ADVISER FUND UPDATE

Market Summary and Commentary for Individual Investors from Adviser Investments

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In This Issue

Bond King Abdicates Throne

We've often stressed the importance of knowing just who is managing a fund, and covered many manager hirings, firings, departures and promotions over the years. This morning brought perhaps one of the largest and most surprising moves ever witnessed by the mutual fund world when Bill Gross announced he was leaving PIMCO.

Gross founded PIMCO in 1971, and has always been the public face of the firm, serving as chief investment officer and manager of its $221 billion flagship Total Bond fund, once the largest bond fund in the world. He's leaving for a portfolio management position with a much smaller company, Janus Capital, which plans to launch a fund with him at the head in early October.

The move comes after a year in which Gross—who is often in the headlines—was the focus of more negative press than he or his firm were accustomed to. Called by some the "Bond King," Gross implied that he's ready to return to focusing on managing money instead of people. While undoubtedly a juicy tale of corporate intrigue, the move should have no long-term impact on the broader markets or on Adviser Investments' client portfolios.

We do not own PIMCO Total Return in any of our clients' core portfolios. If we did, due to the magnitude of the change and the uncertainty surrounding it, we'd suspend buying new shares until we received a clear understanding of what Gross' departure from PIMCO means to the firm and Total Return in particular.

Manager changes can be an indication to trade a fund in some cases, but in others, if the new manager has a good track record or is moving up through the management ranks, it can be a non-event, or even provide a boost to its prospects. In the case of PIMCO Total Bond, we're happy to be on the sidelines, and will watch to see how it all unfolds in the coming days and weeks.

The Roth IRA Path to Millions

As we all know, it can be difficult to get young people to look further into the future than the upcoming weekend. But a concept like "a million dollars" might get the attention of your children, grandchildren, nieces and nephews and teach a literally valuable lesson about the benefits of putting money aside in a Roth IRA.

There are two primary reasons why a Roth IRA is a great starter investment for teenagers and young adults: Taxes and the power of compound growth (for more on the power of compounding, please see the June 6, 2014 edition of the *Adviser Fund Update*).

A child who is only working for the summer or just starting his or her professional career will likely be in one of the lowest tax brackets. Therefore, she may be better served paying taxes on her income now in return for tax-free growth in a Roth IRA over the course of several decades.

Even a relatively modest annual contribution of $1,000 starting at age 15 could grow to over $417,000 by age 70, assuming an average annual return of 6%. Bump those annual contributions up to $5,000 and those savings could grow to nearly $2.1 million by age 70.

The table below illustrates how a Roth IRA can be a great starter investment. We set up several different scenarios for the purpose of this table. All of them assume a 6% average annual return. The only difference between these scenarios is the amount contributed per year, which increases in $1,000 increments from $1,000 to $5,000 (the maximum currently allowed for investors age 49 and younger) from age 15 to age 70. As you might expect, the larger the contribution and the longer the time horizon, the larger the account grows. With larger initial (and subsequent) investments, you accrue even larger balances.

Roth IRA Results May Improve with Age

	Annual Contribution Amount					
Age	**$1,000/year**	**$2,000/year**	**$3,000/year**	**$4,000/year**	**$5,000/year**	**Increasing Contributions**
15	$1,000	$2,000	$3,000	$4,000	$5,000	$1,000
30	$24,673	$49,345	$74,018	$98,690	$123,363	$33,126
60	$225,508	$451,016	$676,524	$902,032	$1,127,541	$546,764
70	$417,822	$835,645	$1,253,467	$1,671,289	$2,089,112	$1,049,029

Note: Table assumes a steady 6% average annual return.
Source: Adviser Investments

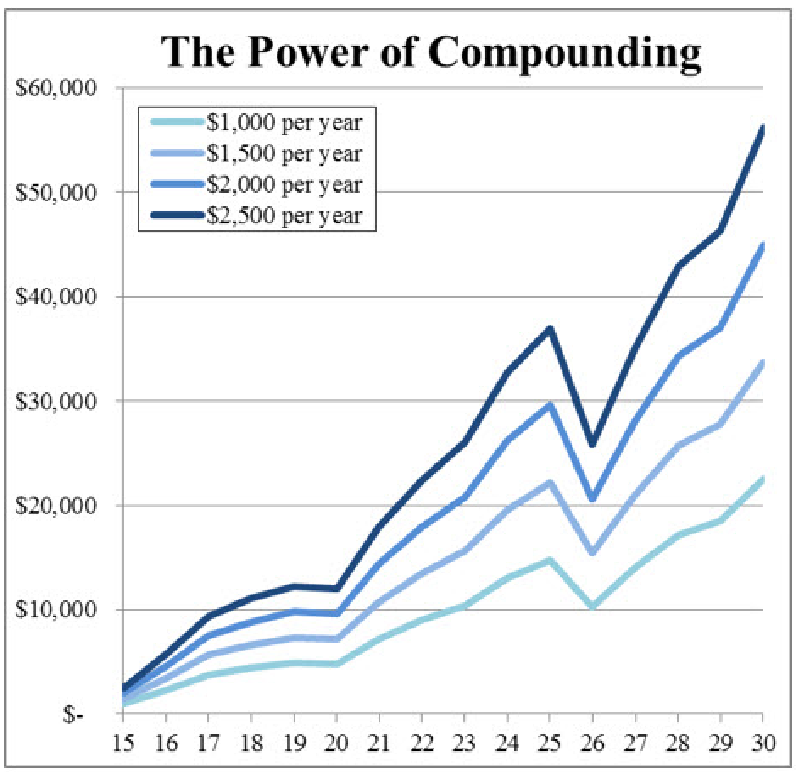
We also developed another scenario that attempts to show a conservative, natural progression a young person might follow as he or she ages and gains employment (see the "Increasing Contributions" column). It starts by assuming a first summer job at age 15 where they invest $1,000 a year until they graduate from college and get settled into a career. At that point (age 25), they bump their annual contributions up to $2,000. In their 30s, they will be well established (hopefully) and able to again bump their contribution up to $3,000 at age 30, to $4,000 at age 35, and $5,000 at age 40. The table assumes they continue to contribute $5,000 per year through age 70.

