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Your Guide to Life Planning

September 2017

Mark Dutram, CPWA, CFP
First City Bank of Florida
Vice President
135 Perry Ave. SE
Fort Walton Beach, FL 32548
850-244-5151 ext. 1125
Fax: 850-244-1417
mark.s.dutram@lpl.com
www.LPLFCB.com

In This Issue

Key Takeaways

- Raising the debt ceiling is a major item on the agenda as Congress returns from their August recess today.
- While debt ceiling debates can be contentious, history can help shed light on what markets are pricing in.
- The bond market continues to price in a stalemate in the near term, though it ultimately appears to believe the ceiling will be raised.

Is The Bond Market Expecting a Debt Ceiling Fight?

Congress reconvenes today following its August recess and one of the major legislative topics that needs to be addressed is the debt ceiling. The debt ceiling refers to the legislatively mandated maximum amount of debt that the U.S. Treasury can have outstanding. The U.S. officially hit the debt ceiling (currently at $19.8 trillion) in March, and since that time the Treasury has been using "extraordinary measures," which include things like suspending the reinvestment of funds from certain Treasury securities, to allow the U.S. to pay its debts until Congress is able to raise the borrowing limit. Treasury Secretary Mnuchin has indicated that these extraordinary measures will be exhausted sometime toward the end of September, but has continually said that he is confident that the debt ceiling will be raised in time to avoid a default.

MARKET ASSUMES A DEAL, BUT IS HEDGING

Bond market participants normally demand more yield for holding longer-maturity bonds. One reason is that a longer time frame introduces more uncertainty, and may allow more time for financial problems to emerge that could make it harder for an issuer to pay principal and interest. Though this risk is generally thought of as remote for Treasury bonds, if the Treasury hits the debt limit and is unable to borrow additional funds, it could eventually end up impacting the Treasury's ability to pay investors.

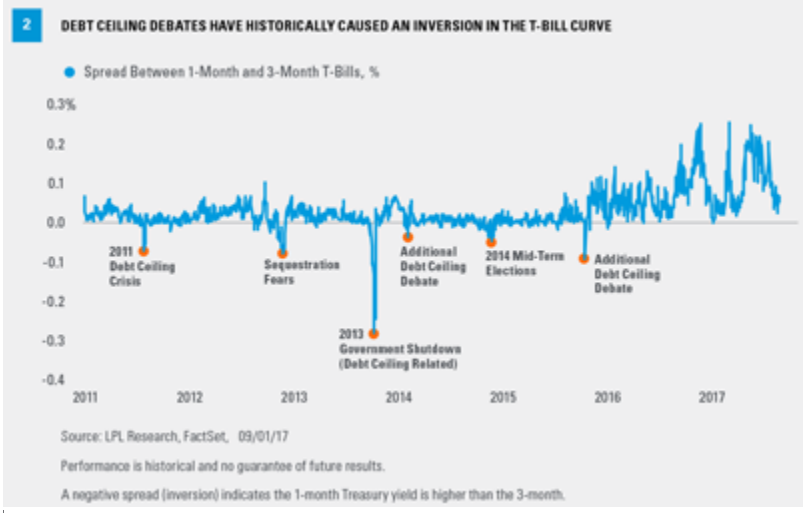
Given this, one way to determine if the bond market is pricing in a debt ceiling fight is to look at the spread, or difference in yield, between short-term Treasury notes. If there is uncertainty among investors that the debt ceiling will be raised, we would expect that they would demand more yield for bonds maturing on or after the end of September. As we can see in Figure 1, the spread between 1-month and 3-month Treasury securities has declined in recent weeks. The fact that market participants are demanding more yield for 1-month Treasuries that mature near the end of September, relative to 3-month Treasuries, indicates that as a whole investors are at least somewhat concerned about a debt ceiling debate.

The fact that the spread between 1-and 3-month Treasuries increased slightly over the past week, could be a sign that fears are fading somewhat, perhaps on speculation that an increase in the debt ceiling could be tied to funding for relief efforts for Hurricane Harvey, making it more difficult for Congress to allow a delay. However, even after this recent increase, the spread remains below its 1-year average indicating that the bond market is still flashing some caution signs.

