VIEWPOINTS

FIRST HALF 2015	*ADVISORY NEWSLETTER*

MARKET COMMENTARY **FREDRIC W. WILLIAMS**

Partying Like It Was 1999…

With a nod to Prince's 1982 anthem about the prospects for the new millennium 18 years hence, the pre-dot-com fervor of the late '90s was starting to somewhat resemble the social media frenzy of the last several years. Who knew that 140 characters of egocentric commentary would be considered the promise of future fortunes, despite the absence of any positive cash flow or current profits? And who would have suspected that the "pro forma earnings" myth from almost 20 years ago would be resurrected as the offspring that now populate tech start-ups' pre-public offering press releases? The following could have just as easily been written in 1999, and probably was then as well:

> *"As young technology companies jostle for investors who will pour money into their firms as they try to make it big and strike it rich, some companies are using unconventional financial terms. Instead of revenues, these privately held firms tout "bookings," "annual recurring revenue" or other numbers that often far exceed actual revenue."*
>
> \- *Demos, Ovide & Pulliam; WSJ 6/9/2015*

After closing out 2014 near record highs, the domestic equity indices plowed through the first half of 2015 with very little to show for six months of laborious efforts, as we point out in the article below. Having become accustomed to outsized returns as we recovered from the dark days in early 2009, the "animal spirits" crowd found its patience being tested by the narrowing market breadth that resulted in significant performance disparities between the popular indices and lagging sectors like energy, industrials, and other commodities. Retail investors seemed to forgive (or forget) the 15-year hiatus from the Nasdaq peak of March 10th, 2000 to its final recovery, of what was as much as an 80% decline, on April 23rd of 2015, as they continued to plow into the shares of the fewer and fewer companies that were dominating the media and influencing the indices.

"Just a few companies are driving the gains in the major U.S. stock indexes this year, raising fresh concerns about the health of the market's advance.

Six firms – Amazon.com, Google, Apple, Facebook, Netflix and Gilead Sciences – now account for more than half of the $664 billion in value added this year to the Nasdaq Composite Index…

Amazon, Google, Apple, Facebook, Gilead and Walt Disney account for more that all of the $199 billion in market-capitalization gains in the S&P 500.

The concentrated gains are spurring concerns that soft trading in much of the market could presage a pullback in the indexes. Many investors see echoes of prior market tops – including the late 2007 peak and the late 1990s frenzy – when fewer and fewer stocks lifted the broader market."

- *Strumpf; WSJ 7/26/15*

The aforementioned divergences within the market and its various sectors, including overseas bourses where the rush to the U.S. equity indices has been at their expense, has had an impact on the psyche of investors as they eschew the longer term benefits of a truly diversified portfolio, in exchange for the short term fever of thinking they needed to keep up with the ever-narrowing domestic equity indices. The symptoms of this condition present themselves as relative performance envy, absent any real understanding as to what that might have as implications, and can result in a desire to feel like one has to buy the shiny new car in the window rather than realizing that the old reliable pick-up truck is still better suited for the longer term job at hand.

Much of this angst can be attributed to the lagging performance of some of the tortoise-like sectors of the domestic markets, such as utilities, REITs, and energy, which have faced headwinds from either the prospect of rising interest rates, or the sell-off in oil prices. Although these conditions have impacted the temporary pricing of these investments, they have not, by and large, changed the value of the cash flow they produce. And given that compounding cash flow can represent nearly two-thirds of a portfolio's overall long term return, we're comfortable retaining these investments (and buying more) in light of their relatively high dividend yields, when compared to other asset class alternatives.

Although you'll find our comments on the oil markets below, the other elephant in the room has been the timing, and magnitude, of the pending increases in interest rates that the Fed has been telegraphing for quite some time. Having finally gotten past the budget drama and the questions about fiscal policy, the focus is now on monetary policy and the impact that rising rates may have on various investment options, something we address below as well.

Everyone on the planet recognizes that interest rates will need to normalize at some point post the "Great Recession" – the concern has always centered around the forecasts that the timing of this decision are based on, and the impact a rise in rates may have on the economy, as well as the investment considerations those assumptions will result in.

"The only function of economic forecasting is to make astrology look respectable."

