



Armstrong  
Fleming &  
Moore, Inc.

1850 M Street, NW  
Suite 250

Washington, DC 20036-5813

Phone: (202) 887-8135

Fax: (202) 887-0050

Please visit our website at:  
[www.afmfa.com](http://www.afmfa.com)

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## FINANCIAL STRATEGIES

### Editor:

Chris Rivers, CFP®

### Contributors:

Alexandra Armstrong, CFP®

Chris Rivers, CFP®

Carl Holubowich, CFP®

### Graphic Design:

Adam Powers

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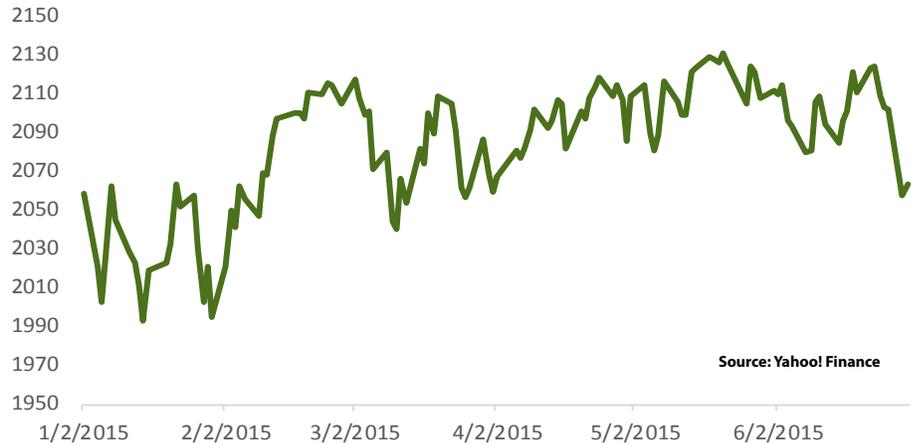
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# FINANCIAL STRATEGIES

Second Quarter 2015

## International Markets Outpace U.S.

### S&P 500 - 01/01/15 - 6/30/15



Source: Yahoo! Finance

During the first half of this year, the Dow Jones Industrial Average was flat while the broader based Standard & Poor's 500 was up a modest 1.2%. The more aggressive NASDAQ Composite Index did better, gaining 5.3% in the first half of this year while the MSCI EAFE International Index reversed last year's loss by gaining 5.4%. The MSCI Emerging markets index recorded a 3.0% increase.

Although the MSCI EAFE Index showed positive results for the year-to-date, this performance was in spite of a loss of 2.8% in June. These weak June results came from the significant impact of the Greek crisis on European assets, even as the stimulus action by the European Central Bank had supported previous strong results. The MSCI Emerging Markets Index was in the black for the first half of the year despite losing 3.2% in June. Emerging markets were damaged by a substantial market decline in China, as well as continued fear about the consequences of the Federal Reserve's pending increases in interest rates.

The Barclays Capital U.S. Aggregate Bond Index was flat during the first six months of the year. Although higher interest rates are anticipated, it appears they may occur much later in the year. Results in other fixed income sectors showed varying levels of weakness. A notable decline in the Barclays Capital High Yield Municipal Index came after the surprise announcement at the end of June by Puerto Rico's governor, Alejandro Garcia Padilla, that the island could not pay its \$72 billion public debt load without dramatic restructuring. Further calls from Padilla to potentially halt payments on the debt for three to five years rattled the relatively small high-yield municipal market and caused much of its dramatic underperformance.

### U.S. economic recovery continues despite weak first quarter

U.S. economic news during the second quarter was quite strong, and even the first quarter turned out to be better than initially thought. First-quarter gross domestic product

(GDP) growth was revised upward to a decline of 0.2%—considerably better than the previous estimate of a 0.7% decline. Much of the weakness, as in 2014, was due to extremely harsh winter weather; a strong U.S. dollar, which hurt exports; and a West Coast port strike that disrupted supply chains across the nation.

Both winter and the strike have ended, and second-quarter results have been much more positive, largely dispelling questions of whether the recovery had been faltering. Employment growth continued strong, with annual job growth above 3 million jobs per year for the past six months, a level last seen in May 2000. Strong employment growth has driven the unemployment rate down to 5.3%, and wage growth finally seems to be responding. Average hourly earnings grew by 2.3% year-over-year in May, which is the highest level since 2009.

The strong labor market is also finally translating into improved consumer confidence and a rise in spending growth. Consumer confidence in May was at the second-highest level since January 2007, and personal spending growth was at its highest level in six years. Other economic indicators at multiyear highs were housing sales—the best numbers since before the crisis for both new and existing homes—and vehicle sales, at a nine-year high.

