The FINANCIAL SUCCESS Library

Money Minute

Financial Planning & Investing Newsletter

"Smart Ideas for Secure Finances"

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R1 FINANCIAL GROUP

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Inside This Month's Issue:

FEATURE

Five Years After the Collapse - Where are We?

It's been roughly five years since the collapse of venerable investment bank Lehman Brothers, an event that to many signified the unofficial start of the global financial collapse that the fall of 2008. Other well-known financial companies such as Bear Sterns, Wachovia, Washington Mutual, AIG, Merrill Lynch and Countrywide Financial either went bankrupt, were acquired or were bailed out by the U.S. government, a testament to the almost unprecedented severity of the economic events that took place.

Five years later, those turbulent times seem a distant memory for most of us, and this is due in large part to the strong recovery seen across most sectors of the economy. This month's feature story will take a closer look.

The **unemployment rate** began to spike in mid- to late-2008, going from below 5% to over 10% at its peak in 2009. A relatively slow and steady decline in the rate (see chart), which now stands at 7.3%, is indicative of the cautious, start-and-stop recovery we've witnessed over the past 3-4 years.

The Federal Reserve cites the still elevated unemployment rate as a key factor in its decision to continue with its monetary stimulus program, and though it is likely to begin tapering within the next 3-6 months, we will likely see some form of stimulus from the Fed until the unemployment rate falls below 6%.

Housing led the economy into the crisis, and a recovering housing market has recently become a clear contributor of positive economic activity. Sales of existing homes and new homes exploded

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QUOTE OF THE MONTH

"Do not go where the path may lead, go instead where there is no path and leave a trail."

~ Ralph Waldo Emerson
Essayist / Lecturer / Poet
(1803 - 1882)

DID YOU KNOW?

The heaviest baby ever delivered by natural childbirth in Spain was recently born and weighed in at 13lbs, 11 oz. The mother used no pain killers during the birth.

Source: Time.com

Potpourri

J.C. Penney, Microsoft, Tesla, Verizon Make Headlines

J.C. Penney (JCP) has been struggling mightily for the past several years, and an attempt to reinvent itself under ex-CEO Ron Johnson (who came from Apple) by offering "everyday low prices" simply didn't work. Customers apparently like traditional sales and marketing strategies, and the company will need to make another attempt to revive its business. Previously ousted CEO Mike Ullman was brought back to lead the company, at least for now. Activist investor Bill Ackerman made headlines by resigning from the board of directors and selling his large stock position recently, losing roughly a billion dollars in the process. The company has many challenges ahead and will almost certainly continue to lose money for several more quarters and burn through cash. The stock, which traded in the $80 range prior to the recession, now sits at roughly $14.

Microsoft (MSFT) announced that CEO Steve Balmer will retire sometime within the next 12 months. The stock traded up a whopping 10% after the news was announced, a clear sign investors are anxious for a change in leadership. The company is perceived to have fallen behind in terms of innovation over the past 5+ years as companies like Apple, Samsung and Google have emerged as leaders in smart phones, tablets and mobile operating systems. Microsoft just announced a $7 billion buyout of Nokia, a clear indication of its commitment to the smart phone market. The stock trades at roughly $31 and has been stuck in neutral over the past 12 years. It traded at $31 in late-2001, and has been range-bound between $22 and $36 for most of that time.

Tesla Motors (TSLA) stock is up roughly 400% year-to-date after the company posted its first profit earlier this year. Founder/CEO Elon Musk is now being praised by many as a visionary. While GM and Nissan struggle to sell their all-electric Volt and Leaf models and have both recently slashed prices, Tesla sales are booming in a relative sense. The company sold more cars in the state of California so far this year (4,714) than Porsche, Jaguar, Land Rover, Volvo and Lincoln.

Clearly a stock purchase at this level would not qualify as a typical value play. At $167 per share, it trades at stratospheric 270 times projected earnings over the next 12 months. This sounds expensive, but growth investors are betting sales and earnings will continue to increase over time, making that multiple more reasonable.

