The study also revealed a large disparity between retirement expectations and reality. *The main surprise?* Not enough money to maintain their working years lifestyle. As a result, the survey found 65% plan to work part time in retirement. Some because they want to, but most because they will have to. Ironically, only 7% of the retirees in the Allianz survey were actually working. Consistent with other surveys, just 23% want to work longer in order to achieve a more secure retirement. 60% are concerned about running out of money before they die. 42% within 10 years of retirement said they couldn’t afford to save for retirement. (Source: Allianz Life)

WHAT IF... OR SHOULD WE SAY WHEN?

In the past 20 years we’ve had 2 once in a lifetime bear markets. What if this current downturn turns out to be another one? Here are the numbers on corrections and bear markets since 1871.

- 3% of market downturns recover within a month
- 50% of market downturns recover within 2 months
- 80% of market downturns recover within 1 year
- 95% of the “*once in a lifetime drops*” recover in 3 to 4 years.

All combined, the average time to recover (top to bottom to top again) is 8 months. (Source: Wayne Thorpe, American Association of Individual Investors Journal)

WHO CAN I TRUST?

Over the next 25 years, 45 million US households are expected to transfer \$70 trillion to the next generation according to Cerulli Associates. It's no surprise this is resulting in trust litigation, especially over the role of successor trustee. A successor trustee has a *"fiduciary"* responsibility to administer and settle a trust after the trustee dies or becomes incapacitated. Fortunately, problems can be avoided with proper planning.

Mistake #1. Naming someone who doesn't understand their role and responsibilities. Many believe their allegiance is to the trust creator when it is actually to the beneficiaries. Make sure the trust instructions are detailed and specific.

Mistake #2. Naming co-trustees who disagree. This often occurs with siblings. The best way to avoid the conflict is to name an independent third party. Yes, that costs money, but better to pay than risk having your children no longer talk to each other!

Mistake #3. Not communicating with all the parties involved. We see tax preparers and financial advisors going at it regularly. Or an estate attorney and an insurance agent. Avoid these problems by explaining to everyone what your wishes are and their role in same.

Mistake #4. Not naming unbiased trustees. Once again, children come to mind. *"Mom said I could have the cottage..."* If there is biased decision making, then there will probably be problems.

Mistake #5. Inflexible Documents. Modifying an irrevocable trust can be difficult and/or impossible after death. Hiring attorneys to work it all out can be time consuming and expensive. Conclusion. Don't take naming a successor lightly. Many do. The most common being children who do not have the necessary skills and/or temperament to properly distribute your estate.

(Source: Cerulli Associates, Financial Advisor, Financial Planning)

BULLS RUN ROUGHSHOD OVER BEARS

BEAR MARKETS	BEAR MARKETS			BULL MARKETS		
	MAX DECLINE	LENGTH (MONTHS)	MONTHS TO RECOVER	MARKET GAIN	ANNUALIZED	LENGTH (MONTHS)
1929-1932	-89%	34	269	372%	39%	56
1937-1938	-49%	13	92	58%	37%	17
1939-1942	-40%	32	34	129%	22%	49
1946	-23%	4	42	219%	13%	114
1956-1957	-19%	19	11	86%	16%	50
1961-1962	-28%	6	14	80%	18%	44
1966	-22%	8	7	48%	20%	26
1968-1970	-36%	18	21	74%	23%	32
1973-1974	-48%	21	39	126%	14%	74
1980-1982	-27%	20	3	229%	27%	60
1987	-34%	3	20	65%	21%	31
1990	-20%	3	5	417%	19%	114
2000-2002	-49%	30	56	101%	15%	60
2007-2009	-57%	17	49	401%	16%	131
2020	-34%	1	—	—	—	—
Average	-38%	16	49	172%	21%	61
Average ex 1929	-35%	15	32	156%	20%	62
Average of S&P 500	-36%	14	25	163%	19%	62

Source: Dow Jones, Standard & Poors



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JUNE 2020

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Personal Coaching	Insurance: Life, Health, Disability, Long-Term Care	Fee-Only Investment Consulting and Asset Management
Business Planning and Development	Estate Planning	Employee Sponsored Retirement Savings Plans
Real Estate Investment Trusts	Asset Management	Retirement Plans: IRA, SEP, 401k, Keogh, 403b
Mutual Funds*	Annuities, Fixed and Variable*	Full-Service Brokerage Accounts*

We have the knowledge, tools and experience to help. Call us today at 800/315-2945 or 734/692-1421.

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