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Financial Insight Quarterly

Your Source for Financial Well-Being

Key Numbers for 2015



Every year, the Internal Revenue Service (IRS) announces cost-of-living adjustments that affect contribution limits for retirement plans, thresholds for deductions and credits, and standard deduction and personal exemption amounts. Here are a few of the key adjustments for 2015.

Retirement plans

- Employees who participate in 401(k), 403(b), and most 457 plans can defer up to \$18,000 in compensation in 2015 (up from \$17,500 in 2014); employees age 50 and older can defer up to an additional \$6,000 in 2015 (up from \$5,500 in 2014)
- Employees participating in a SIMPLE retirement plan can defer up to \$12,500 in 2015 (up from \$12,000 in 2014), and employees age 50 and older will be able to defer up to an additional \$3,000 in 2015 (up from \$2,500 in 2014)

IRAs

The limit on annual contributions to an IRA remains unchanged at \$5,500 in 2015, with individuals age 50 and older able to contribute an additional \$1,000. For individuals who are covered by a workplace retirement plan, the deduction for contributions to a traditional IRA is phased out for the following modified adjusted gross income (AGI) ranges:

	2014	2015
Single / head of household (HOH)	\$60,000 - \$70,000	\$61,000 - \$71,000
Married filing jointly (MFJ)	\$96,000 - \$116,000	\$98,000 - \$118,000
Married filing separately (MFS)	\$0 - \$10,000	\$0 - \$10,000

Note: The 2015 phaseout range is \$183,000 - \$193,000 when the individual making the IRA contribution is not covered by a workplace retirement plan, but is filing jointly with a spouse who is covered.

The modified AGI phaseout ranges for individuals making contributions to a Roth IRA are:

	2014	2015
Single / HOH	\$114,000 - \$129,000	\$116,000 - \$131,000
MFJ	\$181,000 - \$191,000	\$183,000 - \$193,000
MFS	\$0 - \$10,000	\$0 - \$10,000

Estate and gift tax

- The annual gift tax exclusion remains \$14,000
- The gift and estate tax basic exclusion amount for 2015 is \$5,430,000, up from \$5,340,000 in 2014

Personal exemption

The personal exemption amount has increased to \$4,000 (up from \$3,950 in 2014). For 2015, personal exemptions begin to phase out once AGI exceeds \$258,250 (Single), \$309,900 (MFJ), \$284,050 (HOH), or \$154,950 (MFS).

Note: These same AGI thresholds apply in determining if itemized deductions may be limited. The corresponding 2014 threshold amounts were \$254,200 (single), \$305,050 (MFJ), \$279,650 (HOH), and \$152,525 (MFS).

Standard deduction

The standard deduction amounts have been adjusted as follows:

	2014	2015
Single	\$6,200	\$6,300
HOH	\$9,100	\$9,250
MFJ	\$12,400	\$12,600
MFS	\$6,200	\$6,300

Note: The 2015 additional standard deduction amount (age 65 or older, or blind) is \$1,550 if filing as single or HOH (unchanged from 2014) or \$1,250 (up from \$1,200 in 2014) for all other filing statuses. Special rules apply if you can be claimed as a dependent by another taxpayer.

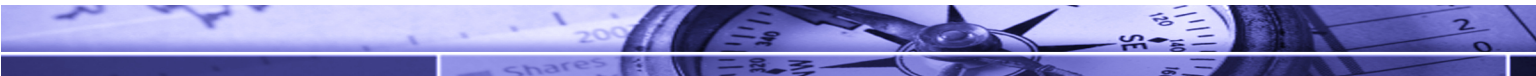
1st Quarter 2015

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10 Financial Terms Everyone Should Know

Investor, Know Thyself: How Your Biases Can Affect Investment Decisions

Should I be worried about a Federal Reserve interest rate hike?



10 Financial Terms Everyone Should Know

Understanding financial matters can be difficult if you don't understand the jargon. Becoming familiar with these 10 financial terms may help make things clearer.

1. Time value of money

The time value of money is the concept that money on hand today is worth more than the same amount of money in the future, because the money you have today could be invested to earn interest and increase in value.

Why is it important? Understanding that money today is worth more than the same amount in the future can help you evaluate investments that offer different potential rates of return.

2. Inflation

Inflation reflects any overall upward movement in the price of consumer goods and services and is usually associated with the loss of purchasing power over time.

Why is it important? Because inflation generally pushes the cost of goods and services higher, any estimate of how much you'll need in the future--for example, how much you'll need to save for retirement--should take into account the potential impact of inflation.

3. Volatility

Volatility is a measure of the rate at which the price of a security moves up and down. If the price of a security historically changes rapidly over a short period of time, its volatility is high. Conversely, if the price rarely changes, its volatility is low.