Verizon Communications (VZ) recently announced it is buying back the 45% of Verizon Wireless it currently doesn't own from UK carrier Vodafone for $130 billion. Vodafone will receive a mix of cash ($58.9 billion), Verizon stock (1.3 billion shares), a $5 billion note and Verizon's 23% stake in Vodafone Omnitel, an Italian telephone company.


YOUR HEALTH


Childhood Obesity Declines for Youngest Children

There is finally some good news to relay in the alarming trend of increasing childhood obesity. A recent study by the Centers for Disease Control (CDC) showed that 29 of 43 U.S. states/territories surveyed showed decreases in the prevalence of obesity in children ages 2-4. Decreases were relatively small - between 0.1 - 2.6% - but are noteworthy for showing what health officials hope is a clear reversal in trends that have been in place for the past 30+ years. The obesity rate declined to 14.4% for this age group, down from a high of 14.9% in 2009. The obesity analysis, by the federal Centers for Disease Control and Prevention in Atlanta, was based on data from 11.6 million children age 2 to 4. The survey group included children eligible for federally funded programs of maternal and child health and nutrition, such as the Special Supplemental Nutrition Program for Women, Infants and Children, known as the WIC program.

According to the CDC:

- The percentage of children age 6–11 years in the U.S. who were obese increased from 7% in 1980 to nearly 18% in 2010.
- The percentage of adolescents age 12–19 years who were obese increased from 5% to 18% over the same period.
- As of 2010, more than one third of children and adolescents were overweight or obese.

Officials hope that stronger trends emerge among all age groups and that declines continue in the coming years.

***Source(s): Wall Street Journal , CDC**

Ask Money Minute

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

Q. "Your main article last month on selecting stocks was very interesting. I didn't know such good gains were possible in struggling companies. How does one find these stocks before they go up?"

-Mary – Richardson, TX

A. Thank you for the compliment. For a person looking to buy stocks when they're undervalued and ready for a turnaround, there is no one right answer. Some value investors prefer to start by screening for companies whose stock trades for less than book value. Others focus on low price/earnings ratios. Some investors use negative headlines as their starting point for further research. The Little Book that Beats the Market by Joel Greenblatt describes the author's formula for identifying companies that will outperform, and it involves looking for low P/E stocks with high returns on invested capital metrics. (There is a website that performs stock screens to find such companies.) Over time, most value investors find their own unique style and methods.

If you are considering investing in stocks, I recommend reading The Intelligent Investor by Graham and Dodd. It is the definitive book on value investing and should be mandatory reading for anyone who is considering buying a stock. Most well-known value investors cite the book as very influential in their investing education. The other traits that are of utmost importance are patience, diligence and conviction. Whether you work with an advisor or on your own, these are crucial to long-term success. Also - I'd urge you to start with small dollar amounts to limit your risk. Good luck!

Q. "Since interest rates are rising, are there good interest rates available on CDs yet? I haven't bothered with them the past few years but would like to earn more interest."

-Greg – Garland, TX

A. Unfortunately, CD interest rates remain very low. The national average interest rate for a one-year CD, according to Bankrate.com, is 0.24%. The best rates available are in the 0.7 - 0.9% range for a one-year CD, and as high as 1.5% for a 5-year CD. At those rates, there is little incentive to lock your money up for any extended period of time.

In order to really earn a decent yield on a fixed income investment, you have to take on some significant risk. Floating rate bonds, which I discussed last month, and high-yield corporate bonds offer much more substantial yields, but they come with substantial risk, fluctuation and absolutely no guarantee as to interest or principal. They are about the farthest thing from a CD in terms of safety....so much so that they are not comparable. Not to talk you out of them, but you need to really understand the risks of floating rate bonds and/or high yield bonds before investing.

For an FDIC-insured savings option to pay a reasonable interest rate, we are probably looking at another 2-3 years in the future. Whether or not you pursue the aforementioned (riskier) bond options in hopes of greater earnings should depend on your personal risk tolerance and time horizon.

Money Minute Trivia Question

What country's government appears to have recently used chemical weapons against its citizens, prompting threats of military action from the U.S. and allies?