- *Ezra Solomon – Stanford University; Council of Economic Advisors '71-'73*

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As value-oriented investors that are sometimes contrarian, we see this current landscape as presenting a number of perplexing questions, along with offering potentially an equal number of longer term opportunities. Won't rising interest rates be a function of an improving economy? Won't an improving global economy require more energy as it expands? And could that have an impact on the current prices of a broad array of a number of resources that are critical to our world's industrial activity?

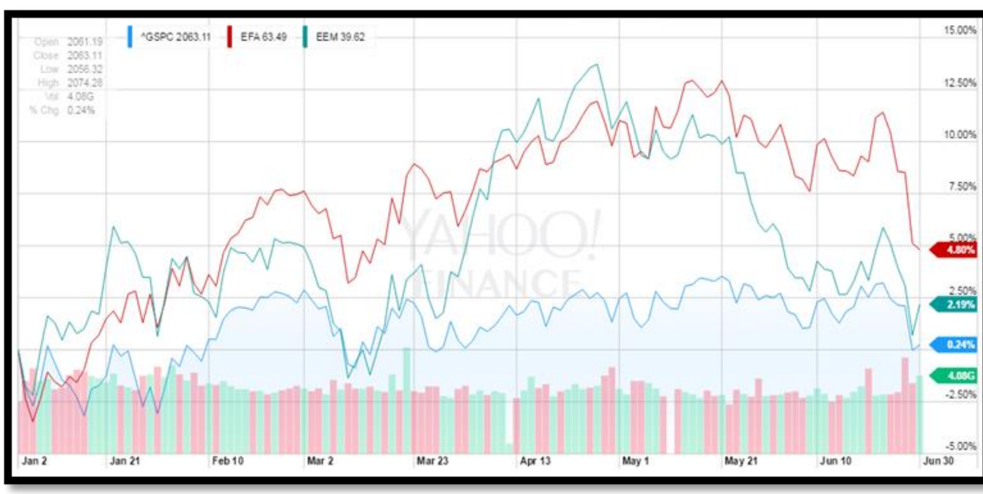
The bottom line is that these questions will be answered over time as conditions gradually change – something that will likely require more than can be accomplished in the 140 characters of a Tweet.

> *"Successful investing takes time, discipline and patience. No matter how great the talent or effort, some things just take time. You can't produce a baby in one month by getting nine women pregnant."*
>
> - *Warren Buffett*

CAPITAL MARKETS OVERVIEW

Three Yards And a Cloud of Dust… **Jay Flower**

The volatility in the global equity markets continued in the first half of the year and it seems as though investors exerted a lot of energy just to end the first half about where 2015 started. As the chart below shows the MSCI EAFE as (EFA) and Emerging Markets (EEM) were up double digits as recently as late May while the S&P 500 has been range-bound for the first six months closing out Q2 up less than a percentage point for the year.



While the equity indexes closed out the first half only marginally higher than they started out there were a number rather significant shocks that we expect will play out into the second half and beyond. The first came from the European Central Bank (ECB) as it announced that it will buy sovereign debt of Eurozone countries as part of its enhanced QE. This is an unprecedented policy in both size, equivalent to $1 trillion, and term, 18 months. The policy rate is -.20% and this negative rate had an immediate global impact by suppressing interest rates elsewhere including the United States although we have seen rates creep up in recent months. The interest rate on the 10 Year U.S. Treasury peaked first half in late June when it hit 2.47%. While rates in the U.S. continue to hover near their lows it is important to understand that globally U.S. Treasuries are attractive on a relative basis when compared to other highly rated sovereign debt securities such as the 10 year German Bund which is currently yielding .83% but had been as low as .079% in early April.

The second shock relates to energy and the continued drop in oil prices throughout the first quarter. Most grades of oil are now trading at half the prices they were only a year ago. There is plenty of speculation about where oil prices are headed with some extreme predictions as low as $30/barrel. It is impossible to predict with any level of certainty and we don't pretend to know where oil prices are headed but we do know that low oil prices, along with the ECB policy, are bullish for equities excluding the energy sector. The S&P 500 Index managed to post a 2.2% rise in profits in Q1 versus prior year even with the energy sector having a 57.8% decline in profits.

The third shock was the continued and dramatic rise of the U.S. Dollar versus the Euro and other global currencies. There are pros and cons to the sudden strengthening of the dollar that will have both short and long-term impacts on economic growth, Fed policy, equity markets etc. Some of the pros are: falling oil and other commodity prices, it improves the terms of trade, attracts foreign investment and increases consumer spending and confidence. Some of the cons are: discourages U.S. investment overseas, puts downward pressure on inflation which makes it more difficult for the Fed to hit its target inflation rate, worsens the trade deficit and it may lead U.S. producers to cut the price of their products abroad which would reduce profit margins.

