

FEBRUARY 2016

# THE EXPRESS ADVISOR™

A NEWSLETTER FOR FEDERAL EXPRESS PILOTS



Leading Authority on Successfully Investing Your 401k Plan

## CAPTAIN'S BRIEFING:

- **The volatility of the markets has moved the Bull Bear Oscillator back into the red territory, moving the models back in to protection mode.**
  - **FULL REBALANCE** in the models
- *Make sure you are keeping track of your trade dates*
- **UPGRADES** made to the Velocity Score Ranking (see [USPFA.org](http://USPFA.org))

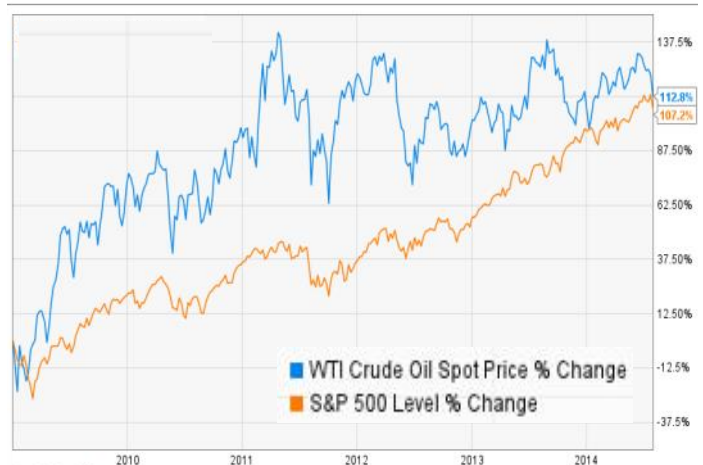
## January has to be the odds-on favorite for the longest month of the year.

It's the coldest month of the year. It inevitably starts off with a "let down" for most of us as it comes right on the heels of the bustling holiday season. And as one of seven months on our calendars with 31 days no other month can claim to be longer, but January feels the longest for more reasons than just that. Fans of January offer the rebuttal that the month provides an opportunity to start anew. They also sometimes point out that the stock market outperforms in January, on average. Well, that may be true "on average", and global markets did stage a strong rally on the last trading day of the month, but it still wasn't enough to pull January 2016 into the green. Not by a long shot.

## IN LAST MONTH'S NEWSLETTER,

we noted that 2015 hadn't been great for investors. Most asset classes - stocks, bonds, commodities - were down for the year. Global growth slowed last year, and the oil market got hammered. The only thing that seemed to be up was volatility and a heightened sense of pessimism. The Fed's handling of interest rates may be responsible for much of the volatility now saturating asset markets. Keeping short-term rates essentially at zero for seven years was an unprecedented monetary policy that produced a number of unintended consequences. For example, ultra-low rates had a huge influence on investor decision-making and, by extension, asset valuations. Conservative bond investors, desperate for yield income, moved farther out on the risk curve, which helped to bid up stock prices. This has been the case particularly for growth stocks, which are in greater demand when economic growth is low.

Commodities prices are largely indicative of the global growth slowdown as the slide in commodity prices that began in 2011 shows almost no signs of slowing this year. Commodities prices have fallen to their lowest level since 2003, thanks in large part to the slowdown in China's industrial sector, unexpected resiliency in U.S. shale production, and the strength in the dollar. U.S. crude oil prices fell more than 9% in January alone, but have bounced off a more-than-12-year low seen earlier in the month. The price of gold rose 5.3% in January, its largest monthly gain in a year, to \$1,116.40 a troy ounce.



