XML Financial Group
TRUE INDEPENDENCE.™

Spotlight on Finance

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View on the Market—1st Quarter

2016 is in the books and was full of change and surprises. In many ways, 2016 was a year of the unexpected. Here are just a few of the events that shaped 2016; oil prices plunged, the December 2015 Fed rate increase led to lower rates and a worldwide chase for yield. Equity markets were down 3% in January. February roared back to give the market a 3% rise for the year, only to give it back in March. The first quarter was up 1% with a trail of volatility. There was also Brexit and the U.S. Presidential Election. However, 2016 turned out to be a solid year for the equity markets. Most of the returns for last year came in the fourth quarter and the main driver was the financial sector. So what do all these events and the resulting uncertainty mean for investing in 2017? Equity markets are still on a bull run since the crash of 2008/2009, further echoed by the record 20,000 on the DOW Jones on January 25th. Does that mean they are getting lofty and are we due for a major correction? No one has the crystal ball but we are watching many factors closely.

Most of the world is focused on our new 45th President. The unexpected win carries a high degree of uncertainty across numerous policy fronts and it could provoke periods of stock market volatility as his administration attempts to execute on various aspects of its plan. For many years, the U.S. Federal Reserve and Central Banks around the world have used policy tools to suppress interest rates as they tried to

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Changes at XML Financial

We would like to thank all our clients for your patience during our transition from LPL Financial to Fidelity Investments. As with any change, there can be bumps along the way, but we are confident that we have been able to minimize those and everything is running smoothly.

As we announced in October, XML Financial is now an independent investment advisory firm. So, what does this mean for you? A broker, when recommending that you buy or sell a particular security, must have a reasonable basis for believing that the recommendation is *suitable* for you. While the investment may be suitable, it still may not be in your best interest. Investment advisors are fiduciaries and must act in the best interests of their clients, including appropriately managing and fully disclosing conflicts of interest that could bias their recommendations. In other words, you, the client, come first. At XML, putting our client interests has been our standard operating procedure, and this final step becoming a fully independent firm solidifies it.

Another change is our partnership with Focus Financial Partners. Focus is a leading partnership of independent, fiduciary wealth management firms and our equity investor. While they will have no hand in the day-to-day operations of XML, they do provide us a valuable resource of expertise and assistance with our long-range goals.

If you have any questions concerning your accounts or our recent changes, please reach out to your Financial Consultant.

View on the Market—1st Quarter….continued

reduce market volatility and stoke economic activity. These efforts have provided a powerful lift to the U.S. and global markets in recent years. In the U.S., the current secular bull market is the second longest in American history after the 9-year advance that ended in 2000. That does not mean we are set for a sharp decline. However, it does mean we need to be mindful of new opportunities that present themselves.

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Therefore, what are the headwinds we will be facing in 2017? The possibility of inflation and potentially more Fed rate hikes (interest rates have already moved almost 1% point on the 10-year Treasury in the last quarter) could be problematic for equites if they continue at that pace. We are in uncharted territory with the new administration and "Trumponomics." Making predictions would be unwise but we do believe the world is not going to wait around for the United States. The U.S. dollar is at an all-time high, which in turn has helped buoy the U.S. GDP and should continue to rise or stay steady. We do not believe it can continue at these levels so we will need a soft landing to limit the damage of a falling dollar.

President Trump has many ideas and policies he discussed during the election process. One big initiative is to lower taxes for individual, small and big business, all of which could be continue to stimulate GDP growth. We just do not know if this policy will work and only time will tell. We do however expect the Federal Reserve to continue on its path of raising rates as they alluded to during their last meeting in December. With the new administration, the Fed could be more aggressive with their policy and we could possibly see four rate hikes over the next 12 months.

So what's the bottom line? We have a healthy economy and U.S. GDP continues to grow at a slow pace. Oil prices remain low. Corporate earnings continue to rise and will get better if corporate tax breaks come into play. Interest rates are starting to move upward, which generally bodes well for financial companies and the consumer savings account. In order to keep the momentum going, we need the financial companies to move forward, which have been sideways since the 2008 financial crisis, low interest rates to remain and regulations with Dodd & Frank to be changed. The world GDP is starting to pick up slowly, which is good. While all these ideas seem great and we are monitoring each one of them very closely, some smoking gun that we are not aware of or a major terrorist attack could derail everything as we saw back in 2011. What we do know is that a well-diversified portfolio based on each client's risks, goals and time horizons is still a smart strategy.