Perhaps the most disruptive shock to the global markets in the first half of 2015 was the continued uncertainty regarding Greece and whether Tsipras would allow Greece to default on a loan to the IMF, becoming the first developed country to do so. This uncertainty caused the European and Emerging Markets to tumble into the close of Q2 giving back most of the year's gains. As of this writing there has been a Greece & EU agreement on a third bailout that will keep the beleaguered country in the Eurozone, for now. Included in the agreement are requirements for Greece to put 50 Billion euros of state assets in a trust fund so that they can be sold off and proceeds used to repay debt and the government of left-wing Prime Minister Tsipras will also have to convince the Greek parliament to pass six austerity measures, including spending cuts, tax hikes and pension reforms. Only then can more detailed negotiations begin.

Index Returns			
Equities	*Percentage Change for the 2nd Quarter*	*Percentage Change for the Year*	*Annualized 10-Year Returns*
S&P 500	**0.28%**	1.23%	7.89%
DJ UBS Commodity Index	**4.66%**	-0.21	-2.62%
MSCI EAFE	**0.62%**	5.53%	5.12%
MSCI EM	**0.69%**	2.95%	8.11%
NAREIT Equity REIT Index	**-9.95%**	-5.67%	7.01%
Fixed Income			
Barclays Aggregate	**-1.68%**	-0.10%	4.44%
Barclays U.S. Treasuries	**--1.58&**	0.03%	4.05%

Stocks - the "safe" bet… **Jason Foster**

Safety means different things to different people. When it comes to investing for safety, conventional wisdom suggests using financial instruments such as certificates of deposits or U.S. Treasuries to protect your hard earned dollars and to avoid the risks that come with the stock market's fluctuations. Over the short-term this makes complete sense, after all CDs and Treasuries offer FDIC insurance and the direct backing of the treasury respectfully, the highest forms of principal protection money can buy. However, when contemplating an investment over the long haul, as in several decades, the definition of safety changes. Why? Over long stretches of time the forces of inflation erode the purchasing power of your dollars, changing the risk dynamic. As inflation compounds, a dollar tomorrow will not stretch as far as a dollar today, and as that happens over extended periods the results are dramatic. Take a look the following excerpt from Warren Buffet's last letter to shareholders.

"During the 1964-2014 period, the S&P 500 rose from 84 to 2,059, which, with reinvested dividends, generated the overall return of 11,196%... Concurrently, the purchasing power of the dollar declined a staggering 87%. That decrease means that it now takes $1 to buy what could be bought for 13¢ in 1965 (as measured by the Consumer Price Index)".

In other words, playing it "safe" by investing in currency based securities has proven to be a far riskier endeavor, over time, than investing in a diversified portfolio of stocks. The real caveat here is the *length* of time needed for the advantages to outweigh the risks. An internet bubble and financial crisis are fresh reminders of the extreme patience needed to outlast the volatility stocks can dish out. These recent events also reinforce the need for the inclusion of fixed income investments for those without a long-term time horizon, or for those who prefer to avoid the extremes of the market. Still, while treasury bonds do have their place and offer stability in uncertain times, having ownership in a diverse mix of high quality companies offering goods and services across the globe, offers a much safer long-term approach to protecting the purchasing power of your dollars in the future.

FIDUCIARY CORNER **STEPHEN L. EDDY**

2015 Regulatory Limits for Retirement Plans

After a few years of post-"Great Recession" stagnation due to relatively low interest rates and minimal cost-of-living increases, the annual limits pertaining to retirement plans have once again begun to increase. The table below contains the 2014 limits, the new 2015 limits, and a note on what each means.

Important Limits	**2014**	**2015**	**Notes**
402(g) Deferral Limit (401k, 403b, 457 elective deferrals)	$17,500	$18,000	The maximum amount a participant can contribute through salary deferral.
Catch-up Contribution	$5,500	$6,000	The maximum amount a participant 50 and older can additionally contribute through salary deferral.
Annual Compensation Limit	$260,000	$265,000	The maximum amount of compensation allowed for calculation purposes. Important for contribution calculations.
Highly Compensated Employee	$115,000	$120,000	The compensation threshold at which an employee becomes defined as highly compensated. Important salary deferral and contribution allocation testing.

