BEYOND THE HORIZON

HORIZON FINANCIAL ADVISORS NEWSLETTER

July 2017 Issue

MARKET OUTLOOK

Upon reaching the midpoint of the year, the equity markets continue to reach all-time highs. This current bull market, which began in March of 2009, has now reached 100 months in length. Historically, the average age of a bull market is 57 months. A bull market is defined as a rise in stock prices of more than 20% without being interrupted. Conversely, a bear market is defined as a decline in stock prices of 20% or more. A correction, on the other hand, is a decline in stock prices of between 10% and 20%. During the past eight years and during this current bull market, we have experienced only four corrections. The most recent one, in the beginning of 2016, totaled a loss of 13.3%, according to Yardeni Research. Since that time, the S&P 500 index has gained nearly 33% by early July of this year. Because a correction is usually short-lived and considered to be a normal occurrence, it's not necessarily a reason for a longer-term investor to be concerned. It's a bear market with a deeper decline and longer duration that have more of an impact.

How much longer can this bull market last before we enter a bear market? This is a question that has been asked for the past several years. Many feel that stocks are overvalued. That implies prices are higher than they should be. In a perfectly efficient market, stock prices would reflect the value of a company based on factors such as earnings power, its balance sheet, and competitive advantage to name a few. The price-to-earnings ratio is one of the main metrics investors use to decide if a stock is properly valued. It is calculated by dividing a stock's price by its trailing 12-month earnings per share. Though the average price-to-earnings ratio of the S&P 500 is currently higher than its historical average, it has not reached excessive levels as it has in the past before a market downturn.

Market downturns, especially bear markets, are usually prompted by recessions or other excesses in the financial system. At this point, we don't see that any of those issues exist. Even our Federal Reserve Chairwoman, Janet Yellen, isn't concerned about a recession anytime soon. A recession is defined by having two consecutive quarters of a decline in GDP growth. For now, the U.S. economy continues to show positive growth rates, though quite modest. GDP growth in the first quarter of 2017, though lower than the previous quarter, clocked in at 1.40%.

In the end, higher current stock prices and lower long-term earnings growth rates suggest there is less room for stock prices to continue without a pullback. Additionally, the political noise in the U.S. is a distraction and can hold back the markets from making further progress. Therefore, this is no time to ignore the basic principles of sound investing. Define your goals and risk tolerance. Have a diversified portfolio invested according to those goals and risk tolerance. Maintain perspective and have realistic expectations of market returns. Expect volatility but don't react to it. Those who are investing on a systematic, monthly basis are taking advantage of buying cheaper as the market dips. As always, the market best serves investors with a longer-term time horizon. In other words, if you have money in the market that you expect to need in the short-term (i.e. within the next six months), you may want to consider selling now.

Sources: Fortune, Yardeni Research, MarketWatch, StockCharts.com, Bureau of Economic Analysis.

THE NEW D.O.L. FIDUCIARY RULE

Some of you may have read or heard news of a new rule, signed by the previous administration, that is impacting the financial services industry. The rule is referred to as the "DOL Fiduciary Rule". In a nutshell, the rule will now consider any financial advisor who gives investment recommendations to a retirement investor for compensation to be acting in a fiduciary capacity. As a fiduciary, the advisor will be required to act in the best interest of the client.

The DOL (Department of Labor) rule was originally to begin phasing in this past April. However, due to concerns over some of the details, the phase–in date was pushed back to June 9, 2017. Looking ahead, Department of Labor Secretary Alexander Acosta recently wrote that the department will continue to evaluate the rule's remaining provisions, currently scheduled to take effect January 1, 2018, to determine if they should be pushed back, revised, or repealed entirely.

In our opinion, we, at Horizon Financial Advisors, have been acting in our clients' best interest regarding ALL their assets since opening our doors 27 years ago this month. As a result of this legislation, you will likely see more paperwork or forms that we are required to use in transacting business with you. Our hope is, however, that once all the details of this rule unfold, it will have little impact on how we work with you and the advice we provide, which always has been and always will be in your best interest.

If you have questions regarding this new rule, we encourage you to call our office.

TRADITIONAL OR ROTH—WHICH IS BETTER?

The terms "Traditional" and "Roth" refer to types of retirement savings plans and can be associated with either an employer-sponsored retirement plan, such as a 401(k), or to a personal retirement plan, such as an IRA. When comparing the Traditional versus the Roth for either a 401(k) or personal IRA, the answer to the question "which type is better" depends on several variables such as your current and future tax brackets, the amount of time before withdrawals are made, and other assets that are owned and their tax treatment.

