The FINANCIAL SUCCESS Library

Money Minute

Financial Planning & Investing Newsletter

"Smart Ideas for Secure Finances"

JUNE 2012

Inside This Month's Issue:

PROVIDED BY

R1 FINANCIAL GROUP

Brad Rodrigues
LPL Financial Advisor

214.628.9100 (office)
Full contact info. on back cover

FEATURE

Growth and Income: How to Enhance Both in Order to Meet Your Investment Goals

I've had several very interesting conversations with and questions from clients over the last couple of months. The majority of these related to either: a) ways to potentially improve long-term growth of dollars invested -and- b) ways to turn a lump sum investment into reliable, regular monthly income that won't run out. These two topics are of great interest to most people at some point during their lifetime (often simultaneously), and I thought I'd use this month's feature story to touch on some of the highlights of these conversations.

"How can I potentially enhance my long-term investment growth?"

All investors, whether still saving for retirement or already living comfortably in retirement, naturally desire high investment returns. Stocks have historically provided higher long-term investment returns relative to bonds and other classes of investments, but beyond that there are a few items every investor should know.

1) "Value" stocks can provide a boost.

Ask most people the key to success with stock investing, and they'll tell you it's to pick and invest early in "growth" companies like Apple or Google. There is no doubt that early investors in growth companies can be handsomely rewarded, but historical data shows that on average, investors are better off buying unloved, unpopular and cheaper "value" stocks.

Ibbotson and Associates, now owned by Morningstar Inc., publishes a "yearbook" of historical asset class returns dating back to the 1920s. It is considered the definitive source for historical returns of stocks, bonds, cash and inflation, and it is cited innumerable times per year in financial publications of all stripes (including this newsletter). The data shows that since the 1920s, the trend of higher returns for cheaper "value" stocks vs. popular, more expensive "growth" stocks has been relatively consistent over time. The advantage has been more consistent over longer periods of time, particularly 5 years and longer.

My opinion: Long-term investors, particularly those who tend to hold on to

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QUOTE OF THE MONTH

"Rudeness is the weak man's imitation of strength".

~Eric Hoffer, author (1902 - 1983)

DID YOU KNOW ?

A Babe Ruth baseball jersey recently sold at auction for $4.4 million, making it the most expensive piece of sports memorabilia ever sold.

Source: Time Magazine

<u>Ideas for Success</u>

<u>SCENARIO:</u>

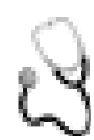
Content will resume in next month's issue.

<u>SOLUTION:</u>

Content will resume in next month's issue.

"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.


YOUR HEALTH

B Vitamins: Essential for Good Health

B vitamins are a group of water-soluble vitamins that play important roles in cell metabolism. The B vitamins were once thought to be a single vitamin, referred to as vitamin B (much as people refer to vitamin C or vitamin D). Later research showed that they are chemically distinct vitamins that often coexist in the same foods. There are eight types of B vitamins: Vitamin B1 (thiamine), Vitamin B2 (riboflavin), Vitamin B3 (niacin or niacinamide), Vitamin B5 (pantothenic acid), Vitamin B6 (pyridoxine), Vitamin B7 (biotin), Vitamin B9 (folic acid), Vitamin B12 (cobalamins). In general, supplements containing all eight are referred to as a vitamin B complex.

The B vitamins are necessary to:
*Support and increase the rate of metabolism
*Maintain healthy skin, hair and muscle tone
*Promote cell growth and division, including that of the red blood cells that help prevent anemia
*Enhance immune and nervous system function

All B vitamins are water-soluble and are dispersed throughout the body. Most B vitamins must be replenished regularly since any excess is excreted in the urine. Vitamin B intake from supplements versus food has been shown to be harder for the body to absorb. Luckily, many common foods such as meats, whole grains, potatoes, bananas, lentils and beans contain large amounts of vitamin B. Consequently - deficiencies in humans are rare. Vitamin B12 is the only variety not available from plant sources.

*Source(s): Mayo Clinic, Wikipedia

Ask Money Minute

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

Q. "I've heard a lot about Facebook stock and the company going public. What is your opinion on Facebook?

-Greg – McKinney, TX

A. Facebook and its stock certainly was the talk of the town for a few weeks. In terms of the stock and whether it is a good investment, let's look at the numbers. At $42 per share - the price where it went public - the stock was priced at over 100 times its past year's earnings per share. The average S&P 500 stock trades for closer to 15 times earnings per share, so Facebook stock was roughly 7 times more expensive than the average stock in the S&P 500 when it went public. Why would any rational person pay such a steep price for a stock? One word: growth. Or more accurately, the expectation of growth. Those willing to pay that kind of price are banking that the company will grow its earnings by leaps and bounds in the future, hence making that price to earnings multiple less steep and driving up the stock price.