There is one additional sign that markets aren't pricing in a long-term debt ceiling problem. In late July the yield on the 3-month Treasury bond (which would have matured in October at that time) moved higher as debt ceiling fears began increasing. However, since that time the yield has fallen, indicating that markets may view any potential debt ceiling impasse as temporary, and continue to expect that the debt ceiling will ultimately be raised.

PAST DEBATES HAVE SHOWN A SIMILAR PATTERN

Debt ceiling debates are nothing new for markets, and looking back at history, we can see that markets have reacted in a similar fashion as they are today. Past debt ceiling debates, both major (2011--which included a credit rating downgrade by S&P) and minor (2015), have caused the yield differential between 1-and 3-month Treasuries to decrease, and even invert (meaning that the 1-month yield is higher than the 3-month). However, as Figure 2 shows, this behavior generally doesn't last long.



Inversion already took place in the 3- to 6-month part of the yield curve in July, but it was short-lived, again indicating that markets aren't pricing in extended uncertainty. No inversion has taken place in the 1- to 3-month part of the curve so far, though it remains a possibility. It is also important to note that short-term yields are higher today than they were in 2011, 2013, or 2015, largely due to several Federal Reserve rate hikes since the last time the debt ceiling was debated. While it could be considered problematic that Congress has made a habit of politicizing the debt ceiling, we can take some comfort in the fact that markets have been here before and have made it through.

CONCLUSION

The current debt ceiling was hit in March 2017, and while the Treasury has been able to use extraordinary measures to avoid a default since that time, they have indicated that these measures will be exhausted sometime near the end of September. With Congress back in session, the topic of the debt ceiling is likely to be front and center. Though the Treasury seems confident that the limit will be raised and there will be no impact to their ability to pay back investors, the bond market is pricing in at least some chance of a stalemate in the short term. Ultimately though, the fact that yields on longer-dated Treasury securities haven't risen indicates that markets believe that a deal can get done, and that the Treasury is likely to be able to pay investors in a timely manner, a positive for both bond and stock markets.

IMPORTANT DISCLOSURES

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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.

DEFINITIONS

Yield spread is the difference between yields on differing debt instruments, calculated by deducting the yield of one instrument from another. The higher the yield spread, the greater the difference between the yields offered by each instrument. The spread can be measured between debt instruments of differing maturities, credit ratings, and risk.

RES 6044 0917 | Tracking #1-640778 (Exp. 09/18)

Weekly Market Commentary | Week of September 5, 2017

HIGHLIGHTS

- Investors have understandably become increasingly concerned amid escalating North Korean threats.
- As scary as the threat may be, history suggests that stock market reactions to similar events have been short lived.
- While we are all hoping for a peaceful resolution, military conflicts do carry the potential to unify policymakers.

PUTTING THE NORTH KOREAN THREAT INTO PERSPECTIVE

Investors have become increasingly concerned about the escalating North Korean threats, and understandably so. After initially shrugging off the risk, financial markets have shown increased concern over the past several weeks as the threats have become more direct (Guam) and the range of missile tests has increased (over Japan). In the latest development over the weekend, North Korea conducted its largest nuclear test and claims to have a hydrogen bomb capable of being delivered on a long-range missile. While the future of this conflict is very much uncertain, and we are sympathetic to the potential human impact of military engagement, from a market perspective, a look back at past geopolitical and military events offers a reassuring view.

HISTORICAL MARKET PERSPECTIVE

Although responses to growing nuclear capacity are more limited in number (thankfully), we do have many historical military conflicts to consider for a sense of how stocks might react. Regardless of the circumstances, looking at history to find similar conditions or events can be helpful.

> In mid-August we recommended taking some risk off the table, due in part to geopolitical uncertainty; other considerations included seasonal factors, a lack of clear near-term positive catalysts, policy risks in Washington, D.C., the stock market's strong 2017, and near historically low volatility.