Those who follow this hypothetical progressive contribution strategy could end up with more money at age 70 ($1,049,029) than those who contribute $2,000 per year from age 15 on but never increase their contributions ($835,645).

We also created another scenario that may be more realistic, particularly when we're talking about real markets and real teenagers (see chart below). First off, few teenagers are going to be able to earn $4,000 in a summer (though they might be able to hit that number or higher if they work during the school year as well), and even if they do, they may not be willing or able to invest all of it.

It's also clear that markets don't compound in a straight line. They go up and they go down. Therefore, in the chart below we have assumed that our hypothetical teenager is not only stashing away more modest sums in his or her early years, but also that returns from the market mimic those of the past 15 years (using returns from the S&P 500 index over that period).

As you can see, the power of compounding relatively small sums of cash annually is a highly effective means to save money over a 15-year period, even if your investment suffers significant losses during that time. Take a look at the V-shape formed by the lines between ages 25 and 28 on the chart, which represents the 37.0% decline suffered by the S&P 500 in 2008 and the subsequent rebound in 2009 and 2010. In this example, each investment recovered from its losses and continued to grow through a combination of a couple of years of positive returns and steady annual contributions.



Note: Based on annual returns of the S&P 500 from 1998 through 2013.
Source: Morningstar.

Roth IRAs Are More Flexible than Traditional IRAs

The idea of tying up savings in an IRA may not appeal to a teenager or a young adult who may need to access savings to pay for a new car, a wedding or a down payment on a first home.

With a Roth IRA, however, the rules do provide some flexibility.

Contributions to a Roth can removed penalty free at any time. Of course, that defeats the purpose of saving in a Roth IRA, but the ability to access cash in a pinch may be a selling point to a young person. In addition, a Roth owner can withdraw up to $10,000 in earnings on contributions after five years for a qualified first-time home purchase. Earnings can also be taken tax-free after five years for disability, death or once the account owner reaches age 59½. Keep in mind, however, that non-qualified withdrawals on earnings taken for any reason prior to five years are subject to a 10% early withdrawal penalty and are taxed as ordinary income.

Getting Started

The scenarios described above clearly demonstrate the benefits of investing in a Roth IRA starting at an early age. Nevertheless, the question remains: How do you get a teenager to plan ahead and start saving?

Our suggestion is to lend a helping hand (or dollar, in this case). Assuming you can afford to match the earnings of your child, grandchild, niece or nephew, do it. Let them keep their hard-earned money, but open a Roth IRA in their name and contribute the money yourself. Remember, the child may earn $1,000, but taxes will reduce take-home pay. But that shouldn't keep you from contributing a full $1,000 into a Roth IRA (note that contribution amounts cannot exceed the account holder's earned income for the year). If you think it will teach some fiscal responsibility or cannot contribute the full amount yourself, consider making a deal with your young loved one to match a portion of her earnings as long as she contributes to her Roth IRA as well.

Finally, there is the issue of fund minimums. Fidelity requires a minimum of $2,500 for most funds and Vanguard has $3,000 minimums for a majority of its funds. If the amount to be invested is below those minimums, one option would be to start your child in Vanguard's STAR fund or one of its Target Retirement funds of funds for just $1,000 (as their investment grows, they may want to consider moving out of these starter options). Or, if you have a personal representative at Fidelity, Vanguard or any other fund family, see if they will waive the minimum for your child or grandchild. If these firms are smart, they will see this as a way to grab a potential long-term client at an early age.

Helping the teenagers and young adults in your life start on the road to a comfortable retirement may be one of the best gifts you can give them. Along the way, you will also be teaching them fiscal responsibility and the importance of long-term financial planning from an early age. If your child or grandchild has plans to work or already has started working, we urge you to steer them towards a Roth IRA.

About Adviser Investments

Adviser Investments and its subsidiaries operate as an independent, professional money management firm with particular expertise in Fidelity and Vanguard mutual funds. With 2,500 clients and more than $3.0 billion under management, Adviser Investments is one of the nation's largest mutual fund research and money management firms. Our investment professionals focus on helping individual investors, trusts, foundations and institutions meet their investment goals. Our minimum account size is $350,000. Adviser Investments was recently named to *Barron's* list of the top 100 independent financial advisers nationwide and its list of the top advisory firms in Massachusetts. We are also recognized on the *Financial Times* 300 Top Registered Investment Advisers list.

For more information, please visit www.adviserinvestments.com or call 800-492-6868.

The *Barron's* ranking reflects the volume of assets overseen by the advisers and their teams, revenues generated for the firms and the quality of the advisers' practices, as determined by its editors.

Editors at the *Financial Times* bestowed "elite" status on 300 firms in the U.S., as determined by assets under management, asset growth, longevity, compliance record, industry certifications and online accessibility.