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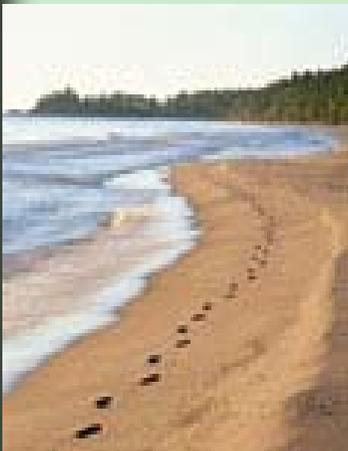
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Four Questions to Ask Before You Open Your Wallet



Even if you have the best of intentions, it's easy to overspend. According to a Gallup poll conducted June 9-15, 2014,* 58% of people who had shopped during the previous four weeks

said they spent more at the store than they originally intended to. Even if you're generally comfortable with how much you spend, you may occasionally suffer from a case of buyer's remorse or have trouble postponing a purchase in favor of saving for a short- or long-term goal. Here are a few key questions to consider that might help you fine-tune your spending.

How will spending money now affect me later?

When you're deciding whether to buy something, you usually focus on the features and benefits of what you're getting, but do you think about what you're potentially forgoing? When you factor this into your decision, what you're weighing is known as the opportunity cost. For example, let's say you're trying to decide whether to buy a new car. If you buy the car, will you have to give up this year's family vacation to Disney World? Considering the opportunity cost may help you evaluate both the direct and indirect costs of a purchase.

Some other questions to ask:

- How will you feel about your purchase later? Tomorrow? Next month? Next year?
- Will this purchase cause stress or strife at home? Couples often fight about money because they have conflicting money values.
- Will your spouse or partner object to your purchasing decision?
- Are you setting a good financial example? Children learn from what they observe. What messages are you sending through your spending habits?

Why do I want it?

Maybe you've worked hard and think you deserve to buy something you've always wanted. But are you certain that you're not being unduly influenced

by other factors such as stress or boredom? Take a moment to think about what's important to you. Comfort? Security? Safety? Status? Quality? Thriftiness? Does your purchase align with your values, or are you unconsciously allowing other people (advertisers, friends, family, neighbors, for example) to influence your spending?

Do I really need it today?

Buying something can be instantly and tangibly gratifying. After all, which sounds more exciting: spending \$1,500 on the ultra-light laptop you've had your eye on or putting that money into a retirement account? Consistently prioritizing an immediate reward over a longer-term goal is one of the biggest obstacles to saving and investing for the future. The smaller purchases you make today could be getting in the way of accumulating what you'll need 10, 20, or 30 years down the road.

Be especially wary if you're buying something now because "it's such a good deal." Take time to find out whether that's really true. Shop around to see that you're getting the best price, and weigh alternatives--you may discover a lower-cost product that will meet your needs just as well. If you think before you spend money, you may be less likely to make impulse purchases, and more certain that you're making appropriate financial choices.

Can I really afford it?

Whether you can afford something depends on both your income and your expenses. You should know how these two things measure up before making a purchase. Are you consistently charging purchases to your credit card and carrying that debt from month to month? If so, this may be a warning sign that you're overspending. Reexamining your budget and financial priorities may help you get your spending back on track.

*Source: American Consumers Careful With Spending in Summer 2014, www.gallup.com.

Charles Cheryl Matt

Saving for College: 529 Plans vs. Roth IRAs

529 plans are vehicles tailor-made for college savings. But some parents like the flexibility of using Roth IRAs. So how does a favorite of the college savings world stack up against a favorite of the retirement savings world when it comes to putting money aside for college?

Contributions

529 plans: People at all income levels can contribute to a 529 plan. Lifetime contribution limits are high, typically \$300,000 and up. And if certain requirements are met, 529 plans let you gift large lump sums gift-tax free--up to five years worth of the \$14,000 annual gift tax exclusion, which would be up to \$70,000 for single filers and \$140,000 for married joint filers (in 2014).

Roth IRAs: Not everyone is eligible to contribute to a Roth IRA. Income must be below \$129,000 for single filers or \$191,000 for joint filers (in 2014). In addition, Roth IRAs have annual contribution limits--\$5,500 per year, or \$6,500 if you're age 50 or older (in 2014). Bottom line: Only 529 plans offer unlimited eligibility and the ability to make large lump-sum gifts in a single year.

Federal tax benefits

529 plans: Earnings accumulate tax deferred and are tax free if account funds are used to pay the beneficiary's qualified education expenses (a broad term that includes tuition, fees, room, board, and books). States generally follow this tax treatment, and some offer an additional tax benefit: a deduction for 529 plan contributions.

But if 529 plan funds are used for any other purpose, the earnings portion of the withdrawal is subject to income tax and a 10% federal tax penalty. Essentially, Uncle Sam is telling you to use the money for college.

Roth IRAs: Earnings in a Roth IRA also accumulate tax deferred and are tax free if a distribution is qualified. A distribution is qualified if a five-year holding period is met and the distribution is made: (1) after age 59½, (2) due to a qualifying disability, (3) to pay certain first-time homebuyer expenses, or (4) by your beneficiary after your death.