With help from our friends at Ned Davis Research, we compiled a list of notable military events dating back to World War I and then looked at how stocks performed after these events [Figure 1]. The market performance appears encouraging--stocks tended to react negatively on the days that the events occurred, with an average drop of about 4%; but afterwards, stocks displayed impressive resilience. Over the subsequent one-, three-, six-, and twelve-month periods, stocks have produced solid gains, on average, with gains in over 60% of the periods included. But perhaps most impressive is that the Dow Industrials were higher six months after these events 81% of the 21 occurrences, with an average gain of 10%; and over the subsequent year, stocks rose 16% on average.

Also noteworthy is how fast stocks have recouped those initial losses. In most instances, the Dow Jones Industrials Average has returned to pre-event levels within a couple of weeks or less. The primary reason why stocks have been able to shrug off most of these events, and why we think stocks may behave similarly in response to the North Korean threat, is that historically speaking, these conflicts tend not to disrupt the business cycle, which is the single most important factor in the path of stock prices over time.

1 STOCK MARKET REACTIONS TO HISTORICAL MILITARY CONFLICTS PROVIDE SOME REASSURANCE

Event	Reaction Dates	Initial Decline During Reaction Dates	DJIA Performance After Event: 1 Month	3 Months	6 Months	12 Months	Number of Trading Days to Recoup
Exchange Closed WWI	07/22/1914–12/24/1914	-10.2	10.0	6.6	21.2	80.2	63
Germany Invades France	05/09/1940–06/22/1940	-17.1	-0.5	8.4	7.0	-5.2	1000
Pearl Harbor	12/06/1941–12/10/1941	-6.5	3.8	-2.9	-9.6	5.4	229
Korean War	06/23/1950–07/13/1950	-12.0	9.1	15.3	19.2	26.3	44
Suez Canal Crisis	10/30/1956–10/31/1956	-1.4	0.3	-0.6	3.4	-9.5	1
Cuban Missile Crisis	10/19/1962–10/27/1962	1.1	12.1	17.1	24.2	30.4	2
U.S. Bombs Cambodia	04/29/1970–05/14/1970	-7.1	0.4	3.8	13.5	36.7	69
Iranian Hostage Crisis	11/02/1979–11/07/1979	-2.7	4.7	11.1	2.3	17.0	5
U.S.S.R. Invades Afghanistan	12/24/1979–01/03/1980	-2.2	6.7	-4.0	6.8	21.0	5
Falkland Islands War	04/01/1982–05/07/1982	4.3	-8.5	-9.8	20.8	41.8	0
Beirut Bombing	10/21/1983–10/23/1983	0.0	2.1	-0.5	-6.9	-2.9	1
U.S. Invades Grenada	10/24/1983–11/07/1983	-2.7	3.9	-2.8	-3.2	2.4	4
U.S. Bombs Libya	04/14/1986–04/21/1986	2.8	-4.3	-4.1	-1.0	25.9	0
Invasion of Panama	12/15/1989–12/20/1989	-1.9	-2.7	0.3	8.0	-2.2	9
Iraq Invades Kuwait	08/02/1990–08/23/1990	-13.3	0.1	2.3	16.3	22.4	120
Gulf War	01/16/1991–01/17/1991	4.6	11.8	14.3	15.0	24.5	0
U.S. Embassy Bombings Africa	08/06/1998–08/14/1998	-1.8	-4.0	4.8	10.4	32.0	4
U.S.S. Cole Yemen Bombing	10/11/2000–10/18/2000	-4.2	6.6	6.1	6.1	-5.1	9
WTC and Pentagon Terrorist Attacks	09/10/2001–09/21/2001	-14.3	13.4	21.2	24.8	-6.7	34
War in Afghanistan	10/05/2001–10/09/2001	-0.7	5.9	11.5	12.4	-16.8	1
Iraq War	03/19/2003–05/01/2003	2.3	5.5	9.2	15.6	22.0	0
	Mean	-4.0	3.6	5.1	9.8	16.2	76
	Median	-2.2	3.9	4.8	10.4	21.0	5
	Percentage of Positive Periods	24%	76%	67%	81%	67%	

Source: LPL Research, FactSet 08/31/17

Days = Market Days

The 22, 63, 126, and 253 day rate-of-change is calculated from the last day in the reaction dates column.