Limit on Annual Additions: Defined Contribution Plan	$52,000	$53,000	The maximum annual amount allowed to be contributed for an employee from all contribution sources (employee, employer).
Social Security Wage Base	$117,000	$118,500	The maximum earnings level allowed to be taxed under the OASDI program. Important for calculations integrated with social security.

Next quarter: an in-depth review of the DOL's proposal of new rules for fiduciary standards and retirement advice.

PLANNING CONCEPTS

Ways to Pay for College: Grants, Scholarships and Loans **Tracy Rogers**

Though rising higher education costs don't appear to be letting up any time soon, grants, scholarships and loans can all help make college more affordable – or even free.

Free Money
Applying for grants and scholarships should be prioritized above applying for loans since these funding options offer "free money" while loans have to be paid back.

Grants
In most cases, grants are distributed by the government and other nonprofit organizations. Eligibility and amount are usually determined according to the distributor's assessment of an applicant's financial need. There are several well-known federal grants available to students:

- **Federal Pell Grant:** Pell Grants are awarded based on your level of financial needs, status as a full- or part-time student and the cost of your school's attendance. Applicants are automatically considered for Pell Grants when they submit their Free Application for Federal Student Aid (FAFSA). For the 2014-2015 school year, the maximum Pell Grant award is $5,730. Pell Grants are distributed primarily to students who show the greatest financial need. For example, according to a 2011 study conducted by Fastweb LLC, 95% of Pell Grant recipients in the 2007-2008 academic year were at or below 250% of the poverty line (adjusted gross income of $53,000 for a household of four). Today, 250% of the poverty line for a household of four is $59,625.
- **Federal Supplemental Educational Opportunity Grant (FSEOG):** Eligibility and amount for these grants also is determined primarily by level of financial need. However, other factors in determining eligibility and grant amount include the amount of other aid you receive, the amount of funds available at your school and how early you apply for the grant. Students are considered for an FSEOG after filling out an FAFSA and may receive a grant of between $100 and $4,000 per year.
- **Teacher Education Assistance for College and Higher Education (TEACH) Grant:** The TEACH Grant is less common than other federal grants because it is specifically for students who intend to become teachers and has strict eligibility requirements beyond demonstrating financial need. Students must sign a "TEACH Grant Agreement to Serve" in which they vow to teach in a high-need field at a school that serves low-income families for at least four years within the first eight

years after graduating. Recipients must also complete TEACH Grant counseling each year, enroll in TEACH Grant-eligible programs and maintain a specific level of academic performance. Those who meet the requirements may receive up to $4,000 each year.

Scholarships

One distinction between grants and scholarships is that scholarships are typically awarded by merit, and grants are most often awarded by financial need. Scholarships are similar to grants in that they generally offer money that does not need to be repaid. Many scholarships are awarded for athletic or academic success. Others are given to members of a specific group or as prizes for contest, such as essay competitions. There are thousands of scholarship opportunities available to students and many places to find them. Potential resources include employers, high-school guidance counselors and the Internet.

When searching for scholarships online, be careful to avoid websites that request money for results – the only thing you should be spending when searching and applying for scholarships is time. Both www.fastweb.com and www.collegeboard.org are useful scholarship resources. The College Board offers a free scholarship finder tool that allows the user to enter requested information and exposes relevant scholarship opportunities. Access this tool at www.bigfuture.collegeboard.org/scholarship-search.

Federal Student Loans

If you need additional funds to pay for college, the government has several student loan options that can help. Federal loans typically have much lower interest rates and more flexible repayment options than private loans.

- **Direct Subsidized Loans:** Depending on level of financial need and year in school, undergraduates may borrow between $3,500 and $5,500. Once the loan is made, an upfront 1% loan fee is added to the total. Interest does not accrue until the student graduates or withdraws from college, and loan repayment begins six months after that. The direct subsidized loan interest rate for loans disbursed between July 1, 2014, and June 30, 2015, is fixed at 4.66%
- **Direct Unsubsidized Loans:** Similar to direct subsidized loans, undergraduates may borrow a base amount between $3,500 and $5,500, depending on year in school and level of financial need. If the amount you receive for your subsidized or unsubsidized loans does not exceed the anticipated cost of attendance determined by your school's financial aid office, you may be eligible for an additional $2,000 per year in direct unsubsidized loans. Keep in mind that the base amount of $3,500 to $5,500 is a combined total of subsidized and unsubsidized loans. These loans charge an upfront fee of 1% and immediately begin accruing interest at a fixed rate of 4.66% (for loans disbursed between July 1, 2014, and June 30, 2015). Repayment begins six months after leaving school.
- **Direct PLUS Loans:** PLUS loans are available to graduate students, professional degree students and parents of dependent undergraduate students, should they need additional funds. Currently, PLUS loans have a 4.2% loan origination fee, and a fixed