However, not all economic news in the United States was good. Manufacturing growth remains weak, although positive, and the energy sector continues to downsize in response

to low oil prices. Nonetheless, current data indicates that the recovery goes on and is increasingly benefiting the average worker, which may lead to accelerating growth through the rest of the year.

### **International risks return to the forefront**

Despite the strong economic data out of the U.S., markets largely shrugged off the good news. The real risks for the past quarter were international. Negotiations between Greece and its creditors had been a concern throughout the quarter, but worries intensified in late June as discussions became more heated. Market concerns peaked when talks broke down entirely on June 27, after Greece's prime minister, Alexis Tsipras, announced a public referendum on a proposed deal with European lenders. This led to significant market downturns around the world.

In early July, Eurozone leaders said they would provide 86 billion euros in additional support to Greece, provided that Greece implements further austerity measures this year. While the Greek government surrendered to essentially all of its creditors' demands, the deal is said to give it a fighting chance of holding on to the euro as its currency. The deal includes a requirement that the Greeks pass new legislation, including increases to sales tax and an overhaul of the pension system. While the effect inside Greece will be painful, the deal should help stabilize the Eurozone as a whole.

Beyond Greece, other international issues were on investors' minds recently. Chinese stock markets moved into bear territory at the end of June, with substantial declines in Shanghai, in response to a continued slowing of China's economy. The Chinese government has looked to address the situation with both rate cuts and reduced reserve requirements, a combination last seen in 2008, suggesting both the level of their concern and commitment. This situation remains an area of much concern for global markets.

### **Concern is appropriate, but the big picture remains positive**

The weak results from U.S. equity markets in June and through the second quarter have been concerning, though largely a response to political risks in Europe. Underlying economic fundamentals still appear strong in the U.S. and improving in Europe, suggesting that any market adjustment may be limited. Moreover, it appears both the U.S. and the world at large are better prepared to weather challenges than they have been in years.

It is quite possible that we will see further turbulence, particularly in international markets but, at this point, we think it would be more of a normal adjustment to changing conditions. Even a larger correction would be normal in the grand scheme of things, and no cause for concern over the medium to longer term. We remain confident in the U.S. economy, our excellent positioning in the world, and the strength of our financial markets.

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## **AFM Mission Statement**

“Our mission is to provide prudent financial solutions that achieve your goals through personalized financial planning and independent investment advice, and to do this with integrity, objectivity and excellence.”

We continue to believe that a well-diversified portfolio with regular rebalancing is still the best way to meet financial goals over the long run, and should be maintained through good times and bad.

- **Alexandra Armstrong, CFP®**

*All information according to Bloomberg, unless stated otherwise.*

**Disclosure:** *Certain sections of this commentary contain forward-looking statements that are based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. Past performance is not indicative of future results. Diversification does not assure a profit or protect against loss in declining markets. All indices are unmanaged and investors cannot invest directly into an index. The S&P 500 Index is a broad-based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks. The Dow Jones Industrial Average is a price-weighted average of 30 actively traded blue-chip stocks. The NASDAQ Composite Index measures the performance of all issues listed in the NASDAQ Stock Market, except for rights, warrants, units, and convertible debentures. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. It excludes closed markets and those shares in otherwise free markets that are not purchasable by foreigners. The Barclays Capital Aggregate Bond Index is an unmanaged market value-weighted index representing securities that are SEC-registered, taxable, and dollar-denominated. It covers the U.S. investment-grade fixed-rate bond market, with index components for a combination of the Barclays Capital government and corporate securities, mortgage-backed pass-through securities, and asset-backed securities. The Barclays Capital High Yield Municipal Index measures the performance of long-term tax exempt bond market, including high-yield municipal bonds only.*

Our thanks to Brad McMillan, vice president, chief investment officer, at Commonwealth Financial Network, who provided material for this article.

## Be Careful Where You Die

Most people realize that estates which are worth \$5,430,000 or less are not taxed at the federal level. Above that level, estate assets are taxed starting at 18% on the first \$10,000, increasing to a top rate of 40% on assets worth \$1 million or more. The \$5,430,000 allowance is indexed for inflation annually.

However, many people don't realize that states can tax estates as well. New Jersey is one of the most egregious, taxing estates at \$675,000 or more. In our area, **Virginia** has no estate tax, following a repeal in 2007.