The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ. It is an unmanaged index which cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. Past performance is no guarantee of future results.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.

Tax Time

January is a time for reviewing your expenditures, getting your records in order and starting to think about your taxes!

Filing your return – We've mentioned this in past years, but don't be too quick to file your 2016 return. If we moved your account(s) from LPL to Fidelity, you will receive two 1099s for non-IRA accounts and IRA accounts that had distributions. Make sure you have all forms before filing and allow additional time for possible corrections. Best bet is to hold off till at least March 1st.

IRA and 401(k) Contribution Limits – IRA, Roth IRA, 401(k) and 403(b) contribution limits remain the same for 2017. The big change for 2017 is the Social Security wage base which increased from $118,500 to $127,200, an increase of more than 7%! The wage base is the maximum amount of wages subject to the Social Security tax.

If you are unsure if you can contribute to a plan, give us call.

Plan type	2016 limits	2017 limits
IRA, traditional and Roth		
Under age 50 Age 50 and older	$5,500 $6,500	$5,500 $6,500
Deferred contribution plans, e.g., 401(k), 403(b) and most 457 plans		
Under age 50 Age 50 and older	$18,000 $24,000	$18,000 $24,000
SIMPLE plans		
Under age 50 Age 50 and older	$12,500 $15,500	$12,500 $15,500
Social Security wage base	$118,500	$127,200

Required Minimum Distribution – If you over the of age 70½ and you have an IRA, Simple IRA, SEP IRA or retirement plan account, you must take a required minimum distribution (RMD) by December 31st (retirement plan rules are slightly different if you are a 5% or greater owner or if the plan document allows for an exception). If this will be your first withdrawal, you have until April 1st following the year in which you reach age 70½. The RMD is the minimum amount you must withdraw, although you can withdraw more. Remember that distributions from tax-deferred retirement plans are subject to ordinary income tax. Waiting until the April 1 deadline in the year after reaching age 70½ is a one-time option and requires that you take two RMDs in the same tax year. If these distributions are large, this method could push you into a higher tax bracket. It may be wise to plan ahead for RMDs to determine the best time to begin taking them.

Social Security Beneficiaries to Get at Raise

The Social Security Administration announced that Social Security beneficiaries will get a 0.3% increase in benefits in 2017, after receiving no increase in 2016. The average retiree will receive an increase of $5 a month. Don't spend it all in one place.

Important Reminders

Now that accounts have been moved to Fidelity, investment checks should be made payable to Fidelity. This includes any direct deposits that are sent on your behalf.

Before filing your tax return, make sure you have all the required documents. If your account was transferred from LPL Financial (or from any other brokerage firm) to Fidelity Investment in 2016 and you received dividend interest or were taking distributions from your IRA, you will receive two 1099s. Additionally, please note that you will also see the name National Financial Services on these forms

Remember, the 4th quarter report you receive will only reflect your assets from the time they were received by Fidelity through December 31, 2017.

Staff News

Brett Bernstein is proud to be board president of the non-profit organization *So What Else*, which provides free after school and summer programming to underserved youth; provides resources and service to other community organizations; and mobilizes the youth they serve to "pay it forward" to their community through service. The *So What Else* annual gala fundraiser, which Brett served as gala co-chair, was held at Lakewood Country Club on Friday, November 4th, and raised $135,000.

XML was a sponsor of the TJ-JL Foundation's 12th annual Charity Invitational Golf Classic on October 19th. The foundation was created to raise money and awareness to combat diabetes. Executive Financial Consultant, Jon Lowe is a founding member and Chairman of the Board of the TJ-JL Foundation.

XML is the sponsor of the Bullis School's Shark Tank program, modeled after the "Shark Tank" TV show. Each team receives professional guidance and support from mentors, Bullis parents, alumni or friends who enjoy the opportunity to guide the young entrepreneurs. Both **Brett Bernstein** and **Rob Kantor** recently mentored the mentors and Brett judged the 5th grade mini-Shark Tank program.

This past holiday season **XML** was pleased to make a donation to the American Heart Association, www.heart.org, whose mission is to build healthier lives, free of cardiovascular diseases and stroke.

Congratulations to **Todd Kullen** who was promoted to Chief of Staff. Since joining XML nearly a year ago, Todd has proven to be a valuable asset to XML. He will assist Brett and Rob with communication, strategic marketing and recruiting and facilitating various staff meetings.

Your New Fidelity Statements

Many clients who moved their accounts from LPL Financial to Fidelity Investments have had questions concerning the ability to view their investment accounts. To help, we have put together a little Q&A below. If you still have questions, please reach out to your relationship manager.