interest rate of 7.21% that begins immediately after disbursement of the loan. The maximum loan amount is determined by subtracting your other financial aid from the expected cost of college as determined by your school's financial aid office.

- **Federal Perkins Loans:** Of all the federal loans available, Perkins Loans are the most cost-efficient. Perkins Loans don't begin to accrue interest until the end of the six-month grace period. Once the grace period concludes, Perkins Loans begin charging interest, fixed at only 5%. However, Perkins funds are limited and only students who have the greatest financial need qualify for the loan. Undergraduate students can borrow up to $5,500 per year.

To apply for federal grants and student loans, you must submit the Free Application for Federal Student Aid (FAFSA) available at www.fafsa.ed.gov.

Repayment Options for Federal Loans
Federal student loans offer repayment options that are more flexible than private loans. Unless they request otherwise, borrowers are placed on a standard 10-year repayment plan that usually requires monthly payments of at least $50, depending on the total amount owed. Standard repayment is usually the cheapest long-term option because the loan balance is paid down faster. However, if you need a repayment plan with smaller monthly installments, there is also a 10-year graduated repayment plan in which the monthly amount due starts out low and increases every two years. Another option is the extended repayment plan which allows borrowers to make payments for up to 25 years at lower monthly costs. Finally, you might be eligible for an income-based repayment (IBR) plan or income-contingent repayment (ICR) plan. While IBRs and ICRs do have minor differences, they are identical in that monthly payments are determined according to your adjusted gross income and household size. These plans typically take about 15-25 years to pay off.

Private Loans
Private student loans are comparable to most other loans. They are funded by banks and nonfederal organizations (such as Sallie Mae), and the amount, eligibility, interest rates and other fees are typically determined by your credit history. Interest rates for private student loans are usually higher than federal student loans, but lower than credit cards.

Though private student loans are available to you, it is generally recommended that you consider private loans only after you've exhausted all other loan types available.

Ramifications of Not Updating Beneficiaries **Missy Lyon**

Investors should have a process in place whereby they review their legal and financial documents periodically, including any wills and trusts, insurance policies and powers-of-attorney (both healthcare and financial). But the review shouldn't stop there. Some percentage of a family's investible assets is likely held in accounts where a beneficiary is named at the time the account is opened. As lives change, beneficiaries can change and those documents need to keep up with the family's changing financial goals.

Naming a beneficiary on an account has its own set of pros and cons. Having a stated beneficiary avoids probate when the account holder dies, it supersedes any alternate or conflicting instructions that may surface in either a will or trust document, and it allows the named beneficiaries quicker access to the funds in a confidential fashion. Waiting for a decedent's estate to go through probate can take months and those records are not necessarily private.

Some account types specifically ask that a beneficiary be named when the account is established including IRAs, any qualified retirement plans, life insurance policies and any annuities or pensions. On other account types such as a taxable bank or brokerage account, the addition of a beneficiary isn't required, but the account holder can request a TOD clause (transfer on death) or a Designated Beneficiary account agreement.

Case Study #1: Ken and Barbara married in 2010. For each this is a second marriage and they both have grown children. Both spouses updated their existing wills, their life insurance policies and their healthcare powers-of-attorney shortly after their wedding. They made sure to include a "pour-over" clause in their revised wills for any assets they hadn't specifically itemized in the document and made sure all the children had copies of the new wills. Ken died unexpectedly of a heart attack four years into the marriage. As Barbara worked her way through the process of settling her husband's estate, she discovered an old IRA that Ken established way back in 1982 where he specified his first wife as his beneficiary. Although the account had grown significantly over the years, Barbara wasn't worried because she and Ken just updated their wills in 2010 and named each other as their primary beneficiaries across all accounts, plus she knew they had a pour-over clause for accounts like this IRA that they had overlooked. **Unfortunately, Barbara learned that Ken's first wife was indeed entitled to the 1982 IRA because Ken neglected to update his beneficiary designation when they originally divorced. A designated beneficiary on a specific account will over-ride instructions left in a will or trust, regardless of the dates on the documents.**

