The FINANCIAL SUCCESS Library

Money Minute

Financial Planning & Investing Newsletter

"Smart Ideas for Secure Finances"

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Inside This Month's Issue:

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R1 FINANCIAL GROUP

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FEATURE

Fear, Greed & Getting Better Stock Market Returns

Two interesting observations came to light last month:

1) The S&P 500 index is currently at a 4-year high.

2) Mutual fund investors are still overwhelmingly putting money into bond funds, apparently still hesitant to put money into the stock market.

This is according to Morningstar and ICI data and is persisting some three years after the bottom of the last market decline. How does one make sense of these conflicting pieces of information? Very easily: for a majority of individual investors, emotions – not facts or reason – guide their investment decisions. This has and will likely always be the case, and it will cause this majority of investors to achieve sub-par returns throughout their lifetimes.

So - is there a better way? Absolutely.

Having and following a consistent investment philosophy based on facts is the single best thing the average investor can do to enhance their returns, and here are four facts that can help formulate a rational investment philosophy:

(S&P 500 Index) Individual investors have continued to pull money out of stocks and dump into bonds despite the U.S. stock market reaching a 4-year high.

1. Money should be thought of in the long run as purchasing power, the ability to buy things.

2. Stocks have a superior long-term record of preserving and enhancing purchasing power compared to bonds and other asset classes. Ibbotson/Morningstar data shows that since 1926, stocks have compounded at roughly 10% per year, while high quality bonds have compounded at less than 6%

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QUOTE OF THE MONTH

"The secret of staying young is to live honestly, eat slowly, and lie about your age."

~LUCILLE BALL,
actress

DID YOU KNOW?

A women from Iowa recently gave birth to a healthy 13 lb, 13 oz. baby! Less than 1 out of every 1000 newborn babies weigh more than 11 lbs at birth.

Source: Time Magazine

Ideas for Success

Where to Invest if Stocks' Volatility is Unacceptable

"Ideas for Success" articles are hypothetical stories adapted from Money Minute readers and R1 Financial Group clients. Solutions mentioned should not be construed as investment advice or offers to purchase any product. Please consider your investment goals and risks and consult a financial advisor before making any financial decision.

SCENARIO:

When it comes to increasing purchasing power and compounding returns over time, stocks historically have had no equal. But for shorter time horizons and for investments where high volatility is unacceptable, stocks are simply not appropriate. For more conservative investment alternatives to stocks, there are a number of options that have the ability to produce good returns, and most of these are some variety of bond.

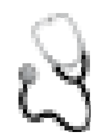
At present, "safe-haven" bonds like U.S. treasury bonds do not offer an attractive risk-reward trade off. The yield on 10-year treasury bonds – for example – is currently a paltry 2.15%.

SOLUTION:

More attractive opportunities in bonds do exist. Short and intermediate term high quality **corporate bonds** currently offer yields between 3% and 6%. Other varieties of investment grade bonds such as **mortgage-backed bonds** and high quality **emerging markets government bonds** offer yields in a similar range. Of course, all bonds have the potential to be hurt by rising interest rates, and at some point interest rates will begin to rise. They simply cannot go much lower from where they sit currently. However, the aforementioned varieties of bonds offer superior yields to U.S. treasury bonds and will likely suffer less when interest rates do indeed begin to rise.

One other more aggressive bond option falls into the low quality, high yield category. Short term, low quality bonds – which are also known as **floating rate bonds** – are issued with coupon rates that "float" with prevailing interest rates. When rates increase, their coupon rates will likewise increase. These types of bonds will not be hurt by rising interest rates and will in fact benefit from rising interest rates. Floating rate bonds currently offer yields in the 4.5 – 6.0% range. Buyers of these bonds must understand that principal values of these bonds can and does fluctuate much more dramatically than traditional, higher quality bonds. Such bonds fell 10-12% in value last summer when the stock market declined. Values have since all but fully recovered, but again – buyers must accept this volatility if they plan on investing in these types of bonds.

YOUR HEALTH



Surprising Health Benefits of Eating Cinnamon

Cinnamon is one of the oldest spices used by humans, dating back to as early as 2000 B.C. when it was imported by the Egyptians. The spice maintains its popularity today due to its fantastic taste, but it also has a surprising number of health benefits:

-Numerous studies show that cinnamon **helps regulate blood sugar**, making it a great choice for diabetics and hypoglycemics alike.