Why is it important? Understanding volatility can help you evaluate whether a particular investment is suited to your investing style and risk tolerance.

4. Asset allocation

Asset allocation means spreading investments over a variety of asset categories, such as equities, cash, bonds, etc.

Why is it important? How you allocate your assets depends on a number of factors, including your risk tolerance and your desired return. Diversifying your investments among a variety of asset classes can help you manage volatility and investment risk. Asset allocation and diversification do not guarantee a profit or protect against investment loss.

5. Net worth

Net worth is what your total holdings are worth after subtracting all of your financial obligations.

Why is it important? Your net worth may fund most of your retirement years. So the faster and higher your net worth grows, the more it may

help you in retirement. For retirees, a typical goal is to preserve net worth to last through the retirement years.

6. Five C's of credit

These are character, capacity, capital, collateral, and conditions. They're the primary elements lenders evaluate to determine whether to make you a loan.

Why is it important? With a better understanding of how your banker is going to view and assess your creditworthiness, you will be better prepared to qualify for the loan you want and obtain a better interest rate.

7. Sustainable withdrawal rate

Sustainable withdrawal rate is the maximum percentage that you can withdraw from an investment portfolio each year to provide income that will last, with reasonable certainty, as long as you need it.

Why is it important? Your retirement lifestyle will depend not only on your assets and investment choices, but also on how quickly you draw down your retirement portfolio.

8. Tax deferral

Tax deferral refers to the opportunity to defer current taxes until sometime in the future.

Why is it important? Contributions and any earnings produced in tax-deferred vehicles like 401(k)s and IRAs are not taxed until withdrawn. This allows those earnings to compound, further adding to potential investment growth.

9. Risk/return trade-off

This concept holds that you must be willing to accept greater risk in order to achieve a higher potential return.

Why is it important? When considering your investments, the goal is to get the greatest return for the level of risk you're willing to take, or to minimize the risk involved in trying for a given return. All investing involves risk, including the loss of principal, and there can be no assurance that any investing strategy will be successful.

10. The Fed

The Federal Reserve, or "the Fed" as it's commonly called for short, is the central bank of the United States.

Why is it important? The Fed has three main objectives: maximum employment, stable prices, and moderate long-term interest rates. The Fed sets U.S. monetary policy to further these objectives, and over the years its duties have expanded to include maintaining the stability of the entire U.S. financial system.

Investor, Know Thyself: How Your Biases Can Affect Investment Decisions



In psychology, "heuristics" refers to the mental decision-making short-cuts that individuals develop over time based on past experiences. While heuristics can be helpful in avoiding unnecessary deliberation, they can also lead to misleading biases that can derail even the most well-thought-out financial plan.

Traditional economic models are based on a simple premise: people make rational financial decisions that are designed to maximize their economic benefits. In reality, however, most humans don't make decisions based on a sterile analysis of the pros and cons. While most of us do think carefully about financial decisions, it is nearly impossible to completely disconnect from our "gut feelings," that nagging intuition that seems to have been deeply implanted in the recesses of our brain.

Over the past few decades, another school of thought has emerged that examines how human psychological factors influence economic and financial decisions. This field--known as behavioral economics, or in the investing arena, behavioral finance--has identified several biases that can unnerve even the most stoic investor. Understanding these biases may help you avoid questionable calls in the heat of the financial moment.

Sound familiar?

Following is a brief summary of some common biases influencing even the most experienced investors. Can you relate to any of these?

1. **Anchoring** refers to the tendency to become attached to something, even when it may not make sense. Examples include a piece of furniture that has outlived its usefulness, a home or car that one can no longer afford, or a piece of information that is believed to be true, but is in fact, false. In investing, it can refer to the tendency to either hold an investment too long or place too much reliance on a certain piece of data or information.
2. **Loss-aversion bias** is the term used to describe the tendency to fear losses more than celebrate equivalent gains. For example, you may experience joy at the thought of finding yourself \$5,000 richer, but the thought of losing \$5,000 might provoke a far greater fear. Similar to anchoring, loss aversion could cause you to hold onto a losing investment too long, with the fear of turning a paper loss into a real loss.
3. **Endowment bias** is also similar to loss-aversion bias and anchoring in that it encourages investors to "endow" a greater value in what they currently own over other possibilities. You may presume the investments in your portfolio are of higher quality than other available alternatives, simply because you own them.
4. **Overconfidence** is simply having so much confidence in your own ability to select investments for your portfolio that you might

ignore warning signals.

