Stock Yards Bank & Trust

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INVESTMENT & FINANCIAL INSIGHTS

A NEWSLETTER FROM THE WEALTH MANAGEMENT GROUP OF STOCK YARDS BANK & TRUST

Q1: 2015

KATHY THOMPSON
Senior Executive Vice President

GORDON MAYNARD
Managing Director of Trust

Wealth Management Update

By Kathy Thompson

Happy New Year!

It's hard to believe another year has come and gone. A New Year gives us the opportunity to review where we have been, and explore where we are going in the days ahead. Mark Holloway, Stock Yards Chief Investment Advisor shares his expertise and insights as he takes a brief look back at 2014, as well as a look forward to the financial horizon in the upcoming months.

When it comes to the question of Social Security income, the choice looms large. Should you apply now to get earlier payments; or should you wait for a few years to get larger checks? These are just a few of the questions addressed in "Advanced Social Security Strategies for Married Couples," by Kara Endres.

We also introduce new staff that we have welcomed in both our Louisville and our Indianapolis markets.

In Indianapolis, we welcome Megan Ebersole and Bev Taylor. Megan's responsibilities include investment and relationship management. She has over 15 years of experience. Megan earned her Bachelor's degree in Financial Planning from Purdue University. She earned her MBA in Finance from Butler University and is a CERTIFIED FINANCIAL PLANNER.™ Bev Taylor is responsible for the administration of personal trust accounts in Indianapolis. Prior to joining Stock Yards Bank she worked for 19 years at one of the largest regional banks in the country handling trust administration. Bev earned a Bachelor's Degree in Business Administration from the University of Indianapolis.

Peter Wayne is the newest member of our Louisville team. He assists our clients with their personal, estate and business planning needs. He is responsible for the administration of trust accounts and estates. He is also our resident expert on special needs planning issues. Peter received his bachelor's degree from Miami University, and his Juris Doctorate from Salmon P. Chase College of Law. ♦

We are pleased to introduce...

MEGAN EBERSOLE
Indianapolis

BEV TAYLOR
Indianapolis

PETER WAYNE
Louisville

Economic & Market Outlook: Q1, 2015

MARK HOLLOWAY
Chief Investment Officer

January is traditionally the time when we look back briefly on the prior year and make our predictions for the economy and the capital markets for the upcoming year. It is also when the wealth management team prepares and adopts the big picture investment themes that will guide changes in asset allocation and individual security selection in client portfolios.

Looking back, economic growth was positive in 2014. Economic activity accelerated in the second half after the weather related negative first quarter. It was another great year for the domestic stock market. The Standard & Poor 500 finished the year with a total return of 13.69%. U. S. equities out-performed all other financial assets including international stocks and bonds. Hard assets like commodities and natural resources under-performed. Very low interest rates enticed investors to commit new dollars to common stocks because of the higher income yield coupled with the possibility of appreciation. Intermediate maturity, high quality fixed income as measured by the Barclays Intermediate Index returned a positive 3.13%. Interest rates continue to amaze investors and analysts by declining to unprecedented levels. The yield on the ten year Treasury bond is now under 1.9%. The question for investors is will the domestic economy continue to grow enough to support increased corporate earnings in the face of slowing global growth and possible increases in short term interest rates?

We believe the United States economy will be the one bright spot in a world economy marked by country specific recessions and slowing economic activity. Russia and many oil exporting countries will be negatively impacted by declining energy and commodity prices. Japan, Europe, and South America are facing the possibility of recession. China's economic growth rate is slowing significantly. Economists fear that declining world growth will eventually negatively impact our own domestic GDP growth. There are a number of reasons to believe that our economy will persevere and continue to grow in 2015.

First, the employment numbers continue to show improvement. Payroll increases, declines in claims for unemployment benefits, and a declining unemployment rate are all positives for the economy. Over two thirds of our GDP is consumption related. Lower unemployment is very positive for consumption and economic growth.