Q: Why aren't all of my assets reflected on my Fidelity statement (529 Plans, Annuities, SIMPLE IRAs, 401ks, etc.)?

A: As a registered investment advisory firm, XML is primarily a fee based practice, currently using Fidelity as the custodian for our client's assets. Unlike LPL, Fidelity does not aggregate other investments onto one statement. There are a few investment types that are not on our advisory platform and are considered commissionable business. Some of these are 529 plans, annuities, certain IRAs, Roth IRAs, or 401(k) plans, that are held directly at another custodian, with XML as advisor of record. You will receive statements directly from them on a monthly, or more likely, quarterly basis. Where it makes sense, we will be working on transferring many of those investments to our advisory platform in the upcoming year.

Q: Will there be a time where I can see all my assets in one place?

A: Yes and no. As before, you will receive quarterly updates from your relationship manager which will show all your assets combined as well as a performance report. You will also receive statements from the various custodians, other than Fidelity. In the coming months we hope to launch a new, secure portal where you will have one log-in to view all of these investments.

Q: Does XML have access to all my accounts and statements?

A: Yes, the XML team has access to these accounts and statements and can give you updates anytime you need them. Additionally, we can walk you through online access for both Fidelity and assets held directly with other custodians if you prefer. Let us know if you need assistance.

Upgrade Before You Sell Your House

In the real estate market there is real value in a home's curb appeal. According to the 2016 *Remodeling* magazine Cost vs. Value survey, four of the top five returns on investment are for projects relating to a home's exterior. The returns vary by region, so looking at just the South Atlantic area, a steel entry door replacement can recoup over 90% of your investment. Same with a garage door replacement or manufactured stone veneer. These projects would be money well spent.

But what about upgrades to the interior? Simple replacements can give you a better return than major remodeling projects. You could recoup 87% on a minor, mid-range remodel, while a major kitchen remodel would only be around 60%. You're looking at 60-70% on a bathroom remodel and a master suite addition would see only about 55-66% in recouped costs.

To get the largest return, add fiberglass insulation to your attic. The cost returned on this project is nearly 131%. If you are thinking about selling your home, talk to a qualified realtor before tackling any big projects. They can help you decide which areas will give you the most bang for your buck

And the easiest upgrade of all? Most real estate agents will tell you a fresh coat of paint. It's a cost-effective fix that will make your home look updated, which can translate to increased value.

Here are a few expert tips from Dunn-Edwards Paints on choosing interior colors that appeal to buyers:

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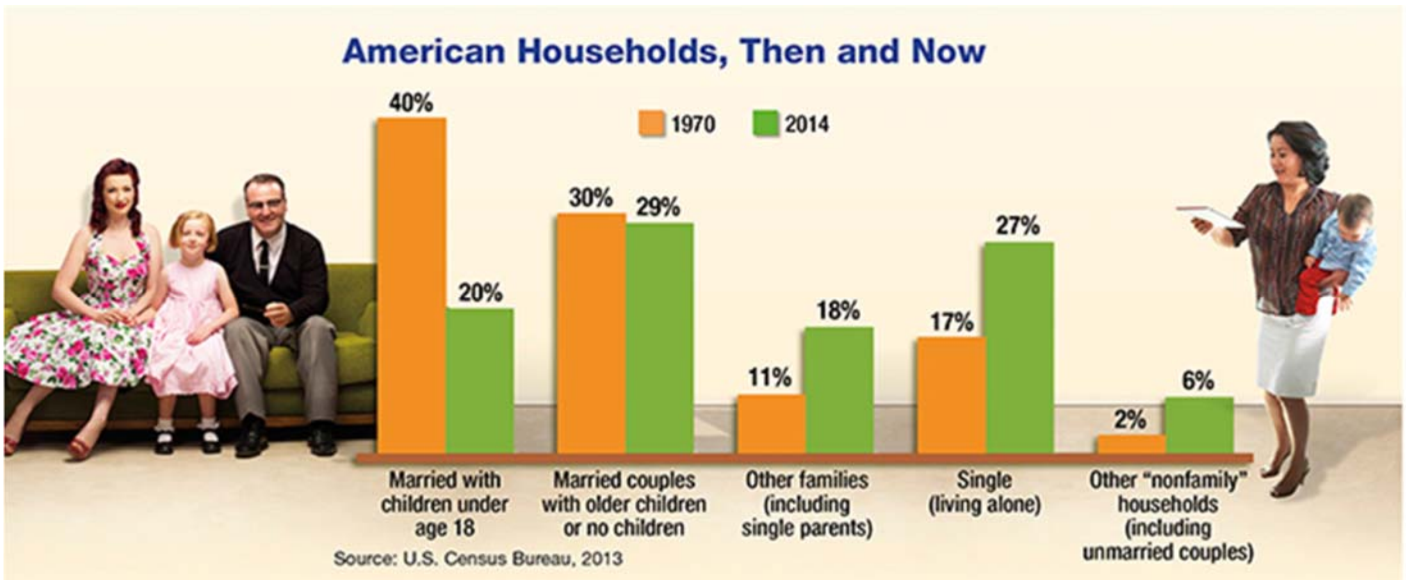
Financial Strategies for Changing Families