A) Palestine *B) Egypt* *C) Syria* *D) Iran*

*Email your answer to **Brad@R1FinancialGroup.com**. for a chance to win a **$25 gift certificate to a local restaurant.** Each month one winner is randomly drawn out of all correct responders.

Last Month's Winner – Timothy G. of Dallas, Texas

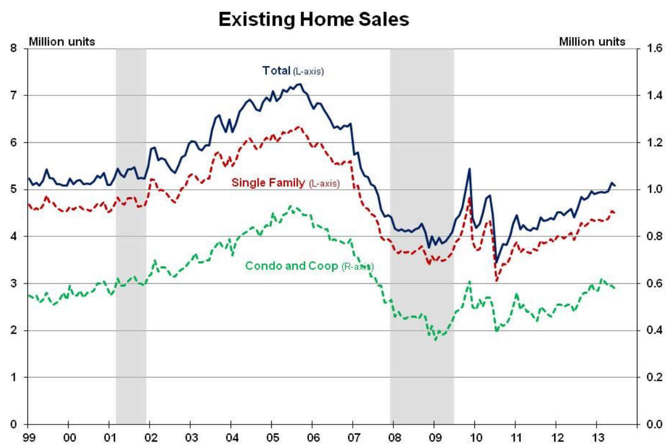
Question: What major U.S. city recently made headlines by filing for bankruptcy?

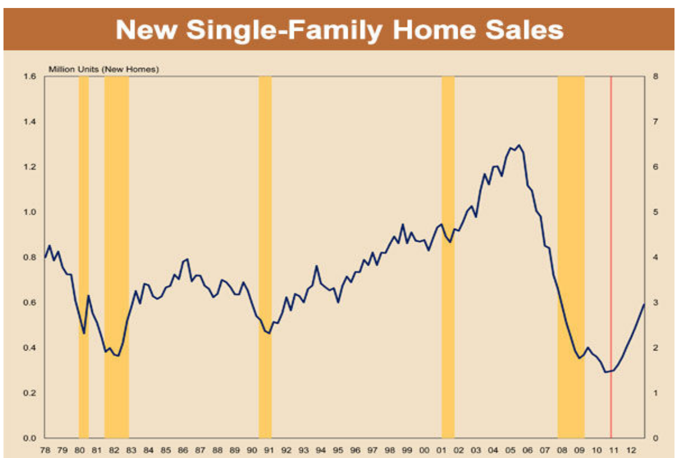
A) Toledo, OH *B) Cleveland, OH* *C) Grand Rapids, MI* ****D) Detroit, MI***

Five Years After the Collapse - Where are We?

(Continued from page 1)

from 2000 - 2005 amidst the easy-credit-fueled housing bubble which contributed heavily to the collapse. The housing market then began to decline in spectacular fashion (see charts below), and sales ultimately bottomed in 2010. Existing home sales fell by a full 50% from peak





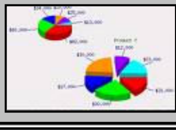
to trough, and new home sales fell by over 75% from their 2005 peak to 2010 low point!

Low interest rates, tax incentives and seller fatigue eventually rekindled demand for housing, and sales figures have been on the rise for the past 18+ months. Home prices have also been rising in most markets, and the importance of the housing market recovery cannot be overstated. A tremendous amount of economic activity is generated because of housing, and perhaps more importantly - an improving housing market is absolutely critical for consumer confidence. As with employment, there is still much progress to be made, but the worst is clearly behind us.

Remember when you could earn 5% interest on your bank CD? It has been quite a while since that time, as most types of interest rates peaked in 2006 and fell precipitously for the subsequent 6+ years. The **interest rate on 10-year Treasury notes** bottomed in 2012 at 1.5% from over 5% in '06 (see chart), but spiked upward to just under 3% recently. Mortgage rates have increased as well, and other consumer interest rates have and will continue to follow suit.

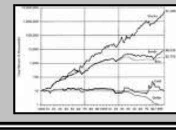
The **U.S. stock market**, as measured by the **S&P 500 Index**, plummeted roughly 50% from its peak in October 2007 to March 2009 (see chart below). It has taken just over four years, but the popular U.S. stock benchmark has regained all of those declines and then some....another factor that has lifted consumer confidence.