The first date in the reaction dates column indicates the start of the market reaction or the trading day prior to the event.

1914 data—In 1916 a new list of 20 stocks for the DJIA was adopted and computed back to the reopening of the exchange on 12/12/1914. NDR analysis for this study adjusted the DJIA index level prior to 12/12/1914 to reflect an accurate and consistent data set. Source: The Dow Jones Averages 1885-1990, Edited by Phyllis S. Pierce.

All indexes are unmanaged and cannot be invested into directly.

Past performance is no guarantee of future results.

MORE DEFENSE SPENDING

We expect defense spending to rise as a result of heightened tensions with North Korea, though the trajectory had already been pointing higher since the November election. The North Atlantic Treaty Organization's (NATO) 2% of gross domestic product defense spending targets and President Trump's calls for other countries to increase spending have put some upward pressure on global defense spending this year. According to NATO, defense spending among European members and Canada is expected to increase more than 4% in 2017. In addition, as tensions with North Korea escalate, the odds of a preventative strike from the U.S., while still low, rise, and the need for stronger missile defense capabilities increases, pushing the defense spending trajectory even higher for the U.S. and our Asian allies. As a result, defense stocks may get a boost.

UNITY IN WASHINGTON?

Military conflicts, as unwelcomed as they may be, do bring the potential to create unity in the country and among policymakers in Washington, D.C. While it is very difficult to envision much bipartisan agreement in the current political environment, the latest U.S. security threat may make reaching a 2018 federal budget agreement easier. Defending the country from an immediate threat is something policymakers and most of their constituents on both sides can generally agree on. The devastation of Hurricane Harvey can have a similar impact, as we touch on in today's *Weekly Economic Commentary*.

CONCLUSION

A nuclear-armed North Korea is undoubtedly a scary proposition. While we hope for peaceful resolution, which we currently view as likely, during periods of uncertainty, as investors we use history to help us navigate challenging investment landscapes. In the case of this worrisome threat from a stock market perspective, history does offer some reassurance. We acknowledge that geopolitical risk may contribute to heightened near-term stock market volatility, and are always watchful for developments that may warrant a change in our asset allocation. At this point in time, LPL Research does not foresee a prolonged military conflict or sustained stock market weakness that could end the current bull market.

A special thank you to the courageous members of our military who help to keep us all safe.

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Investing in stock includes numerous specific risks including: the fluctuation of dividend, loss of principal, and potential liquidity of the investment in a falling market.

Investing in foreign and emerging markets securities involves special additional risks. These risks include, but are not limited to, currency risk, geopolitical risk, and risk associated with varying accounting standards. Investing in emerging markets may accentuate these risks.

Commodity-linked investments may be more volatile and less liquid than the underlying instruments or measures, and their value may be affected by the performance of the overall commodities baskets as well as weather, geopolitical events, and regulatory developments.

All investing involves risk including loss of principal.

INDEX DESCRIPTIONS

The Standard & Poor's 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Dow Jones Industrial Average Index is comprised of U.S.-listed stocks of companies that produce other (non-transportation and non-utility) goods and services. The Dow Jones Industrial Averages are maintained by editors of The Wall Street Journal. While the stock selection process is somewhat subjective, a stock typically is added only if the company has an excellent reputation, demonstrates sustained growth, is of interest to a large number of investors and accurately represents the market sectors covered by the average. The Dow Jones averages are unique in that they are price weighted; therefore, their component weightings are affected only by changes in the stocks' prices

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Tracking #1-640807 (Exp. 09/18)

SEPTEMBER PREVIEW: TIME FOR VOLATILITY?

KEY TAKEAWAYS

- September has historically been the weakest month for equities and one of the most volatile.
- Interest rate decisions from the Federal Reserve, Bank of Japan, and European Central Bank are all on tap this month.
- Washington, D.C. has to raise the debt ceiling and pass a budget or risk a potential government shutdown.