## Captain's Table — Tax Law Updates

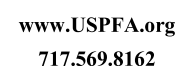
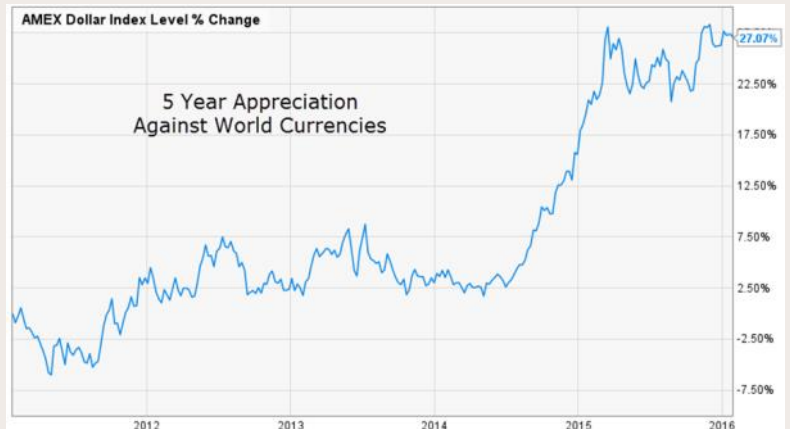
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"You're flying toward an unknown financial future— WE HAVE CHARTS!"

Central banks around the world, including the U.S.'s Federal Reserve, continue to implement extraordinary policy measures in an effort to stimulate growth in their respective economies. While the Fed left interest rates unchanged in January, a move that was expected, it expressed an increasingly cautious assessment of the global economy, which gave investors more reason to worry. Last December, the Fed decided to raise rates for the first time in nearly a decade, citing a healthy labor market and other signs of steady economic growth at the time. ***It had to be the most agonized-over 25 basis point (one-quarter of one percent) interest rate hike in the history of central banking.*** The Fed signal and a slowing global economy and reassured the markets the environment realities of the time.

Negative borrowing costs may send money flowing out of Japan and into the U.S., where rates on assets priced in U.S. dollars are broadly expected to rise in coming years. That stands in contrast to many other economies around the globe where currencies are weakening, interest rates are falling, and central banks are expanding exceptional policy easing. This divergence has been in place for the better part of two years, fueling a rise of more than 20% in the U.S. dollar against a basket of the currencies of its major trading partners. A new burst of dollar strength may not bode well for the U.S. economy. S&P 500 companies rely on international markets for more than a third of their profits. A mightier greenback makes U.S. exports more expensive, and it diminishes the dollar value of overseas operations.

[illegible]

## Velocity Composite™ Fund Score Ranking

| Ticker | Symbol                                   | Score       | 1MoPerf | 3MoPerf | 6MoPerf | 1YrPerf | 3YrPerf | 5YrPerf |
|--------|--|-------------|---------|---------|---------|---------|---------|---------|
| VBMPX  | Vanguard Total Bond Market Ins           | <b>1121</b> | 1.25%   | 0.62%   | 1.06%   | -0.63%  | 6.25%   | 18.57%  |
| VIPIX  | Vanguard Infl - Protected Secs Instl Shs | <b>1104</b> | 1.27%   | 0.21%   | -0.92%  | -3.47%  | -4.48%  | 14.57%  |
| VTRIX  | Vanguard Intl Val Fd                     | <b>1060</b> | -5.69%  | -9.83%  | -16.19% | -10.93% | -3.94%  | -0.72%  |
| VSCGX  | Vanguard Lifestrat Conserv Grth          | <b>985</b>  | -1.46%  | -2.65%  | -3.42%  | -2.16%  | 12.70%  | 25.52%  |
| VSMGX  | Vanguard Lifestrg Fds Mod Pt             | <b>981</b>  | -2.91%  | -4.40%  | -5.84%  | -3.22%  | 15.27%  | 30.33%  |
| VWILX  | Vanguard Intl Growth Fd Adm Sh           | <b>912</b>  | -7.77%  | -9.60%  | -13.12% | -8.47%  | 1.18%   | 8.42%   |
| V1674  | Vanguard Target Ret 2010 Tr Select       | <b>902</b>  | -1.17%  | -2.26%  | -3.02%  | -1.89%  | 11.76%  | 27.64%  |
| J6560  | Janus Core PI Fixed Inc                  | <b>890</b>  | 0.91%   | 0.13%   | 0.67%   | -0.84%  | 6.04%   | 17.84%  |
| V1686  | Vanguard Target Ret Income Tr Select     | <b>881</b>  | -0.88%  | -1.92%  | -2.45%  | -1.81%  | 9.21%   | 24.71%  |
| V1680  | Vanguard Target Ret 2040 Tr Select       | <b>866</b>  | -4.92%  | -6.87%  | -9.41%  | -5.02%  | 18.61%  | 36.06%  |
| VWENX  | Vanguard Wellington Admiral Sh           | <b>845</b>  | -3.02%  | -4.28%  | -4.91%  | -1.53%  | 22.90%  | 44.92%  |
| VIIIX  | Vanguard Instl Indx Fd Plus Sh           | <b>791</b>  | -5.00%  | -6.21%  | -6.80%  | -0.70%  | 36.42%  | 64.97%  |
| VWNEX  | Vanguard Windsor Fd Adm Shr              | <b>756</b>  | -8.22%  | -10.36% | -13.73% | -7.44%  | 25.64%  | 49.33%  |
| VSCIX  | Vanguard Idx Tr Sm Cap Instl             | <b>642</b>  | -7.69%  | -9.93%  | -14.39% | -9.09%  | 22.81%  | 47.43%  |
| VMCIX  | Vanguard Idx Tr Mid Cap Instl            | <b>638</b>  | -7.21%  | -9.44%  | -12.26% | -6.63%  | 30.81%  | 54.24%  |
| VEMPX  | Vanguard Extended Market Index           | <b>624</b>  | -8.76%  | -10.84% | -15.66% | -9.99%  | 22.04%  | 45.54%  |
| VPMAX  | Vanguard Primecap Fd Admiral             | <b>528</b>  | -6.51%  | -6.54%  | -6.16%  | -2.54%  | 47.65%  | 73.08%  |
| VTPSX  | Vanguard Total Int'l Stk Idx             | <b>406</b>  | -5.80%  | -8.92%  | -13.74% | -9.94%  | -4.27%  | -2.03%  |