The past five years have been witness to a truly incredible and extreme series of economic events and circumstances. A remarkable amount of progress has been made toward undoing the damage of this most recent recession, and though much remains to be done, I believe a foundation for future U.S. economic growth is firmly in place.



UP CLOSE

In-Depth Information for Smart Investors



Postal Service - On the Brink of Collapse or Turning the Corner?

The U.S. Postal Service has been the subject of negative headlines for the past several years now and justifiably so. It has lost a staggering $42.5 billion since 2007 and $15.9 billion in 2012 alone. The agency just announced that it lost $740 million during the third quarter of 2013 following losses of $1.3 billion and $1.9 billion in Q1 and Q2 of this year. That might not sound like good news, but there is more than meets the eye. This month, we'll dive a bit deeper into the postal service's finances to see what's really going on and if this storied American tradition is here to stay or on its way out.

Why is the USPS. losing so much money? The biggest reason by far is a Congressional mandate passed in 2006 that required the agency to "pre-fund" its retiree health care benefits decades in advance to the tune of roughly $5 billion per year. The agency actually posted an operational profit of $611 million from 2007 - 2010, but the burden of pre-funding helped contribute to significant annual losses each year since 2007.

Since 2007, $32 billion of the $42.5 billion in losses are due to the pre-funding mandate.

Clearly there are other contributing factors - declining first class mail volume being an obvious example - but 2013 has shown that the U.S. Postal Service has made enough operational improvements to begin to right its course. It has closed hundreds of branches, increased efficiency, increased its package shipping business and decreased workers' compensation expenses over the past year, according to the latest financial report.

The USPS lost almost $16 billion in 2012. It is projected to lose roughly $5.5 billion in 2013.

The good news is that after a very difficult 2011 and 2012, the agency is on track to roughly break even in 2013 in terms of operating expenses, and all of the losses for the year will be due to the prefunding of health care benefits. Clearly there are improvements yet to be made, but the situation is far better than it was a year or two ago.

Source(s): USPS.com, Washington Post

What's the solution? Congress is currently considering a number of actions. Among them are:

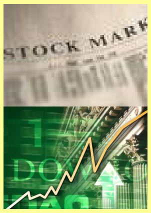
-Restructuring the agency's pre-funding requirement for retirement benefits
-Allowing a gradual end to Saturday mail delivery if deemed financially necessary
-Making curbside delivery or cluster boxes mandatory for businesses and new homes, with some exceptions

Mail volume has declined 25% since 2006, but 2013 makes it clear that the USPS can survive on its own and without taxpayer assistance, which it hasn't received since 1982. The agency generated a whopping $65 billion in revenue in 2012, so clearly there is a demand for its services. A reduction of expenses, the vast majority of which are related to wages, is almost a given. There will eventually be processing center and more branch closures, which will be strongly opposed by labor groups, but the fact of the matter is that the world in which the USPS operates has changed, and it needs to "right size" and adjust in order to survive. Domestic automakers just went through this painful process a few years ago, and they are now as profitable as ever. The Postal Service will eventually do the same.

$$$ Consumer News & Tips

Content unavailable at time of production and will resume next month.

Market and Economic News



U.S. stocks declined relatively sharply in August amid indications the Federal Reserve planned to begin undoing its monetary stimulus. The index was down close to 3% for the month.

U.S. Treasury bond rates continued to climb in August, with the rate on the 10-year jumping to over 2.9%. The rate on the 10-year was just 1.65% in May of this year.

The unemployment rate dropped to 7.3% at last check, but hiring numbers were revised downward by 74,000 for past two months. Overall the economy added 169,000 non-farm payroll jobs. Economists have lamented the lack of robust hiring numbers and have said 250,000+ jobs per month are what is needed to reduce meaningfully the unemployment rate. The rate has declined from over 10% in 2009 (see chart on page 4) but is still far from the widely accepted rate range of 4.5-5.5%.

At a Glance…
(as of September 9) **DJIA** – 15,063 **S&P 500** – 1,671 **NASDAQ** – 3,706 **10-yr T-note** – 2.89%

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