As the pace of life tends to pick up in September with kids back at school, the market is following suit with a month packed full of global events. The S&P 500 Index managed another gain in August, marking 10 consecutive months of gains on a total return basis. The global economy continues to improve and corporate earnings have been very strong across the globe, but how much longer can this calm continue? As we enter September, it is important to remember that no month has a worse average return for the S&P 500 (-1.0% going back to 1928*), and some of the most volatile moves ever have taken place this month. To help navigate the current environment, we've created this guide to the September 2017 market calendar, providing an overview of the key events.

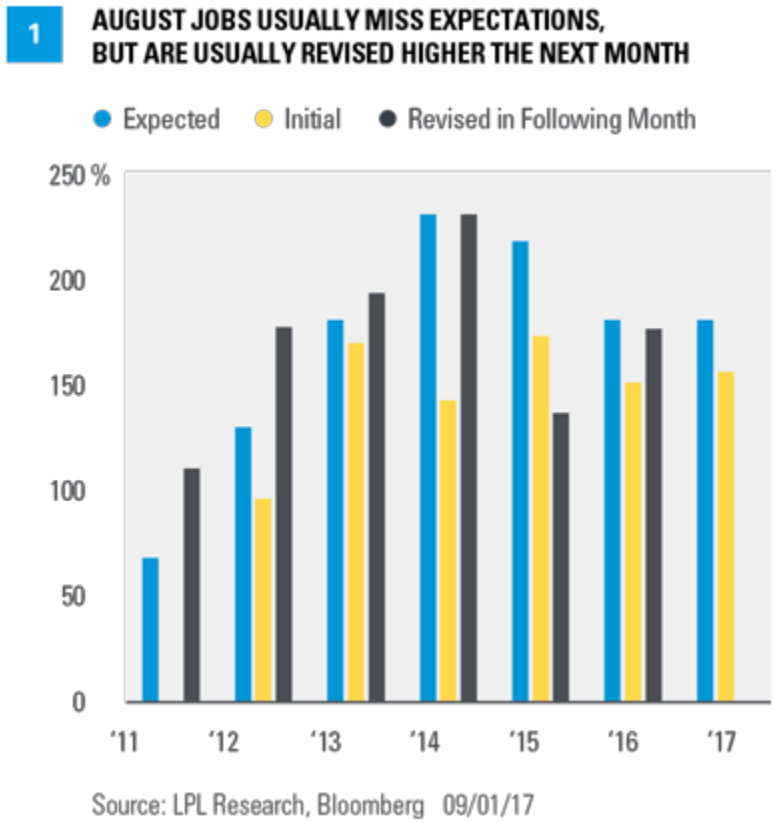
SEPTEMBER 1

August Employment Report Review

Job growth disappointed in a quirky statistical month, but was still solid. The U.S. economy added 156,000 jobs in August, missing expectations of 180,000, and decelerating from a downwardly revised 189,000 in July. Jobs growth has historically been difficult to predict in August due to late summer transitions, and has had a tendency to be revised higher. This revision trend will be difficult to track as economic data in the coming months will likely display the impact of Hurricane Harvey, which made its initial landfall in the U.S. on August 25, 2017. Wage growth disappointed, rising only 0.1% month over month (2.5% year over year), after more solid growth of 0.3% last month (2.6% year over year), while the unemployment rate ticked up from 4.3% to 4.4%. Though the 2017 average of 186,000 jobs added per month is slower than the 2014-2016 average of 221,000, such slowdowns are normal as the economic cycle ages; even growth of 150,000 jobs per month would be enough to slowly tighten the labor market. The report may lower the likelihood of an additional Federal Reserve (Fed) rate hike in 2017.

**Please note: The modern design of the S&P 500 stock index was first launched in 1957. Performance back to 1950 incorporates the performance of predecessor index, the S&P 90.*

One caveat to the report is that there was again weakness in the education component as there has been every August since 2011 due to shifts in the start of school years over time. As **Figure 1** shows, the August jobs number has now come in beneath the initial estimate for seven consecutive years. The good news is that five of the previous six years it has been revised higher the next month--so we must stay tuned.