### APPROXIMATE Future Publication Dates

3/3/16

4/5/16

5/4/16

6/3/16

7/6/16

8/3/16

9/6/16

10/5/16

11/3/16

**\*\*\* Target Date & International Fund Notes:** Vanguard is apparently now limiting ownership of Target Date Funds to one at a time. After a review of our trading history, the system has used two maturities the most: 2040 and 2010. For this reason, we are keeping these and eliminating the rest from the system ranking. This makes the system easier to follow.

**Definitions & Notes:** The Velocity Composite Fund Score Ranking combines the Velocity (speed of advance of a fund compared to all other funds) with its Buy Point Score (how close the fund is to a recent bottom). This composite score is used to rank all available fund choices. In defined Bull Market advances, the system uses the Top 3 funds in the Aggressive model and the Top 4 in the Moderate and Conservative models. In Defined Bear Market periods, this ranking is provided for information purposes and for those who are "doing their own thing" and would like to know how the system views the funds. Rankings dates are the last business day of each month. The actual price history of each fund is used to calculate the score.

#### FedEX 401(k) Plan Conservative Model

| Symbol | Fund Name                        | Allocate |
|--------|----------------------------------|----------|
| VMRXX  | Vanguard Prime Money Market Fund | 50.00%   |
| VBMPX  | Total Bond Market Index          | 50.00%   |
|        |                                  |          |
|        |                                  |          |
|        |                                  | 100.00%  |

#### FedEX Pilots 401(k) Plan Moderate Model

| Symbol | Fund Name                        | Allocate |
|--------|----------------------------------|----------|
| VMRXX  | Vanguard Prime Money Market Fund | 20.00%   |
| VBMPX  | Total Bond Market Index          | 80.00%   |
|        |                                  |          |
|        |                                  |          |
|        |                                  | 100.00%  |

#### FedEX Pilots 401(k) Plan Aggressive Model

| Symbol | Fund Name               | Allocate |
|--------|-------------------------|----------|
| VBMPX  | Total Bond Market Index | 100.00%  |
|        |                         |          |
|        |                         |          |
|        |                         | 100.00%  |

### • FULL REBALANCE in the models

- IN A MONTH WITH TRADES—

THE NEW FUNDS WILL BE HIGHLIGHTED IN YELLOW

- **READ:** If your 401k plan has *any* trading restrictions, you must keep track of your buy and sell orders.
- **Future Contributions:** The models work smoothly if you direct ALL future contributions into the money market account. Then, they will be automatically invested into the correct allocation when you make changes to follow a model.