5. **Confirmation bias** is the tendency to latch onto, and assign more authority to, opinions that agree with your own. For example, you might give more credence to an analyst report that favors a stock you recently purchased, in spite of several other reports indicating a neutral or negative outlook.
6. The **bandwagon effect**, also known as **herd behavior**, happens when decisions are made simply because "everyone else is doing it." For an example of this, one might look no further than a fairly recent and much-hyped social media company's initial public offering (IPO). Many a discouraged investor jumped at that IPO only to sell at a significant loss a few months later. (Some of these investors may have also suffered from overconfidence bias.)
7. **Recency bias** refers to the fact that recent events can have a stronger influence on your decisions than other, more distant events. For example, if you were severely burned by the market downturn in 2008, you may have been hesitant about continuing or increasing your investments once the markets settled down. Conversely, if you were encouraged by the stock market's subsequent bull run, you may have increased the money you put into equities, hoping to take advantage of any further gains. Consider that neither of these perspectives may be entirely rational given that investment decisions should be based on your individual goals, time horizon, and risk tolerance.
8. A **negativity bias** indicates the tendency to give more importance to negative news than positive news, which can cause you to be more risk-averse than appropriate for your situation.

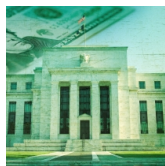
An objective view can help

The human brain has evolved over millennia into a complex decision-making tool, allowing us to retrieve past experiences and process information so quickly that we can respond almost instantaneously to perceived threats and opportunities. However, when it comes to your finances, these gut feelings may not be your strongest ally, and in fact may work against you. Before jumping to any conclusions about your finances, consider what biases may be at work beneath your conscious radar. It might also help to consider the opinions of an objective third party, such as a qualified financial professional, who could help identify any biases that may be clouding your judgment.

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Should I be worried about a Federal Reserve interest rate hike?

After years of record-low interest rates, at some point this year the Federal Reserve is expected to begin raising its target federal funds interest rate (the rate at which banks lend to one another funds they've deposited at the Fed). Because bond prices typically fall when interest rates rise, any rate hike is likely to affect the value of bond investments.

However, higher rates aren't all bad news. For those who have been diligent about saving and/or have kept a substantial portion of their portfolios in cash alternatives, higher rates could be a boon. For example, higher rates could mean that savings accounts and CDs are likely to do better at providing income than they have in recent years.

Also, bonds don't respond uniformly to interest rate changes. The differences, or spreads, between the yields of various types of debt can mean that some bonds may be under- or overvalued compared to others. Depending on your risk tolerance and time horizon, there are many ways to adjust a bond portfolio to help cope with rising interest rates. However, don't

forget that a bond's total return is a combination of its yield and any changes in its price; bonds seeking to achieve higher yields typically involve a higher degree of risk.

Finally, some troubled economies overseas have been forced to lower interest rates on their sovereign bonds in an attempt to provide economic stimulus. Lower rates abroad have the potential to make U.S. debt, particularly Treasury securities (whose timely payment of interest and principal is backed by the full faith and credit of the U.S. Treasury), even more attractive to foreign investors. Though past performance is no guarantee of future results, that's what happened during much of 2014. Increased demand abroad might help provide some support for bonds denominated in U.S. dollars.

Remember that bonds are subject not only to interest rate risk but also to inflation risk, market risk, and credit risk; a bond sold prior to maturity may be worth more or less than its original value. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.



Is it possible to accidentally disinherit my heirs?

Yes. One of the most tragic estate planning mistakes is unintentionally disinheriting an heir. Here are some of the most common ways this unfortunate situation can occur.

One cause of accidental disinheritance may be the simplest: failure to make a will. In this case, property generally passes according to the intestacy laws of the state in which you're "domiciled," and these laws vary widely from state to state. For example, if you are married and have children, state intestacy law might leave one-third or one-half of your estate to your spouse and the balance to your children. This may or may not be what you would have wanted.

Making an ineffective or faulty will can also result in misdirected allocations. For example, you may fail to provide for children born after you make your will (this is what happened to Anna Nicole Smith and Heath Ledger). The lesson here is to forgo the do-it-yourself kit and hire an estate planning attorney to draft and execute your will, which should be reviewed every year or two.

Failing to update your will can also result in allocations that are made according to an old will. This can lead to unwanted allocations (for example, the effective disinheritance of children when Mom or Dad remarries and everything passes to the new spouse). Make it a rule to review and update your will periodically, especially after major life events such as marriage, a birth or adoption, divorce, or a death in the family. Also consider updating beneficiary designations (for life insurance policies, retirement accounts, payable on death accounts, etc.) annually. And remember that beneficiary designations trump provisions made in your will.

A fourth cause of accidental disinheritance is what's known as "ademption." This is the failure of a specific bequest made in a will because the property no longer exists in the decedent's estate for some reason. For example, you might leave your car to your son in your will, and then sell or gift it to someone else before you die. A similar situation can occur when a life insurance policy is allowed to lapse (so check your policies and don't forget to make the premium payments).