-Cinnamon **reduces bad cholesterol levels**. Low-density lipoprotein levels (LDL), a.k.a. "bad cholesterol" are reduced by regular consumption of cinnamon, which in turn may help reduce the risk of cardiovascular disease. It also contains natural anti-infectious compounds, which have been shown to be **effective in killing ulcer-causing H. pylori bacteria** and other pathogens.

-Research at the University of Texas, published in the journal *Nutrition and Cancer*, shows that cinnamon **reduces the proliferation of certain types of cancer cells**, such as leukemia and lymphoma.

-Cinnamon holds promise for various neurodegenerative diseases, including: **Alzheimer's disease, Parkinson's disease, multiple sclerosis, brain tumor, and meningitis**, according to research at The University of Texas. Their research shows that cinnamon reduces chronic inflammation linked with these neurological disorders.

*Source(s): Mayo Clinic

Ask Money Minute

Questions can be e-mailed to: Brad@R1FinancialGroup.com

Q. "I'd like to purchase some stocks in a taxable account now and be able to pass them on to my kids and grandkids later. What kind of taxes should I be aware of in doing this?"

-Scott – Dallas, TX

A. If you plan on buying stocks today, holding onto them, then passing them on to your kids and grandkids when you die, the tax consequences should be pretty straightforward. While you're alive, you'll pay tax annually on any stock dividends you receive. When you die and pass the stock on to your kids and grandkids, here's what would happen:

Normally when you buy and sell a stock at a profit, you pay capital gains tax on that profit. For example, if you bought $10K worth of stock and sold it 15 years later for $30K, you'd pay capital gains tax on the $20K profit. (The current tax rate is 15%). The tax is due only when you sell the stock. In the event you are passing stock on to someone when you die, the persons inheriting the stock would be on the hook for any taxes due when the stocks are sold. The big benefit is that their cost basis in the stock is "stepped up" to the value of the stock on the day you die, not the value when the stock was originally purchased. So – if that same stock is worth $30K the day you die, held and then sold later for $35K, capital gains tax would be owed only on the $5,000 additional gain; the initial $20,000 gain that happened while you were alive is tax free. Best of luck.

Q. "I'm interesting in getting my investments in order and working with a financial advisor. What kind of fees do you charge when working with clients?"

-Mark – Plano, TX

A. Thank you for the question, Mark. In general, you can pay a financial advisor or person who manages your investments in one of two ways. The first is to pay a combination of commissions and sales charges when investments are purchased or sold. The second is to pay a set annual fee (such as 1.0%) based on the value of your assets. I choose to work under the fee-based model for the following reasons: I believe it is important for clients to know how and how much they are paying me to manage their investment accounts, and a fee-based model is the clearest and most straightforward method. Mutual fund commissions and sales charges on A, B, and C share classes that charge front- and/or back-end loads make it next to impossible for clients to know what, when and how much they are paying. In my opinion, there is no good reason for this. Other major advantages of fee based accounts like the ones we maintain for clients are: there are far greater investment options available in such accounts, and the ongoing fee-for-service arrangement is more conducive to building and maintaining a meaningful and long-lasting client-advisor relationship. Virtually all financial planners work on a fee-based structure.

Money Minute Trivia Question

A case involving sweeping legislation passed two years ago and championed by President Obama is being is currently being heard by the United States Supreme Court. What issue does the case center on?

A) Gun Control *B) Health Insurance* *C) Marriage* *D) Banking Regulations*

*Visit www.Client Portal123.com to submit your answer. Each month one winner is randomly drawn out of all correct responders to receive a **$25 gift card to a local restaurant**!

Last Month's Winner – Richard K. of Richardson, Texas

Question: Singer Whitney Houston recently passed away. Her 1992 remake of the country hit "I Will Always Love You" was originally sung by what legend?