Second, declining energy prices will aid economic growth in many ways. The decline in energy prices will be very positive for consumers, acting much like a $400 billion tax cut. The extra dollars saved at the gas pump will more than likely find their way into retail sales of all types. This will boost consumption and economic activity. Manufacturing will also be helped by declining energy and commodity prices. Natural gas and/or crude oil are used in the manufacturing or delivery process of nearly everything made in this country. The decline in price of these key ingredients will stimulate profit margins and corporate profits. Energy costs are also a major component in the makeup of the consumer price index and other inflation measures. Low inflation numbers are directly related to low long term interest rates. Low interest rates have consistently been positive for economic activity.

Finally, we have mentioned many times in the past that the stock market is an excellent leading economic indicator. Stock market gains generally precede positive economic numbers. Investors bid up prices in anticipation of stronger economic activity, and stronger economic activity generally results in higher corporate profits. The positive stock market returns of the last two years increase the odds of continued economic growth.

What does this mean for the capital markets? The answer may be "more of the same" in that returns may be similar to what we experienced in 2014. Our expectations for a subdued bull market in stocks remain unchanged for the following reasons. Corporate profit growth will be positive if we are correct about economic growth. Corporate profits are the fuel that will lead to higher stock market prices. We also see foreign dollars leaving countries where economic growth will be anemic, where there is a higher geopolitical risk, or where currency weakness has been the norm. This money will seek a safe haven only found in U. S. financial assets. This increase in demand will be positive for stock and possibly bond prices. Additionally, corporate liquidity remains very high. This will encourage mergers and acquisitions which encourage higher valuations and the resulting increase in stock prices. Finally, low interest rates will provide little competition to stocks for new investment dollars.

However, we are tempering our outlook for stocks by using the word subdued to describe a continued bull market because of the added risks of rising interest rates, the increased threat of terrorism, geopolitical conflict, and slowing global economic growth. Stock market valuations are also above the average historically. All of these things increase the risk of owning stocks and will probably increase the volatility of the domestic stock market in 2015.

Interest rates continue to be difficult to predict. Most economists believe that the Federal Reserve will begin to increase short term interest rates sometime in 2015. This increase would be in response to continuing improvement in the employment picture, positive economic growth, and the low level of inflation we are currently experiencing. All of these factors would give the Federal Reserve room to back away from the near zero return on short term fixed income investments they initiated to stimulate economic growth after the 2008 recession. The impact of rising short term rates on riskier, longer term financial assets has varied. The timing and the magnitude of any short term interest rate changes will determine the impact on the markets.

Our investment themes for 2015 are similar to the ones we emphasized in 2014. Because of the threats of overseas economic weakness, terrorism, and geopolitical disruptions we are emphasizing companies with domestic production, distribution and sales over international business models. Businesses that provide all types of security in an increasingly insecure world will likely also be profitable investments. We continue to identify companies that will be positively impacted by an aging world population and the changing spending and consumption patterns of the baby boom generation. Lastly, we are looking for businesses that will benefit from lower energy prices in the manufacturing and consumer areas.

Please contact your wealth advisor for a more complete discussion on the outlook for the economy and capital markets as well as a list of all of our investment themes for 2015. We look forward to working with you in the upcoming year.

Advanced Social Security Strategies for Married Couples

KARA ENDRES, CFP®
Wealth Advisor

The Old Age, Survivors and Disability Insurance (OASDI) Program, commonly known as "Social Security," is the most widely used program in the United States. Since it affects almost every U.S. citizen, one of the most common questions among soon-to-be retirees is, "What is the best age for me to start taking Social Security?" As with most complicated financial issues, the answer is, "It all depends."

THE BASICS: FULL RETIREMENT AGE

The first step in deciding when to take benefits is understanding how Full Retirement Age (FRA) is defined by the Social Security Administration. The FRA is the age when an individual can begin taking an unreduced benefit, defined as the Primary Insurance Amount (PIA). The FRA is determined by the individual's year of birth and ranges from ages 65 to 67.

Social Security benefits can be received as early as age 62, and in fact, approximately 41% of men and 46% of women take benefits at this age[1]. Taking Social Security at age 62, however, can reduce the monthly benefit by 25% to 30%. Conversely, waiting until age 70 to begin receiving benefits can increase the monthly benefit by 24% to 32%.