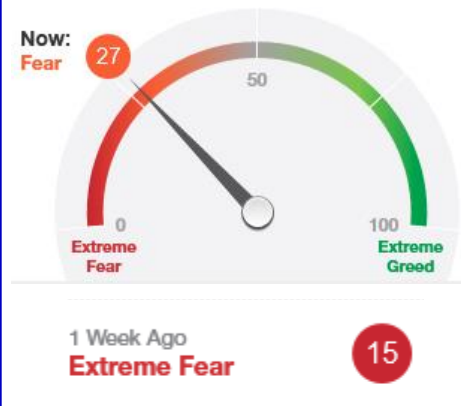
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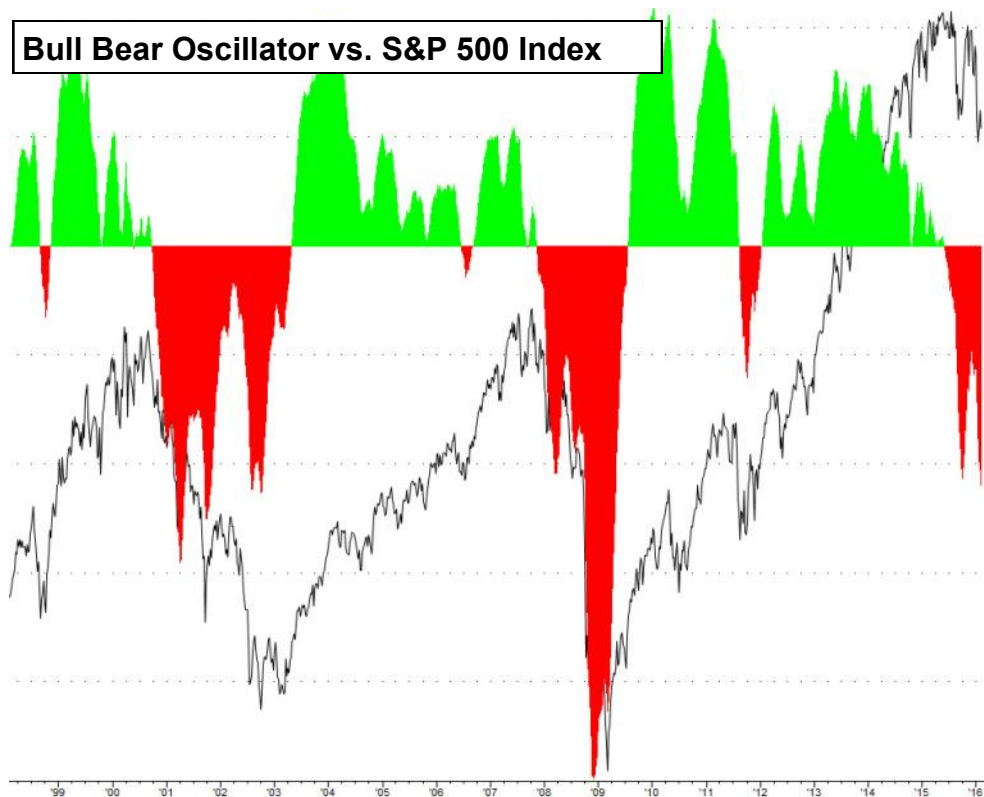


## Fear & Greed Index

Global equities traded lower in January, with two of the worst weeks to open the trading year in history. Declining oil prices, concerns for Chinese growth, and weak economic data in the U.S. all added to investor anxiety