Since going public, the stock is down roughly 35% in 3+ weeks. Where the stock price goes from here is anyone's guess, but you can be fairly certain it will follow the profitability and earnings growth (or lack thereof) of the company. With 800+ million users worldwide, there is a ton of potential for advertising revenue. It'll be interesting to watch.

Q. "I'm nervous about putting money into stocks with the renewed concerns about Spain, Greece and Europe in general. Is now a good time to put money into stocks?"

-Karen – Plano, TX

A. This is now the third straight summer that concerns over the debt loads of European countries such as Greece and Spain have been blamed for stock market corrections. The right hand chart on page 5 of this publication clearly shows 2010 and 2011 dips as well as the start of a 2012 summer stock market dip. The other, more important feature of that chart is that in spite of these dips, U.S. stocks measured by the S&P 500 index have clearly trended upward since the heart of the recession in early 2009. Each summer time dip has occurred at successively higher levels, which confirms this uptrend. President Obama took a lot of heat for stating that the economy is "doing fine" a few days ago. Perhaps he should have chosen is words a bit more carefully, but in terms of corporate profit, cash on balance sheets, employment trends, etc. he is right.

Unless you are a trader, stocks should be thought of long-term investments with at least a 4-5 year time horizon. In light of record low interest rates and bond yields as alternatives, stocks seem to present the most attractive place for long-term investment currently.

Money Minute Trivia Question

Republican Governor Scott Walker recently won a recall election brought on by his opposition to labor unions, becoming the first governor to win a recall election. In what state is he governor?

A) Nebraska *B) Wisconsin* *C) Illinois* *D) New York*

*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 – ***Laura Bennett*** **of Fort Worth, Texas**

Question: The author and illustrator of the iconic children's book Where the Wild Things Are, which sold 19 million copies since its release in 1963, recently passed away. What was this author's name?

***__A) Maurice Sendak__** B) Wilbert Awdry C) Astrid Lindgren D) Mary Treadgold

Market and Economic News

U.S. stocks, measured by the S&P 500 index, were down 6.2% in May and have remained down throughout the first half of June amid renewed concerned over the financial condition of Spain and the political and fiscal situation in Greece. Adding to investors' concerns is the slowing trend in employment growth. The economy added just 69,000 non-farm jobs in May and has added fewer jobs in each of the last four months. For comparison, 150,000 - 275,000 jobs were added in January - March 2011. Economists speculate that a mild winter accelerated hiring earlier in the year that otherwise would have been pushed back into the late spring months. The unemployment rate ticked up from 8.1 to 8.2%. Treasury bond yields remain extremely low.

At a Glance…
(as of June 12) **DJIA** – 12,540 **S&P 500** – 1,320 **NASDAQ** – 2,538 **10-yr T-note** – 1.66%

***How to Enhance Investment Growth and Income Now**

(Continued from page 1)

investments for longer periods of time (3-5 years+) are almost certainly better off adopting a "value" investing strategy. Many great long-term investors including Warren Buffett champion this philosophy, which fully embraces the idea of "buying low". As with any investment, the price you initially pay ultimately matters most, and the historically higher returns from "value" stocks are a reward for the willingness to buy out-of-favor stocks and stocks with a higher degree of uncertainty.

<u>2) Smaller stocks historically outperform larger stocks.</u>

The previously mentioned Ibbotson's yearbook also contains data comparing the returns of small company stocks vs. large company stocks and shows that on average, small company stocks outperform large company stocks over longer periods of time. This revelation may not be surprising to most readers; most people would assume that a smaller company has greater growth potential than an already large, well-established company. The data suggests that investors may be able to increase their long-term returns by including a greater proportion of smaller company stocks as compared to large company stocks.

An important point to note is that **both value and small company stocks have historically displayed greater yearly volatility than their growth and large company stock counterparts**. This shows that these historical advantages come with higher risk, and investors should consider this fact when allocating dollars in their portfolios.

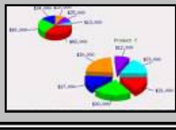
How do I create a reliable income for myself during retirement?

When paychecks stop, individuals generally first look to social security and possibly a pension to fill the void and provide monthly income. For most, those sources need to be supplemented in order to comfortably pay monthly bills during retirement. Five years ago, it was possible to make 4-5%+ in risk-free bank investments like CDs and create a meaningful income while never touching one's insured principal investment. This last part is key because it allowed an investor to never tap principal, thus ensuring he or she would never run out of money. Today interest rates on CDs and risk-free investments are at rock bottom levels, so this strategy must be altered.

An option all retirees need to be aware of is corporate bonds. Investment grade corporate bonds can still yield 3 - 4.5%, while lower quality high yield corporate bonds can yield 6-8% depending on ratings. An investment in a basket of corporate bonds (or bond funds) can be structured to pay monthly interest income / dividends and set up to be transferred to an investor's checking account automatically each month. Principal amounts can be left untouched, and regular interest payments can be used for monthly expenses.