**Maryland** taxes estates in excess of \$1.5 million in 2015 at 16%. This exclusion amount will increase gradually over the next few years (\$2 million in 2016, \$3 million in 2017, \$4 million in 2018, and finally matching the federal level in 2019). Maryland and New Jersey are the only two states that levy both estate and inheritance taxes. Property passing to a spouse, child or other lineal descendant, spouse of a child or other lineal descendant, parent, grandparent or sibling is exempt from taxation. Property passing to other individuals is subject to a 10% tax. (Note: Four other states have inheritance tax, but no estate tax.)

**Washington, D.C.** excludes the first \$1 million this year and recently passed legislation to raise it to \$2 million "as early as" 2016, then later to \$5 million. As noted in our last newsletter, while the legislation passed, the timing was not specified. Thus, D.C. will tax estates over \$1 million until further notice.

Now you know why many people choose to retire to Florida. The state of Florida imposes no income tax or estate tax. They do have a sales tax and their real estate taxes can be high particularly if you own a home on the water.

If you're thinking of relocating to another state, be sure you know how potential retirement destinations compare with your current state when it comes to taxes. Not only should you consider estate taxes but also state tax treatment of pensions and retirement income, Social Security, sales and property taxes. Kiplinger has developed a very useful source for this information on their Retiree Tax Map. ([Kiplinger.com/links/retireetaxmap](http://Kiplinger.com/links/retireetaxmap)).

- **Alexandra Armstrong, CFP®**

*Armstrong, Fleming & Moore, Inc. does not provide legal or tax advice. You should consult a legal or tax professional regarding your individual situation.*

## "On Your Own"



The fifth edition of *On Your Own: A Widow's Passage to Emotional and Financial Well-Being* is available. Although this book was written primarily for widows, women of all ages and circumstances have found the information helpful to them as it provides basic financial planning and investment advice. You can order it direct from our offices by calling your financial planner or through [www.amazon.com](http://www.amazon.com).

## New Interns This Summer at AFM

**Jack Lowe** is a rising senior from Virginia Tech with a major of Applied Economic Management with an option of Financial Planning and a minor in Business. He is from Cockeysville, MD and will be focused on financial planning this summer.

**David Cooper** is a rising junior from George Washington University working towards a Bachelor of Business Administration with a finance concentration. He is from Seymour, CT and took a summer course on International Economics in Shanghai, China last summer.

**Khalil Bishop** is a rising sophomore from Florida Memorial University. He is undecided on his major and is the grandson of executive assistant Dot McGee.

**Elliot Baron** is a rising junior at American University, with a major in International Relations and a minor in Finance. He is originally from Pennsylvania.

**Walid Bouaichi** is a rising junior at American University, with a major in Finance. He is an active member of the Kogod Financial Management and Kogod Marketing Associations and he worked as an office assistant for AU's Housing and Dining Programs.



AFM's new interns in front of the Statue of Gandhi at the Indian Embassy on Massachusetts Avenue (Back row: Walid Bouaichi, David Cooper. Front row: Elliot Baron, Jack Lowe, Khalil Bishop)

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## Chris' 15<sup>th</sup> Anniversary with AFM!

This month, Chris Rivers celebrates his 15<sup>th</sup> anniversary at AFM. Chris joined AFM in 2000 as portfolio analyst, after graduating from the University of Maryland. Hired to work for Alex, Chris admits he knew little about personal finance at the time. He had no choice but to learn quickly, as several employee departures left him covering the work of two analysts, as well as some emergency secretarial duties for a short time.

When he was hired, things were a bit different. Emailing clients was frowned upon as unreliable, stock prices (quoted in fractions, not decimals) were found in yesterday's paper, and the internet was something to be opened in the office only for a moment, as a last resort.

Consumers were dismayed that gas prices had jumped 43%...to \$1.65 per gallon. Cell phones were clunky, the Nationals were still playing in Montreal, and the NASDAQ had recently hit an all-time high of 5,048, a level it would not see again until April 2015.

In between we saw two market crashes, and two recoveries. Along the way, Chris earned his CFP® certificate and became a principal of the firm in 2008. Living at home when he was hired, Chris has since married Caroline (his high school sweetheart), and they have a home in Maryland, where they are raising their three children Annie (7), Billy (5), and Claire (10 months).

## AFM Lends Hand to Local Shelters

On May 19th, we took a break from work and devoted some time to help Cup of Joe, a local organization which distributes food to homeless shelters in various locations around Washington, D.C.