## Bull Bear Oscillator vs. S&P 500 Index



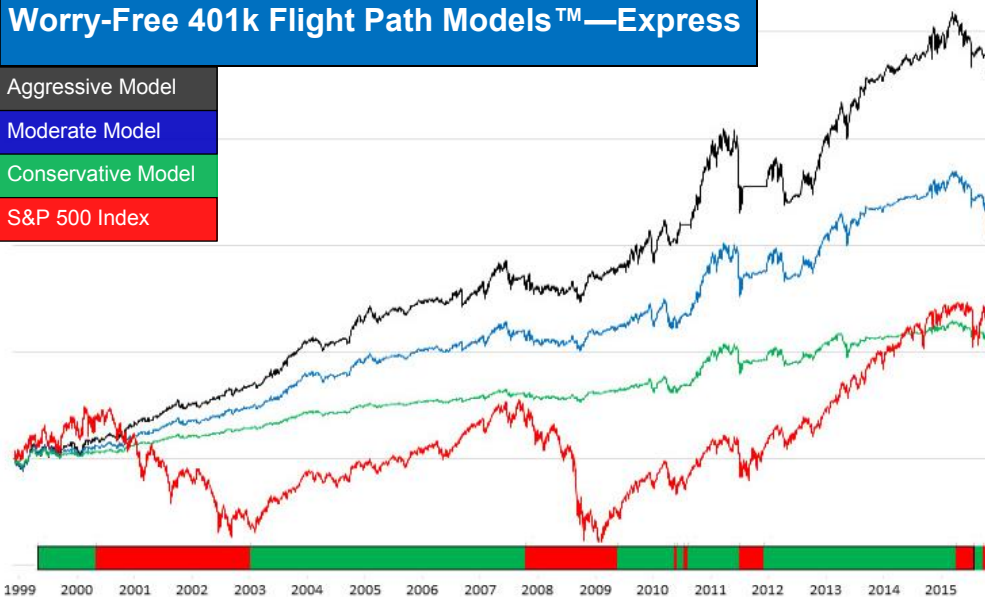
## Worry-Free 401k Flight Path Models™—Express

Aggressive Model

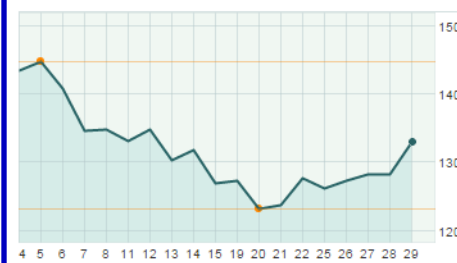
Moderate Model

Conservative Model

S&P 500 Index



**FDX**—FedEx stock closed lower for the month, likely following a drop in retail spending over the holidays. The stock ticked up toward the end of the month following the announcement of roughly \$3 billion worth of stock buy-backs.



## FedEx Pilots 401k Plan (as of January 31, 2016)

|                               | Performance Stats |         |        |         |         |         |          |           |
|-------------------------------|-------------------|---------|--------|---------|---------|---------|----------|-----------|
|                               | YTD               | 1 Month | 1 Year | 2 Years | 3 Years | 5 Years | 10 Years | Inception |
| Conservative Model Annualized | -2.60%            | -2.60%  | -4.37% | -0.95%  | 4.92%   | 13.00%  | 24.96%   | 56.70%    |
|                               |                   |         |        | -0.48%  | 1.61%   | 2.47%   | 2.25%    | 2.79%     |
| Moderate Model Annualized     | -4.10%            | -4.10%  | -7.03% | -1.50%  | 12.70%  | 24.70%  | 47.70%   | 119.60%   |
|                               |                   |         |        | -0.75%  | 4.07%   | 4.51%   | 3.98%    | 4.86%     |
| Aggressive Model Annualized   | -5.60%            | -5.60%  | -7.78% | 0.20%   | 22.62%  | 29.90%  | 68.80%   | 187.80%   |
|                               |                   |         |        | 0.10%   | 7.03%   | 5.37%   | 5.37%    | 6.54%     |
| S&P 500 Annualized            | -4.96%            | -4.96%  | -1.95% | 12.40%  | 35.95%  | 64.12%  | 85.17%   | 77.45%    |
|                               |                   |         |        | 6.02%   | 10.78%  | 10.42%  | 6.35%    | 3.17%     |



## from the CAPTAIN'S TABLE

### Already 2016????

#### Some Updates and Reminders for Closing 2015 and Beginning 2016

As we ring in the New Year and put last year to rest, I wanted to take some time to run down a list of tax and financial topics of interest. These items are things of importance to consider as you prepare for 2016 which would include your 2015 tax filing and 2016 tax planning. Let's begin with tax items.