Investor's must beware that investments in bonds, particularly lower quality bonds, can and will show fluctuation of principal and do not carry any form of insurance or guarantee. This fluctuation is the risk taken for the reward of significantly higher interest rates available in corporate bonds. Over the last 5 years - these fluctuations have been significant but have also been accompanied by healthy overall returns. All retirees and investors looking for income need to make themselves aware of this investment option.

As always - carefully consider your personal financial situation and goals, as well as the specific risks of any investment, before making any investment decisions.



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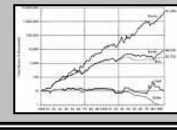
In-Depth Information for Smart Investors



Stock and Bond Markets Paint Conflicting Picture of Economy

It was during the fall of 2007 that the first signs of an economic slowdown began to emerge. Bond yields (and interest rates in general) began to decrease rapidly, as did the global stock markets - both foreshadowing the severe recession that ensued. March 2009 marked a turning point for the U.S. stock market (represented by the S&P 500 index) and at the time, it looked to be a turning point for bond yields as well. This, however, was not the case. Below are graphs of each:

10-Year Treasury Bond Yields -vs.- U.S. Stock Market (S&P 500)

Source:
Trading Economics,
Yahoo Finance

In the 3+ years since that low point, the stock market has made a remarkable recovery. Corporate profits are at all-time highs, hiring is starting to pick up, and the unemployment rate has fallen well below peak levels. The S&P 500 index is within roughly 20% of its pre-recession highs. These facts paint a relatively encouraging picture. On the other hand, the yield on the 10-year Treasury bond reached its lowest level in history within the past several days. Investors are still piling money into the safe haven of U.S. government bonds, driving up prices and driving down yields to these record low levels. Other interest rates - such as those on mortgages and CDs - remain at all-time low levels as well. Such facts paint a still gloomy picture of the economy: one that has extremely low expectations for inflation, nervous financial markets and still needs ultra-low borrowing costs for consumers in order to encourage the purchase of homes, cars, etc.

Which of these views is correct? According to almost every meaningful measure and indicator, the economy is significantly better off now than it was three years ago. Nevertheless - the ultimate path and timeframe for continued economic recovery and growth remains uncertain.

Money Minute *Tip of the Month:* Consider a Costco Membership

Warehouse shopping clubs like Costco, Sam's and BJ's have been around for a while, but after watching a CNBC special on the history and operations of Costco, I was genuinely impressed and convinced that a Costco membership deserves strong consideration. The show highlighted co-founder and former CEO Jim Sinegal traveling 200+ days per year to visit stores, talk to employees, and meet with managers to optimize store operations. Sinegal was friendly and appeared genuinely concerned with upholding his company's values: integrity, selling quality products and a commitment to low prices – values that have remained in tact over the last 29 years. The company claims their max markup on any item they sell is 15%, in line with their commitment to low prices. Costco has also had several high-profile disputes with suppliers over their wholesale prices. Most notably - in 2009, Costco stopped carrying Coca-Cola products for over a month when Coke refused to lower their wholesale prices. (The two companies have since worked out an agreement.) An unexpected fact highlighted was the Costco is the largest retailer of wine in the world, and the company carries varieties ranging from $6-8 per bottle up to $500+ for finer wines. Costco is also known for compensating its employees with wages and benefit packages far above industry averages, which I find admirable. Overall - the documentary was fascinating and left me with a very positive impression.

<u>Important Information</u> – This newsletter and its contents are produced for educational and informational purposes only and are not intended to be personal financial advice, nor are they an offer to purchase any financial product. Opinions voiced in this material are for general information only and are not intended to provide specific recommendations for any individual. To determine which investment(s) may be appropriate for you, or for more information about financial and investment planning, please contact R1 Financial Group (see below).

<u>Additional Content About Subjects Mentioned in this Newsletter</u>:

Bond yields are subject to change. Certain call or special redemption features may exist which could impact yield.

CD's are FDIC insured and offer a fixed rate of return if held to maturity. Annuities are not FDIC insured. Annuities are long-term tax-deferred investment vehicles designed for retirement purposes. Gains from tax-deferred investments are taxable as ordinary income upon withdrawal. Withdrawals prior to age 59 ½ are subject to 10% IRS penalty. Early surrender charges may apply. Guarantees are based on the claims paying ability of the issuing insurance company.

Stock investing involves risk including loss of principal. All indices are unmanaged and cannot be invested into directly. All performance reference is historical and is no guarantee of future results.

High yield / junk bonds are not considered investment grade securities, involve substantial risks, and generally should be used as part of the diversified portfolio of sophisticated investors.

Past performance is no guarantee of future results.

R1 Financial Group

7616 LBJ Freeway, Ste. 650
Dallas, TX 75251

214.628.9100 (office)

www.R1FinancialGroup.com

E-mail: Brad@R1FinancialGroup.com

Brad Rodrigues

LPL Financial Advisor