Though the tax treatment is, for the most part, the same whether or not you are comparing the Traditional and Roth in a 401(k) versus in a personal IRA, there are differences when it comes to contribution limits and eligibility. Therefore, the following compares the Traditional and the Roth for a personal IRA only. In our next newsletter, we will continue by comparing the Traditional and the Roth inside the employer-sponsored plan, such as a 401(k).

In general, contributions to a Traditional IRA are made with pre-tax dollars. In other words, contributions are made with monies that have not yet been taxed. Therefore, a current tax savings is received when the contribution is made. The contributions and earnings grow on a tax-deferred basis, meaning they are taxed later when withdrawn. Conversely, contributions to a Roth IRA are made with after-tax dollars. There is no tax savings when the contribution is made. Instead, contributions and earnings are tax-free when withdrawn. The table on the next page compares several of the primary differences between the Traditional IRA and the Roth IRA.

	ROTH IRA	TRADITIONAL IRA
Current Tax Savings	None	Contributions *may be* tax-deductible (*see eligibility below)*
Tax Benefits	Tax-free growth	Tax-deferred growth
Taxation at Withdrawal	Contributions and earnings are tax-free for "qualified" distributions (made at least five years after the first contribution and after age 59-1/2)	Withdrawals of pre-tax contributions and of earnings are taxable when distributed
Eligibility Age	Any age with employment compensation	Under age 70-1/2 with employment compensation
2017 Eligibility Income	Under $118,000 for single filers; under $186,000 for married filers	Under $62,000 for single filers IF covered in a plan at work; under $99,000 for married filers if covered in a plan at work; NO income limits if not in a plan at work
2017 Maximum Contribution Limit	$5,500 ($6,500 if you are age 50 or older) OR 100% of employment compensation, whichever is less	
Contribution Deadline	April 15th of the following year	
Penalties	"Non-qualified" distributions are subject to taxation of earnings and 10% early withdrawal penalty, unless an exception applies	Withdrawals before age 59-1/2 are subject to 10% early withdrawal penalty, unless an exception applies

In theory, if you are in a higher tax bracket now than you will be during retirement, the Traditional IRA *may* be the better option for you. However, the Roth is a very attractive option to consider, especially for younger individuals who have more time to accumulate tax-free earnings. For more information or to discuss which of the two might be better for you, consult your tax advisor or call our office.

HOUSEKEEPING TIDBITS

- Clients who have accounts with TD Ameritrade can now lower their trading costs if they sign up for electronic delivery of statements and trade confirmations. If you prefer to receive your statements and confirmations electronically instead of in the mail, please call our office for more details.

- You can also opt to receive this newsletter by e-mail. To do so, call our office and ask for Darcy.

- It is important not to send us confidential information, such as account statements or anything that contains your personal information, through normal e-mail channels. That information should be submitted through our *NEW* secure e-mail portal. It's an easy system to use. For instructions, please call our office.

- Just a reminder that we are not permitted to accept trade or withdrawal instructions from clients by voice mail or e-mail. Therefore, if you need to place a trade or make a withdrawal from your account, please give us a call. This procedure may seem inconvenient, but it is to help prevent any miscommunication of your wishes.

- Every three years or when there is a material change in a client's profile, we are required by FINRA (Financial Industry Regulatory Authority) to update the client's profile sheet. We do so by having you complete a form titled "Trustmont New Account Form". The form asks for information such as income, net worth, liquid net worth, investment goals, and risk tolerance. Though we have been following this procedure for many years, occasionally a client asks us to explain the purpose of requesting such information. As advisors, we are required to "know our client". The answers to those questions help us to stay abreast of the client's needs and circumstances in order to provide the most suitable investment advice. This information is kept confidential and used for internal purposes only.

- Lastly, we are not permitted to process any forms signed by a client that contain missing information or where whiteout has been used to make a change. Any changes must be scratched out and initialed by the client. Therefore, any incomplete forms will have to be returned to the client for reprocessing. Please be patient with this rule and the others mentioned above. They may cause an inconvenience or delay in processing your requests, but they're designed for your protection.

HORIZON FINANCIAL ADVISORS
Jonnet Building, Suite 303 4099 William Penn Highway
Monroeville, PA 15146-2513
Phone (412) 856-7300 / (800) 852-7182 - Fax (412) 856-3677
E-Mail: info@horizonfinancialadvisors.com