A retiree has to decide if smaller, earlier payments will be more beneficial than later, larger payments. An individual with a serious health issue, for example may decide to begin taking benefits to help pay for increased medical expenses. On the other hand, a healthy individual with other financial resources may decide to delay benefits as long as possible. If longevity seems possible, waiting for the largest payment could pay off in the long run.

It is crucial to note if both members of a married couple are still living at age 65, there is a 47% chance one spouse will live to age 90[1]. An individual's decision to take Social Security benefits early impacts, not only the income he/she receives during his/her lifetime, but potentially impacts the income a surviving spouse receives as well.

MAKING THE MOST OF SPOUSAL BENEFITS

A major component of Social Security planning for married couples is the ability for one member of the couple to receive 50% of his or her spouse's benefit, known as the "spousal benefit." This is especially beneficial for couples with very different earnings records or for couples in which one spouse has no earnings record at all.

For example, let's assume at age 67 (FRA), Joe will receive $2,000.00 a month. Joe's wife, Jane, does not have enough earnings history to qualify for her own benefit. At Jane's FRA of age 67, she can begin receiving 50% of Joe's benefit, equaling $1,000.00 a month, making their monthly household Social Security income $3,000.00. Note that Joe has to file for benefits before Jane can begin taking the spousal benefit. Just as with individual benefits, if Jane begins taking the spousal benefit before her FRA, she will receive less than half of Joe's benefit.

ADVANCED COUPLES STRATEGIES: FILE AND SUSPEND

An often overlooked strategy is the ability for married retirees to switch from a spousal benefit to a personal benefit. Let's assume at their FRA of 67, both Joe and Jane have an equal earnings history and each is entitled to $2,000 per month in benefits. They are healthy and expect to live well into their 90s.

Jane could begin taking a spousal benefit of $1,000 per month at her FRA of 67. She can switch to her personal record at age 70 and begin receiving an increased monthly benefit of $2,519.42 (under current law, each year you delay benefits past FRA, up to age 70, your benefit

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increases by 8.00%). Joe could file and receive his full benefit at age 67 or he could "file and suspend" – that is, he could delay taking his benefit up to age 70. Under this file and suspend strategy, Joe's filing enables Jane to start receiving spousal benefits at age 67 and Joe would receive the higher $2,519.42 amount at age 70. Assuming they both lived to age 90, by utilizing this advanced claiming strategy they could potentially receive $1,245,321.60 as a couple versus only $1,104,000.00 if they had filed and taken benefits at age 67. This equates to an extra annual income of $6,144.00 for 23 years.

Deciding when to begin taking Social Security involves many factors and becomes more complicated if you are married or were married for more than 10 years. The process can get tricky and retirees should seek professional advice as they determine the best Social Security claiming strategy for their individual circumstances.

[1] Social Security Administration

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Help us go GREEN!

If you would like to receive "Investment Insights" via eMail, please send your email address to:

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Please join the officers and directors of Stock Yards Bank & Trust Company for the

2015 Spring Economic Seminar

DATE	**MONDAY, MARCH 9, 2015**
TIME	MORNING SESSION 8:30 - 10am, (8am Reg) or AFTERNOON SESSION 4:30 - 6pm, (4pm Reg)
PLACE	**THE OLMSTED** 3701 Frankfort Avenue, 40206
TOPICS	**WHY OFFSEASON MAINTENANCE IS VITAL TO A BEAUTIFUL SPRING.** Presented by Cindi Sullivan Horticulturist/CHS Consulting, LLC **WHY PREVENTATIVE MAINTENANCE ON ELDER-LAW CONCERNS IS VITAL TO LONG-TERM FINANCIAL SUCCESS.** Presented by Peter Wayne, J.D. Wealth Advisor, Wealth Management Group Stock Yards Bank & Trust Company **THE OUTLOOK FOR THE ECONOMY AND CAPITAL MARKETS** Presented by Mark R. Holloway, C.F.A. Senior Vice President and Chief Investment Officer Stock Yards Bank & Trust Company

R.S.V.P. by Monday, March 2, 2015
Terri Moore at (502) 625-2527
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