**Filing Date** – 2015 Form 1040 Due Date – **April 18, 2016** – Emancipation Day is an official holiday in the District of Columbia and with this day falling on Friday, April 15, the official due date of your 2015 Federal Income Tax Return will be Monday, April 18, 2016.

The December 2015 law, aptly named “Protecting Americans from Tax Hikes of 2015” was signed into law on December 18, 2015. The extensions of these tax breaks were retroactive to the beginning of 2015. Several of the benefits were extended for two years (2015 & 2016), some through 2019 and others effective on a permanent basis. I have tried to narrow down the provisions and list the most applicable items.

#### Two-Year Extension

- Homeowners can treat mortgage insurance premiums as deductible home mortgage interest for 2015 & 2016. This benefit is subject to a phase-out based on adjusted gross income.
- Homeowners can generally claim a credit of up to 10% of the cost of energy-saving improvements installed in their home.
- Eligible students may be able to claim a tuition and fees “above the line” deduction for qualified higher education expenses. The amount of the

deduction is dependent on adjusted gross income.

#### Permanently Extended Tax Benefits

- The American Opportunity Tax Credit for certain tuition and related expenses for eligible students is now permanent. Credit can be phased in based on modified adjusted gross income.
- The optional itemized deduction for state and local sales taxes in lieu of deducting state and local income taxes is permanent. This deduction is beneficial for residents of states with no state income tax and taxpayers who make large ticket purchases such as vehicles or boats.
- The provision for tax-free distributions from an IRA to charities is now permanent. This allows an individual 70 1/2 and older to make a qualified distribution of up to \$100,000 from an IRA to a charity. These distributions count as part or all of a required minimum distribution and the portion that applies to the RMD is excluded from gross income.
- The maximum Section 179 deduction for qualified business property is now permanently set at \$500,000.

#### Items of Importance for 2015

- Long-Term Capital Gains Rates** – The long-term capital gains tax rate for taxpayers in the top 39.6 bracket (taxable income over \$464,850 for married filing joint taxpayers) is 20%. However, many people don't know that the long-term capital gains tax rate for taxpayers in the 25-35% brackets is 15% and for those taxpayers in the two lowest tax brackets, the long-term capital gains rate is 0%. Long-term is defined as capital assets held for over 1 year.
- Net Investment Income Tax** – as a part of the Affordable Health Care Act, many capital gains can be subject to an additional tax of 3.8% as required by the new health care law. There are income limitations for this provision.
- Higher Roth Contribution Income Limits** – while the Roth IRA contribution limit remained unchanged at \$5,500 per person (individuals age 50 or older may contribute \$6,500), the income threshold for making a Roth IRA contribution has increased. The income threshold for eligibility begins phase out at \$183,000 for married taxpayers (\$116,000 for single taxpayers) and is totally phased out at \$193,000.

(Continued on page 6)

### Other Items of Importance for 2016

- 401k - Maximum Retirement Plan Contributions – the maximum amount that you can defer into your employer's retirement plan remains at \$18,000. Please note that if you are over 50 years of age, you are eligible for the catch-up provision of \$6,000. This allows a total deferral of \$24,000 if you are over 50.
- Annual Gift Tax Exclusion – the annual exclusion remains at \$14,000 per recipient for 2016.
- Social Security Wage Base – The limit of wages subject to social security tax remains at \$118,500 for 2016.
- Estate Tax Exclusion – the amount of taxable estate that will be exempt from estate tax is increased to \$5,450,000.

It is an understatement to say our tax system is complicated and cumbersome. So many of the items above have specific applicability based on your personal situation. You should consult your tax advisor regarding these topics and how they may apply to your specific circumstances. We wish you a safe and prosperous year.

*Steve*

*Steve Anglin, CPA is a Managing Partner at Smith Anglin Financial, and the Head of the Tax Preparation Services. He is also responsible for Smith Anglin's compliance supervision. He holds a BBA in Accounting and a BBA in Real Estate, and numerous securities licenses and designations.*

The above is a summary of what hopefully will be relevant tax and financial topics that might apply to you and your family. We don't expect significant modifications to the tax system in 2016 due to the pending election; however, as you well know there could be significant changes in the coming years. We advise our tax clients to set a long-term tax and planning strategy based on the current rules and regulations and modify as needed. Unfortunately, it is very difficult to predict what will happen in these areas, and it will greatly depend on the results of the 2016 elections.