SEPTEMBER 7

European Central Bank Meeting

The European Central Bank (ECB) has its next scheduled meeting on September 7, where it is expected to provide some clarity on quantitative easing (QE) policy. The current policy of purchasing 60 billion euro in bonds every month is slated to end this December. However, it is almost inconceivable that the ECB will completely stop buying bonds after this. The likely scenario is that it will continue to buy bonds with scheduled reductions in the monthly purchase in a process called "tapering." One reason to taper purchases is that they are literally running out of bonds to buy. The ECB has set limits for itself regarding how much of any one country's bonds it can purchase and at what interest rates it will buy them, and these criteria have made it difficult to find available bonds.

While we think the ECB will taper purchases, it is unlikely to announce a definitive end to QE. Inflation has been stubbornly low in Europe and boosting inflation to 2% is one of the ECB's stated goals. Politically speaking, it would be very difficult for the ECB to have to restart its QE policy should it stop buying bonds altogether. Though regardless of the details of their announcement, the ECB is a long way from beginning to normalize policy, at least until 2019 or more likely 2020.

SEPTEMBER 19-20

Fed Meeting

The Federal Open Market Committee (FOMC), the Fed's policymaking arm, will hold its sixth of eight meetings this year on September 19-20. At 2 p.m. ET on September 20, the FOMC will release its policy statement, a new set of members' forecasts on the economy, labor market, and inflation, and a new set of "dot plots" (members' forecasts of where they think the fed funds rate will be at the end of 2017, 2018, 2019, and in the "long run"). Fed Chair Janet Yellen will also hold the third post-FOMC meeting press conference of the year at 2:30 p.m. ET on September 20.

As of Friday, September 1, 2017, the market, as measured by fed funds futures, is pricing in just a 1% chance of a 25 basis point (0.25%) rate hike at the meeting, and a 42% chance of a hike in December. However, there will be additional information for markets to digest between now and mid-September--including consumer and producer inflation (inflation is a key factor for the Fed's rate hike trajectory), the Institute for Supply Management's (ISM) Non-Manufacturing Index, and retail sales--which could change the odds of future rate hikes.

Though markets aren't expecting a rate hike in September, some market participants are expecting the Fed to announce the beginning of its balance sheet normalization plan. The minutes of the Fed's July meeting showed

continued discussion of starting to allow maturing bonds to roll off the Fed's balance sheet at a measured pace, and though the Fed hasn't given an exact timeframe for an announcement yet, the July meeting statement did say it intended to begin implementing the program "relatively soon." Given that there will not be another meeting with a press conference until December, these comments likely point to a September announcement, assuming no unexpected economic or market disruptions occur between now and then.

SEPTEMBER 20-21

Bank of Japan Meeting

The Bank of Japan (BOJ), unlike the ECB, is likely to continue its current policy of aggressively buying assets at its September 21 meeting. Even though Japan's economy has begun to accelerate, the BOJ continues to push back its forecast of when Japan will reach its 2% inflation target, with the latest estimate in early 2020. Little change is expected in the current policy of buying 170 billion yen (roughly $150 billion) per year in Japanese government and corporate bonds, real estate investment trusts, and stocks, for the foreseeable future.

SEPTEMBER 29-30

Debt Ceiling Expires and Potential Government Shutdown

In theory, on September 29, the U.S. government will exceed its ability to borrow additional money to fund services, as well as pay interest on existing debt. However, the exact date is unknown, and there are short-term fixes that the Treasury Department could use to raise enough funds to potentially last a few more weeks. While failure to raise the debt ceiling could lead to a technical default on our bonds, with unknown political and economic ramifications, we view it as highly unlikely that Congress would allow this occur. One possibility to ensure its passage of an increase would be to tie it to another "must pass" bill, like providing relief to the victims of Hurricane Harvey.