*****A) Dolly Parton** B) Loretta Lynn C) Dottie West D) Lynn Anderson

Market and Economic News

March marked the fourth consecutive month of gains for U.S. stocks as the S&P 500 index jumped just over 3% for the month. Continued gains in employment figures, automobile and retail sales, and - most recently - the beginning of what appears to be home prices stabilizing, have provided reasons for optimism and continuing strength in the economy. The first quarter of 2012 is now over, and companies will begin to report earnings in a few weeks. The summers of 2010 and 2011 were marked by extreme stock market volatility and 15%+ temporary declines. Whether the summer of 2012 follows suit remains to be seen.

At a Glance…
(as of April 3) **DJIA** – 13,255 **S&P 500** – 1,413 **NASDAQ** – 3,117 **10-yr T-note** – 2.16%

**Fear, Greed and Getting Better Stock Market Returns*

(Continued from page 1)

per year during that same period. Factoring in roughly 3% inflation and the fact that taxes on bond income are immediate and taxed at higher ordinary income tax rates, the real return gap widens even farther.

3. The premium return of equities can be purchased in an efficient manner only by accepting the fact that stocks' returns are volatile, irregular and result in far greater fluctuation of investment value compared to bonds.

-There have been 13 bear markets since World War II, averaging a 30% peak-to-trough decline. The S&P 500 index was valued at 19 before the first of these declines. It now stands just shy of 1,400.

-Just thirty years ago, the value of the S&P 500 index was 135, less than 1/10th of its current value, despite the two large market declines of 2000-02 and 2007-09.

4. Unfortunately, market declines have proven to be extremely difficult if not impossible to predict with any accuracy. It therefore seems to make a great deal of sense to accept temporary market declines as an ordinary and regular occurrence rather than trying to time or avoid such declines.

If all investors would consistently operate with this bedrock philosophy while at the same time making proper use of bonds and other less volatile asset classes to meet income needs and shorter-term investment goals, they would do themselves a huge service. They'd never bother to utter the words "I wonder if now is a good time to be in the market". They wouldn't anxiously listen to market outlooks and predictions by financial experts. They would not be compelled to add to their stock holdings at the top of market cycles (greed), and they would not be compelled to nervously sell stock holdings AFTER they have declined in value during market corrections – even though history shows that market values have ALWAYS recovered over time.

Market cycles are never different. They are irregular, repeating patterns of excessive optimism followed by excessive pessimism and back again, cycling around over and over again in the scope of a rising trendline. The particular circumstances, headlines, and facts that start each market decline are unique, but the final result is always the same. Yet – investors repeat their irrational and harmful behavior over and over again each cycle.

This line of reasoning and these ideas are nothing new to readers of this newsletter, but they are worth repeating. There is something about human nature that wants to believe there is an easier or quicker way, a shortcut to results, a secret or "exception to the rule" that they can exploit. Just as a healthy diet, sufficient sleep and regular exercise are all that is needed for the vast majority of people to achieve good health, we still spend billions of dollars each year on supplements, drugs, weight loss shortcuts, etc. I believe attempts to "time the market" come from the same mindset, and I think that both are unnecessary and misguided.

Of course – this is just my take on the subject, and people are free to do whatever they want to do, but for my money and my clients' money, this is the mindset and philosophy that will guide my investment decisions.

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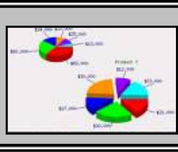
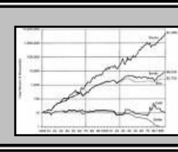
*As always, please consider your individual investment goals, financial objectives and risk tolerance when investing, and consult a financial advisor to help you determine which investment mix is appropriate for your situation.