**Experts at the Captain's Table:** All members have a wide and varied background in all areas of wealth management. Most importantly, the members have worked extensively with professional pilots at American, Delta, Federal Express, Southwest, United – and every airline that merged into these along the way – for more than 85 years combined. They know your world, your benefits, how to retire in the best way, and what is needed at each life-stage in retirement to get you to your goal.

**Is there a topic you'd like discussed in the Captain's Table pieces? Email us at [airways@uspfa.org](mailto:airways@uspfa.org).**

## **U.S. ECONOMY**

The U.S. economy sputtered as it entered 2016, weighed down by global headwinds that dented business investment and exports. The Commerce Department reported recently that U.S. gross domestic product (GDP) expanded at a 0.7% seasonally adjusted annualized rate in the fourth quarter. The economy had advanced 2% in the third quarter and 3.9% in the second, so it's obvious the U.S. economy is decelerating.

The recent slowdown reflects an array of crosscurrents. Steady job gains, an improving housing market and banner auto sales helped underpin growth through much of the year. Spending on residential investment, such as new home construction and home remodeling, advanced 8.1% in the fourth quarter, and the housing market in 2015 was by some measures the strongest since before the recession. Also, the U.S. consumer may be regaining his footing, which is welcome news. Personal consumption, which accounts for more than two-thirds of economic output, rose 2.2% in the fourth quarter, and full-year consumer spending in 2015 advanced 3.1%, the fastest pace since 2005. However business spending did not follow suit. Non-residential fixed investment, a measure of business spending, declined 1.8% in the fourth quarter as companies trimmed outlays. Businesses also exported fewer goods and trimmed back inventories at the end of 2015. The economic slowdown in China and persistent weakness in Europe appears to have been a drag on many U.S. companies.

It has been hard trying to find much logic in the price action of the world's stock markets so far in 2016. The only constant has been market volatility, with emotional investors ready to shed risk assets at the slightest whiff of bad news. The S&P 500 lost 5.1% for the month, and that was after world markets staged a strong rally on the month's final trading day, when markets surged on news that Japan was lowering rates. Foreign developed stock markets suffered losses in line with those felt in the U.S. markets, while emerging stock markets fared far worse. China's Shanghai Composite index is down more than 22% so far this year. The less volatile Hang Seng index is off less, down 10% this year.

(Continued on page 7)



The MSCI All Country World Index was down -5.3% in January. In the U.S., daily stock-trading volumes were elevated during the month, with the most shares changing hands since August 2011. This all capped a turbulent month for financial markets in which investors fled from stocks and flooded into haven assets such as government bonds and gold.

Money continued to flow steadily out of U.S. stock funds during the month, reflecting a lack of confidence in the equities market. The U.S. stock market is at least fairly valued, with the forward 12-month price-to-earnings ratio (P/E) currently at 15.6, which is above the 5-year and 10-year averages of 14.3 and 14.2, respectively. Any significant appreciation in stock prices from here will need to be a function of underlying earnings.

U.S. earnings news has been mixed. Blended earnings for the fourth quarter of 2015 are down -6.0%. If final earnings for the quarter show a decline, it will be the first three consecutive quarters of year-over-year declines since 2009. Numbers from energy and materials are hurting the overall averages, but there's a pattern of companies delivering on their earnings per share (EPS) expectations, but missing the mark on sales estimates. Comments from companies show a pattern – the negative impact of slower global economic growth and a stronger U.S. dollar are for now overwhelming the expected positive net impact of lower oil and gas prices.

Most market followers didn't have great expectations for 2016 as the year commenced. Well, so far their doubts have been confirmed. Stocks have continued to suffer, and oil's price collapse has continued. Global growth forecasts are being trimmed further. This makes it even harder on central bankers who have already pushed the limits of creative monetary policy. Japan is a case in point. The world's third-largest economy has pulled out almost all the stops, including a move to negative interest rates, to pull out of its deflationary slump and still has yet to see persistent growth or inflation.

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