Though a second more benign threat also looms. The government's fiscal year ends on September 30, and if it does not pass a budget there will be no money to fund operations, resulting in a government shutdown. The most recent and probably most impactful shutdown was in October 2013, when the government was closed for 16 days. The economic impact of the shutdown was estimated to be about $24 billion in lost gross domestic product (GDP), or about 0.15% of total GDP that year. The S&P 500 gained 2.4% during the shutdown. But the potential political impact is more subjective. At the time, most Americans (8 out of 10) said that the shutdown was a bad idea. However, today more Americans seem to think that a shutdown would be beneficial to change what they perceive to be a "business as usual" culture in Washington, D.C.

Ultimately, Congress is going to have to pass a budget. But more recently Congress has been using continuing resolutions (CR) to provide temporary funding to keep the government going until a full budget is passed. In addition to creating future potential flash points that could result in a shutdown, using a CR delays the impact of budgetary policy and extends uncertainty about what that policy will even be. Furthermore, the longer Congress deals with mandatory budget issues, the less time they have for other issues, such as corporate tax reform.

CONCLUSION

September has several important events that markets will be watching closely, which only increases the chances of overall market volatility. From three major central bank decisions, to Congress coming back to work and confronting some important deadlines, the stage is set for a few fireworks. Markets may be able to discount some of the noise, but if you factor in that the month tends to be volatile regardless, September 2017 may certainly be a month to watch.

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The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings.

International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.

DEFINITIONS

The S&P 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Federal Open Market Committee (FOMC) is the branch of the Federal Reserve Board that determines the direction of monetary policy. The eleven-person FOMC is composed of the seven-member board of governors, and the five Federal Reserve Bank presidents. The president of the Federal Reserve Bank of New York serves continuously, while the presidents of the other regional Federal Reserve Banks rotate their service in one-year terms.

The Fed Funds futures contract represents the average daily fed funds effective rate for a given calendar month as calculated and reported by the Federal Reserve Bank of New York. It is designed to capture the market's need for an instrument that reflects Federal Reserve monetary policy.

Gross Domestic Product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory.

The U.S. Institute for Supply Managers (ISM) manufacturing index is an economic indicator derived from monthly surveys of private sector companies, and is intended to show the economic health of the U.S. manufacturing sector. A PMI of more than 50 indicates expansion in the manufacturing sector, a reading below 50 indicates contraction, and a reading of 50 indicates no change.

The European Central Bank (ECB) is the central bank responsible for the monetary system of the European Union (EU) and the euro currency. The bank was formed in Germany in June 1998 and works with the other national banks of each of the EU members to formulate monetary policy for the European Union.

Tracking #1-640747 (Exp. 09/18)

Inflation -- The Subtle Thief of Your Purchasing Power

While inflation has been a constant fact of life in the U.S. economy, it can be particularly damaging to retirees, many of whom are living on fixed incomes.

American workers are laboring as diligently as ever, but they have little extra to show for their effort. Combine meager pay increases with the slow but steady effects of inflation, and it is easy to see how families are barely breaking even.

Workers have been receiving, on average, 2% pay increases for the past three years.[1] But when you adjust that increase for inflation, what's left is negligible. In April of this year, for instance, inflation-adjusted earnings rose just 0.3% from the previous year. In April 2016, wages rose 1.2% annually after inflation, and in 2015 that figure was double -- at 2.4% -- thanks to near-zero increases in the cost of consumer goods and services at that time.[1]

Ramping Up?

While inflation rose 2.2% for the 12 months ending in April, policymakers at the Federal Reserve -- the nation's central bank and overseer of our monetary system -- expect price increases to level off at the Fed's annual inflation target of about 2%. Still, with wages following a similar trajectory, workers are left feeling the squeeze in their wallets, despite bigger pay days.

Follow the CPI

The most common measure of inflation is the Consumer Price Index, or CPI. The CPI is based on a monthly survey by the U.S. Bureau of Labor Statistics. It compares current and past prices on a "basket" of common expense categories, including housing, transportation, and clothing.

While inflation has been a constant fact of life in the U.S. economy, it can be particularly damaging to retirees, many of whom are living on fixed incomes. For many, Social Security is the only retirement income that increases through cost-of-living adjustments (COLAs) to reflect any increase in the cost of living as measured by the CPI.