UP CLOSE

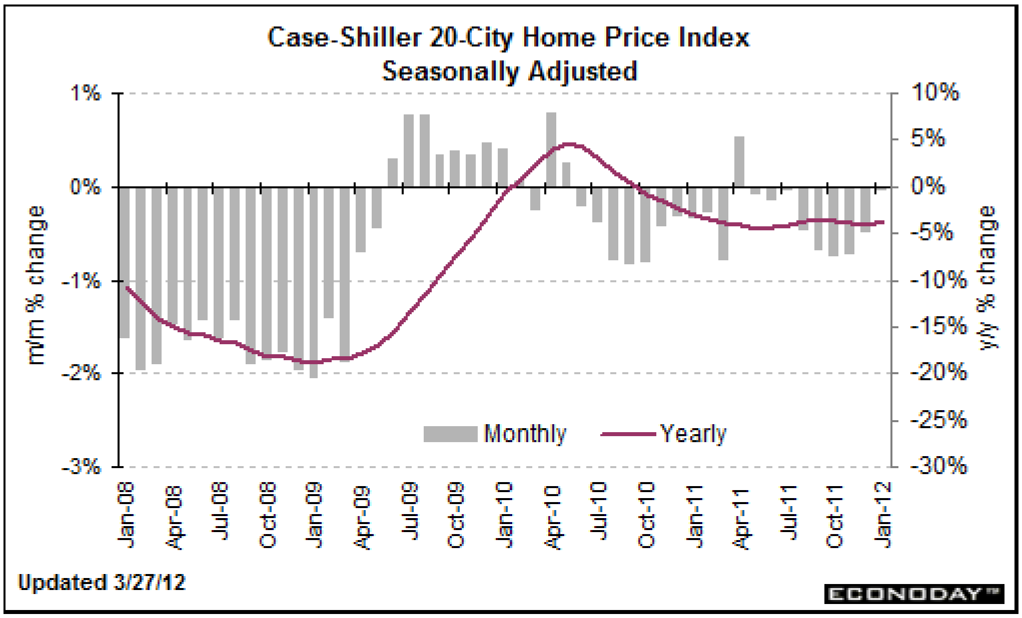
In-Depth Information for Smart Investors



U.S. Economy Showing Progress on All Fronts…Except Housing

The U.S. stock market is at its highest levels in four years. Employment figures over the last six months show that hiring has picked up and unemployment is at its lowest level in roughly three years. Automobile sales, consumer confidence, retail sales, gross domestic product (GDP) and a host of other economic indicators are at healthy levels and have improved significantly over the past six months. In short, the U.S. economy appears to be heading in the right direction in all areas except one: housing. The housing bubble, which peaked in early 2007, has wreaked havoc on home prices. In fact, prices have been declining for the past 5 calendar years.

U.S. Home Prices Have Been Falling for the Past 5 Years Nationally



Source: Econoday

The bad news is that prices fell another 3.8% last year and are down over 33% from their peak in late 2006. The good news is that home prices may finally be hitting a bottom. The chart above clearly shows that the rate of decline has slowed significantly in the last two years compared to '07-'08 and has even seen stretches of several months where prices increased. Also – the January 2012 reading (the most recent data available) showed that home prices neither gained nor lost value. At this point, not losing value should be considered a victory.

It seems fitting that the area which was at the center of the financial crisis and great recession would be the last area to recover. Clearly the housing market is still quite a mess, but it seems the worst is certainly behind us and that we may be seeing signs of the bottom for home prices. Only time will tell.

Money Minute ***Tip of the Month:*** **Is it Time to Consider Owning an Electric Car?**

With a small handful of legit electric cars on the market now, should you consider replacing your gas-powered automobile? Here are your options. The Nissan Leaf is an all-electric 4-door compact with an 80-100 mile range. It achieves a 99mpg equivalent and can recharge its battery fully with a special 240 volt charger in 7 hours at a cost of roughly $2.75 in electricity (according to Nissan). Prices start at $27,700 after factoring in the $7,500 federal tax credit. Another option is the more basic Mitsubishi i-MiEV, which is smaller, has a 70-90 mile range, gets 112 mpg equivalent, and costs just $20,000 after federal tax credits. It also runs on 100% battery power. A third option that is not range limited is the Chevy Volt, which can travel 25-50 miles on pure battery power but also has a backup gasoline generator that enables the car to travel an additional 340+ miles (9.3 gallon gas tank). Prices start at $33,500 after tax rebates. It seems that the Leaf and i-MiEV could work well as commuter cars, but their limited ranges will prevent most people from considering them as their only automobile. The Volt does not have this limitation, but its gas powered generator may be a turn off for those looking to become totally free from fossil fuels and not justify its high price tag compared to hybrids like the Toyota Prius. At this point, there are still significant compromises to be made when considering purchasing an electric car…but things are certainly getting interesting.

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R1 Financial Group uses research-based investment strategies and proven financial planning techniques. It endorses fee-based services and strongly emphasizes client education. We offer complimentary initial consultations to prospective clients.

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