The event featured two assembly lines packing up bag lunches for those in need. In the end, we packaged up 400 lunches for distribution at two shelters - 801 East (at St. Elizabeth's Hospital) in Southeast, and the New York Ave Men's Shelter in Northeast.

Program director Lydia Monroe led our effort, kept us on our toes, and pushed the two teams in competition. Before we began, she spoke to us about the program and helped us understand the impact it has on those at the shelters.

Special thanks to Joan Collins for spearheading the committee, and to John Wittelsberger and Elizabeth Janus for their help organizing the event.

## Help Protect Your Personal Information from Cyber Fraud

Every hour, technology continues to evolve, changing the way we lead our lives. Unfortunately, cyber criminals are evolving just as fast, developing new ways to separate people from their assets. While the most common tactics used to compromise a victim's identity or login credentials are long-time nemeses such as malware, phishing, and social engineering, they are growing increasingly difficult to spot. The end game with these tactics is, of course, criminal. After gaining access to an investor's personal information, cyber criminals can use it to commit various types of fraud.

These criminals are skilled at identifying custodial financial relationships and mining saved emails for critical information such as documents with your signature, copy of your passport, tax/account statements and your financial planner's information. In some cases, the criminals also modify victims' email account settings to divert legitimate emails from their financial services

providers into spam folders, providing additional time for the criminals to cover their tracks.

So what can you do to protect your information? The checklist below outlines some best practices for investors to implement to help protect your personal information.

- Change your passwords regularly & avoid using common passwords
- Alternatively, utilize a password manager such as [LastPass](#) to track all of your login credentials and generate more secure passwords
- Review your credit report once per year (for free) at [www.annualcreditreport.com](http://www.annualcreditreport.com)
- Enroll in a credit monitoring service – if you are a Costco member, they offer a discounted rate on [IdentityGuard](#), which gives you 100% of what other services offer at half the cost.

## Protecting Your Personal Information From Cyber Fraud *Continued from page 5*

- Use secure data storage programs to archive critical data and documents
- Install the most up-to-date antivirus and antispyware programs on all devices (PCs, laptops, tablets, smartphones) and update these software programs as they become available
- Suspiciously review any unsolicited email requesting personal information
- Never respond to an information request by clicking a link in an email
- Do not send account information or personally identifiable information over email, chat, or any other unsecure channel

Keeping your information secure is a top priority for our firm. To better protect you and your accounts from cybersecurity threats, we continuously review security procedures to ensure that we are following best practices recommended for our industry.

As many have experienced by now, our system automatically encrypts emails that contain sensitive data, such as account or Social Security numbers. If you have sensitive information to send us via email, please let us know so that we can setup a secure email chain over which you can transmit the information to us.

If you have important documents such as wills, trusts, tax returns, or medical directives, we are happy to scan and store electronic copies in our system. Once we scan the documents, we can safely shred any copies or return the originals to you.

Do not hesitate to contact us with questions or concerns about how we protect your accounts or the steps you and your family can take to better protect yourselves and mitigate risk.

- Carl Holubowich, CFP®

### Client Surveys

We are always focused on improving AFM for your benefit, so last month, we sent a survey to about half of our clients. Thank you to all who completed it; your feedback will be invaluable to us as we work to integrate your suggestions and develop into a world-class service firm.

### AFM News

- **Alex Armstrong** was featured in the May 22nd issue of *Investment News*, in a feature titled "What are the industry's best and brightest reading this summer?" Her choice for business was *The Checklist Manifesto* by Atul Gawande, and her choice for pleasure was *The Wright Brothers* by David McCullough.
- On June 23rd, **Alex Armstrong** spoke as part of a panel discussion at the 3rd annual Women's Forum: Focus on Leadership, hosted by Investment News.
- **Alex Armstrong** & **Mary Moore** were profiled in the June issue of *Commonwealth Business Review*, in an article titled "Women at the Helm: Commonwealth Advisors Reflect on Their Career Journeys."
- Senior Portfolio Analyst **Mitch Strobel** and Alex Bayline got engaged on June 9th while on vacation in Venice, Italy. Alex is pursuing her Bachelors in Journalism at the University of Maryland, and is currently working part-time as a florist.
- **Ryan Fleming, Betsy Fleming, Alex Armstrong**, and her husband Jerry McCoy attended the annual Reading is Fundamental Gala this June. The theme of this year's event was the book, *Z is for Moose*, and it brought together RIF honorees, staff, donors, and the author and illustrator of *Z is for Moose*. Reading Is Fundamental is the oldest and largest children's literacy nonprofit in the United States. Their highest priority is reaching underserved children from birth to age 8.