If your distribution is not qualified, the earnings portion is subject to income tax and, if you're younger than 59½, a 10% early-withdrawal penalty (unless an exception to the penalty applies). Again, Uncle Sam is encouraging you to wait and use the money for retirement. One exception to the early-withdrawal penalty is when a withdrawal is used to pay college expenses. So it comes down to your age. Once you've met both the age 59½ and the

five-year holding requirement, money you withdraw from your Roth IRA to pay your child's college expenses is tax free. But if you withdraw funds before age 59½ to pay college expenses--the likely scenario for most parents--you might owe income tax on the earnings but not an early-withdrawal penalty. (Nonqualified distributions draw out contributions first and earnings last, so you could withdraw up to the amount of your contributions and not owe income tax.)

Bottom line: 529 plans offer more potential tax benefits if the funds are used for college. But Roth IRAs offer greater flexibility for parents over age 59½ who are paying college bills.

Investment choices

529 plans: With a 529 plan, you're limited to the investment options offered by the plan. Most plans offer a range of static and age-based portfolios (where the underlying investments automatically become more conservative as the beneficiary gets closer to college) with different levels of risk, fees, and management goals. If you're unhappy with the market performance of the option(s) you've chosen, you can generally change the investment options for your future contributions at any time. But you can change the options for your existing contributions only once per year (per federal law).

Roth IRAs: With a Roth IRA, you can generally choose from a wide range of investments, and you can typically buy and sell investments whenever you like.

Bottom line: The 529 plan rule of "one investment change per year" on existing contributions may restrict your ability to respond to changing market conditions.

Financial aid

529 plans: Under federal aid rules, 529 accounts are counted as parental assets (assuming the parent is the account owner), and 5.6% of parental assets are deemed available for college expenses each year. Colleges also consider the value of 529 plans when distributing their own institutional aid. Roth IRAs: Under federal aid rules, retirement assets are not counted at all, so Roth IRAs don't impact federal aid in any way. However, colleges may consider retirement plan balances when distributing their own aid.

Bottom line: Only 529 plans count in both federal and college financial aid calculations.



529 plans reach the \$200 billion mark

As of June 2013, assets in 529 plans totaled \$205.7 billion. Virginia has the largest 529 plan, with 19% of the total assets. (Source: The College Board, Trends in Student Aid 2013).

Note

Investors should consider the investment objectives, risks, charges, and expenses associated with 529 plans before investing. More information about 529 plans is available in each issuer's official statement, which should be read carefully before investing. Also, before investing, consider whether your state offers a 529 plan that provides residents with favorable state tax benefits. As with other investments, there are generally fees and expenses associated with participation in a 529 savings plan. There is also the risk that the investments may lose money or not perform well enough to cover college costs as anticipated.



Should I be worried about a Federal Reserve interest Rate hike?



After years of record-low interest rates, at some point this year the Federal Reserve is expected to begin raising its target federal funds interest rate (the rate at which banks lend to one another funds they've deposited at the Fed). Because bond prices typically fall when interest rates rise, any rate hike is likely to affect the value of bond investments.

However, higher rates aren't all bad news. For those who have been diligent about saving and/or have kept a substantial portion of their portfolios in cash alternatives, higher rates could be a boon. For example, higher rates could mean that savings accounts and CDs are likely to do better at providing income than they have in recent years.

Also, bonds don't respond uniformly to interest rate changes. The differences, or spreads, between the yields of various types of debt can mean that some bonds may be under- or overvalued compared to others. Depending on your risk tolerance and time horizon, there are many ways to adjust a bond portfolio to help cope with rising interest rates. However, don't forget that a bond's total return is a

combination of its yield and any changes in its price; bonds seeking to achieve higher yields typically involve a higher degree of risk.

Finally, some troubled economies overseas have been forced to lower interest rates on their sovereign bonds in an attempt to provide economic stimulus. Lower rates abroad have the potential to make U.S. debt, particularly Treasury securities (whose timely payment of interest and principal is backed by the full faith and credit of the U.S. Treasury), even more attractive to foreign investors. Though past performance is no guarantee of future results, that's what happened during much of 2014. Increased demand abroad might help provide some support for bonds denominated in U.S. dollars.

Remember that bonds are subject not only to interest rate risk but also to inflation risk, market risk, and credit risk; a bond sold prior to maturity may be worth more or less than its original value. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.

How can I try to manage the impact of an interest rate hike?

With higher interest rates a distinct possibility in 2015, you may want to think about whether the bond portion of your portfolio is positioned appropriately given your time horizon and risk tolerance. One factor you might consider is which types of bonds may be most vulnerable to a rate hike.

Some investors forget that a bond's principal value may fluctuate with market conditions. When interest rates rise, longer-term bonds may feel a greater impact than those with shorter maturities. When interest rates are rising, bond buyers may be reluctant to tie up their money for longer periods if they anticipate higher yields in the future. The longer a bond's term, the greater the risk that its yield may eventually be superseded by that of newer bonds.

High-yield bonds (also known as junk bonds) may be affected disproportionately because they involve greater risk. Issuers must pay those higher yields because they are seen as having a greater risk of default, especially if a company already has a high debt burden and/or a relatively short history of successful debt repayment, or is otherwise on shaky financial footing. Investors may be reluctant

to purchase risky debt if they foresee receiving a comparable yield from an issuer seen as more trustworthy.



Bonds redeemed prior to maturity may be worth more or less than their original value; however, if you hold a bond to maturity, you would suffer no loss of principal unless the issuer defaults. Bond investments also may be laddered. This involves buying a portfolio of bonds with varying maturities; for example, a five-bond portfolio might be structured so that one of the five matures each year for the next five years. As each bond matures, you might be able to reinvest the proceeds in an instrument that carries a higher yield.

Don't forget that all investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful. In addition to interest rate risk, bonds also face credit risk, inflation risk, and market risk.

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