

WEEKLY MARKET COMMENTARY

For the Week of Aug. 18, 2014

THE MARKETS

The most recent measures of the U.S. economy showed mixed results last week. Manufacturing rose in July, with the automotive industry reporting the largest production increase in five years. Consumer sentiment, however, dropped in August to its lowest reading since November, according to preliminary data from the Thomson Reuters/University of Michigan survey. Markets fell and then recovered Friday after reports of a Ukraine military attack on a Russian convoy. For the week, the Dow gained 0.78 percent to close at 16,662.91. The S&P rose 1.28 percent to finish at 1,955.06 and the NASDAQ climbed 2.15 percent to end the week at 4,464.93.

| Returns Through 08/15/14 | 1 Week | YTD | 1 Year | 3 Year | 5 Year |
|----------------------------|--------|-------|--------|--------|--------|
| Dow Jones Industrials (TR) | 0.78 | 2.04 | 12.84 | 16.19 | 15.31 |
| NASDAQ Composite (PR) | 2.15 | 6.90 | 23.82 | 20.45 | 17.59 |
| S&P 500 (TR) | 1.28 | 7.14 | 20.12 | 20.12 | 16.69 |
| Barclays US Agg Bond (TR) | 0.45 | 4.66 | 5.64 | 2.89 | 4.61 |
| MSCI EAFE (TR) | 1.89 | -0.53 | 6.89 | 11.25 | 5.37 |

Source: Morningstar.com. *Past performance is no guarantee of future results. Indexes are unmanaged and cannot be invested into directly. Three- and five-year returns are annualized. The Dow Jones Industrials, MSCI EAFE, Barclays US Agg Bond and S&P, excluding "1 Week" returns, are based on total return, which is a reflection of return to an investor by reinvesting dividends after the deduction of withholding tax. The NASDAQ is based on price return, which is the capital appreciation of the portfolio, excluding income generated by the assets in the portfolio in the form of interest and dividends. (TR) indicates total return. (PR) indicates price return. MSCI EAFE returns stated in U.S. dollars.

Big Jump – The federal government reported strong 4 percent growth in the U.S. economy during the second quarter 2014 (i.e., quarter-over-quarter change expressed as an annualized number), the largest increase over the previous quarter's result in 14 years (source: Commerce Department, BTN Research).

Aging Population – The percentage of the U.S. population that is aged 65 and older is projected to grow from 14 percent to 21 percent between today and the year 2039, i.e., 25 years from now (source: Congressional Budget Office, BTN Research).

Off to College – The average American family anticipates borrowing 26 percent of the total cost of their child's college education, either through student loans or loans taken out by Mom and Dad (source: Sallie Mae, BTN Research).

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Page 2 of 2

WEEKLY FOCUS – Budgeting For Rising Expenses in Retirement

Retirement planning requires you to determine your retirement expenses, and that starts well before you retire. Starting your budget planning process at least five years before you plan to retire can help you decide whether you'll have enough accumulated to actually afford retirement.

Begin by drafting a retirement budget. Estimate how much money you will need to meet your expenses and still have enough left to meet a standard of living you will enjoy. Remember to include food costs, mortgage payments or rent, utilities and transportation costs. While you may be tempted to assume certain expenses will decrease in retirement – such as wardrobe, transportation and other costs associated with work, or housing expenses should you choose to downsize – other budget areas may actually increase in retirement.

Greg Daughtery of Investopedia notes three big expenses that often rise in retirement: travel, health care and taxes. Travel expenses, especially early in retirement, increase as retirees suddenly find leisure time to go places they've always wanted to but couldn't when working 40 hours a week or raising children. Income taxes, Daughtery writes, may decline as income decreases move retirees into lower marginal tax brackets, but money in retirement plans – such as traditional IRAs with minimum distribution requirements after age 70.5 – can cause income and income taxes to rise.

Another potential increase is with health care and long-term care expenses. According to a research article titled, "Will Health Care Costs Bankrupt Aging Boomers," by Urban Institute, by 2040, "half of adults age 65 and older will spend at least 19 percent of their income on health care, up from 10 percent in 2010." Fidelity also estimated that a 65-year-old couple retiring in 2011 will need \$230,000 to pay for medical expenses throughout retirement. This amount did not include nursing-home care. By assessing your current medical condition, expenses and future care plans, you should be able to generate a relatively accurate health-care estimate.

The best test for determining if you are ready to retire is to practice living on your retirement budget that accounts for all expenses for three months. If you struggle, you can look back through your budget and see which expenses you can cut. If your expenses are as bare as you can make them, you may want to look at working longer. If you need help estimating your retirement expenses and creating your retirement budget, contact our office today.



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* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks. NASDAQ Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System. The Morgan Stanley Capital International Europe, Australia and Far East Index (MSCI EAFE Index) is a widely recognized benchmark of non-U.S. stock markets. It is an unmanaged index composed of a sample of companies representative of the market structure of 20 European and Pacific Basin countries and includes reinvestment of all dividends. Barclays Capital Aggregate Bond Index is an unmanaged index comprised of U.S. investment-grade, fixed-rate bond market securities, including government, government agency, corporate and mortgage-backed securities between one and 10 years. Written by Securities America. SAI#992278