It should come as no surprise that American family life has changed over the past four decades, but U.S. census data reveals just how widespread this change has been. In 1970, about 40% of households were married couples with children under 18 living at home. By 2012, only 20% of households fit this structure (see chart).

Although basic principles of budgeting, saving, and investing apply to all households, nontraditional families are less likely to feel financially secure than traditional families.[1] Here are a few specific ideas that might be helpful for nontraditional situations.



Blended and Divorced Families

Set clear expectations for financial responsibilities. Well-defined guidelines might help avoid unnecessary conflicts.

College financial aid applications typically base their formulas on the parent who has primary custody. However, if you share custody with your ex, you might receive more aid if the parent with a lower household income fills out the forms.

Update your will and beneficiary designations to reflect your family situation. Be sure to take appropriate steps to provide for children from a previous marriage.

Single Parents

You may have to make hard choices to balance paying for your children's college education and saving for your own retirement. Remember that children from single-parent households may qualify for a higher level of college financial aid than they might in two-parent households.

Have a current will that designates a guardian for your children and outlines other contingency plans. Life insurance companies generally will not pay a death benefit to minor-age children, so it's important to identify a financial administrator for your estate. This person may be the child's physical guardian or someone else.

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Unmarried Couples

Make sure you understand the laws of your state and local government, and the policies of your employer. Register your domestic partnership, if possible.

Define legal arrangements through appropriate documents. For example, your partner may need financial and health-care powers of attorney to make decisions on your behalf. If you own a house together, specify what happens in the event of a separation.

Single Households

Maintain a healthy emergency fund and increase your retirement savings percentage. Without dependents, you should be able to save more; but without a partner's financial contribution, you might need more savings for emergencies and a comfortable retirement than you would if you were married.

Be sure to have a will and other estate documents in place. If you die without a will, the state may decide who receives your assets.

Regardless of your household structure, you might benefit from professional guidance tailored to your situation. There is no assurance that working with a financial professional will improve investment results. But by focusing on your overall objectives, a professional can provide education, identify strategies, and help you consider options that could have a substantial effect on your long-term financial situation.

1) *Money*, December 2014

Upgrade Before you Sell your House...continued from page 5

Don't Go All White or Beige.

It's true that you want to make your home appealing to the widest possible audience when you are selling, but going strictly white might make your house end up looking more utilitarian than stylish. Stick to earth tones and nature-based colors like warm browns and milky tans (think latte). Light greens and blues are classy, and warm grays are popular now. An occasional accent wall in a darker or complementary shade can also add a designer look.

Take the Flooring into Consideration.

Lay color chips on the floor to see how they pair-warm tones tend to look better with most hardwood, whereas tile, terrazzo or carpet may warrant other colors.

Focus on Key Rooms.

Don't want to spend the next few weeks painting your entire home? Don't worry - you don't have to. Focus your painting efforts on the rooms that will have the most impact - the kitchen and baths. In the kitchen, soft buttery yellows with slight brown undertones are popular, and olive and sage greens can make it feel garden-y and fresh. Bathrooms (and the laundry room) can tolerate brighter colors because they're smaller.

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We value our client relationships and appreciate you sharing your opinion about our firm. Any suggestions? Ways for us to improve? Let us know!

Congratulations Brett and Rob

FIVE STAR PROFESSIONAL

Brett Bernstein, CFP® and Rob Kantor, ARPC, were selected as 2016 Washington D.C. **Five Star Wealth Managers.** The award is based on 10 objective criteria associated with providing quality services to clients such as credentials, experience, and assets under management among other factors. Wealth managers do not pay a fee to be considered or placed on the final list. Brett and Rob were also 2015 award winners