It may be easy to overlook inflation when preparing for your financial future. After all, an inflation rate of just 2% to 3% -- which we have been experiencing for the past several decades -- may not seem worth noting, until you consider the impact it can have on your purchasing power over the long term.

Consider that at just a 3% inflation rate, a $100,000 nest egg today would be worth only $74,409 in today's dollars 10 years from now, $55,368 in 20 years, and $41,199 in 30 years.

As you can see from this example, the further away you are from retirement, the more potential inflation has to erode your future purchasing power, and the more important it is for you to choose investments that can potentially help you stay ahead of inflation.

Talk with your financial advisor to learn more about managing the impact of inflation on your investments.

[1]*The Wall Street Journal, "Don't Feel That Pay Raise? Blame Inflation," May 12, 2017.*

1-635821

Auto-Escalation Programs -- A Boon to Retirement Savings

Much of the advance in retirement savings can be attributed to strong investment performance, but auto-escalation -- a plan feature that automatically raises contribution rates until the savings rate reaches a predefined limit -- apparently played a significant role.

Retirement plan participants broke savings records in the first quarter of 2017, thanks in part to the auto-escalation feature adopted by a number of plan sponsors.

According to data compiled by Fidelity Investments, the total savings rate (employee and employer contributions combined) reached 12.9%, up from the previous high of 12.8% in first quarter of 2006, while the average account balance rose to $95,500, up from $87,600 the previous year.[1] Overall, more than one in four (27%) of workers increased their plan contributions in the past 12 months.

It's Automatic

Much of the advance in retirement savings can be attributed to strong investment performance, but auto-escalation -- a plan feature that automatically raises contribution rates until the savings rate reaches a predefined limit -- apparently played a significant role. According to Fidelity, the auto-escalation feature, which typically takes effect in the first quarter of each year, was responsible for half of the savings increases made by the 27% of workers who -- in the plans Fidelity administers -- recently upped their contributions.[2]

Often coupled with auto-enrollment, auto-escalation is not as widely used. A recent study by the Defined Contribution Institutional Investment Association (DCIIA) found that 62% of employers with large plans -- defined as plans with more than $200 million in assets -- used auto-enrollment, while just 48% have adopted auto-escalation.[3]

Do-It-Yourself

If your employer has not yet adopted auto-escalation, don't despair. There are countless ways you can take it upon yourself to boost your retirement savings. Here are just a few suggestions:

- Apply a raise or bonus to retirement savings. Consider boosting your contribution rate with each increase in pay you receive. Making voluntary increases a habit year in and year out could bring you that much closer to the maximum contribution allowed by your employer. For 2017, plans may allow up to $18,000 in elective contributions plus an additional $6,000 in catch-up contributions for those employees age 50 and older.
- Cut back household expenses. You may be surprised by how quickly small savings can add up. Things as simple as brown-bagging lunch, switching from brand name to store brand items, and doing away with premium cable channels can make a noticeable difference in your monthly cash flow. Setting up a monthly budget of income and expenses may help you find ways to cut back more.
- Forgo a tax refund. The IRS reported that as of March 31, 2017, the average income tax refund check for individual tax returns filed during the 2017 season was $2,878.[4] If you typically get a tax refund, consider revising your W-4 form to reduce your withholding. Your paycheck will grow, allowing you to consider increasing the amount you save in your employer's retirement plan.

You can probably think of other ways to save, such as paying off credit card debt. It really doesn't matter how you achieve your goal, the important thing is to build your retirement account in ways that work for you.

[1]*benefitnews.com, "Retirement savings rates climb to record levels," May 14, 2017.*

[2]Bloomberg, "You're Killing It With Your 401(k)-on Autopilot," May 12, 2017.

[3]Defined Contribution Institutional Investment Association, "DCIIA Plan Sponsor Survey 2014: Focus on Automatic Plan Features," June 2015.

[4]The Internal Revenue Service, "Filing Season Statistics for Week Ending March 31, 2017," April 6, 2017.

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