Case Study #2: Divorced mother, Alice, has a considerable 401-K plan balance in addition to the retirement assets she received during her divorce via a **Q**ualified **D**omestic **R**elations **O**rder. She is satisfied with the historic performance of her employer's 401-K plan and she decides to roll the QDRO monies into that existing plan. She doesn't bother mentioning the 401-K to her new financial advisor because he isn't going to be managing the account, but she is careful to update her 401-K beneficiary designation after finalizing her divorce. She removed her ex-spouse as the primary and replaced him with their nine year old daughter, Emily, and feels she has covered all bases. Although her ex-husband, Louis, wasn't a great husband and seemed to bounce from job to job living paycheck to paycheck – he had been a great father, so at the time of the divorce, she re-drew her will to indicate Louis should become Emily's full-time guardian should something happen to Alice. Alice died from the complications of breast cancer three years later. At the time, Emily was 12 years old – and still a minor. **Alice was not aware that a minor cannot take control of assets or enter into any legal contracts until age 18…so management of Emily's new inherited IRA fell to Louis. Louis, who was now unemployed and owed back taxes, had a new girlfriend, with expensive tastes – and unrestricted access to funds that were intended for Emily.**

Both cases have a similar – but avoidable – unhappy ending. Make sure you discuss ALL of your assets and your goals for those funds with your estate planning attorney and your financial advisor. A "goal" is not simply an annual percentage return you hope to achieve.

A goal can also be how you'd like the money to be spent, even if you're no longer around to make it happen. Maintaining an up-to-date list of all accounts each spouse owned would have jogged Ken's memory and he could have alerted their new attorney to the existence of the legacy IRA from the 1980's. If Alice had discussed the 401-K plan with her financial advisor, the fact that she had named a minor child as her primary beneficiary would have surfaced while she was still living and alternatives could have been proposed, including naming a financial guardian to handle the money, while still allowing Louis to care for their daughter.

Selecting, reviewing and updating your beneficiaries is part of a holistic approach practiced by experienced investment advisors. Spending 15 minutes today having a relaxed discussion with your advisor and updating a few beneficiary forms could save you countless hours of financial regret down the road. When was the last time you sat down and reviewed your accounts and their beneficiaries?

OPA News & Community Events

Save The Dates:

We're entering the time of year when a variety of non-profit organizations begin their fundraising efforts. In these challenging economic times financing the continuation of their programs and services requires even more effort from their dedicated volunteers. Although by no means complete, the events below are but a sampling of the organizations that our firm, employees, colleagues and clients are involved with:

> ***Greg Francoeur Memorial Golf Tournament*** **–** The 12th annual event (and last given that they've met their initial scholarship goals) to benefit the scholarship fund managed by the University of Maine Foundation which provides support to students enrolled at the University of Maine who would not be able to take advantage of educational opportunities without financial assistance. Contact Gary Francoeur at garygfrancoeur@comcast.net for more information about the event to be held Friday morning July 10th at the Val Halla Golf Club in Cumberland, Maine.
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> ***The Maine Sports Hall of Fame*** – Will be holding its 2nd annual golf classic to support the MSHOF Scholarship Fund. The event will be held Monday September 14th at Sable Oaks Gold Club in South Portland, and additional information can be found on their website www.mshof.com .
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> ***The Center for Grieving Children*** – Is holding its Swing "Fore" the Center benefit golf tournament Tuesday September 15th at The Purpoodock Club in Cape Elizabeth starting at noon. Additional information and registration can be found on their web site www.cgcmaine.org .
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> ***Wayfinder Schools*** *(formerly The Community Schools at Opportunity Farm and Camden)* - Will host their annual "Farm to Sea" Auction on Thursday, October 8th in the Eastland Grand Ballroom at the new Westin Portland Harborview 6 p.m. to 9:30 p.m. All of the funds will support the School's mission of providing diplomas for

adolescents at risk of non-completion of high school through their Residential and Passages Programs with campuses in Camden, New Gloucester and Machias. For more information, go to www.wayfinderschools.org where auction information will be posted and updated throughout the coming months.

Lastly, please feel free to regularly to visit our evolving website (www.oldportadvisors.com) as we continue our rebranding efforts and build out more of our online capabilities.

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