The FINANCIAL SUCCESS Library

Money Minute

"Smart Ideas for Secure Finances"

Financial Planning & Investing Newsletter

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Inside This Month's Issue:

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FEATURE

The Math Behind Accumulating Wealth Through Investing

In the last three feature stories in this publication, I explored various retirement income strategies and how to use selected investments to produce income. I would like to cap off this series of articles by looking at the lead-up to tackling the issue of retirement income; namely, what do the numbers look like when saving, investing and accumulating assets for retirement? How much can one accumulate through investing $X per month over 20 to 30 years? How large will a lump sum, invested over 20 to 30 years, grow at various rates of return? Regardless of income level, these numbers must be examined in order for individuals to be in a position to create sufficient retirement income for themselves.

Systematic Investing = ?

To start, consider a typical situation: a periodic investment into a 401(k), IRA or other account type. Whether done each paycheck, monthly, quarterly, or annually, the process is the same. Money is invested regularly and allowed to grow over time with the expectation that a significant lump sum of money will be available at a future date, *i.e.* by the time you retire. What might such an investment plan net you?

Hypothetical: $500 per month ($6,000 per year) investment plan

---After 20 years---

Average Rate of Return	$ Money Accumulated
@ 5%	$208,300
@ 6%	$234,000
@ 7%	$263,200
@ 8%	$296,500
@ 9%	$334,600
@ 10%	$378,000

---After 30 years---

Average Rate of Return	$ Money Accumulated
@ 5%	$392,600
@ 6%	$502,800
@ 7%	$606,400
@ 8%	$734,000
@ 9%	$891,500
@ 10%	$1,085,700

(Continued on page 4)

QUOTE OF THE MONTH

"Where all think alike, no one thinks very much."

~ *Walter Lippmann*
Writer / Reporter
(1889 - 1974)

(Lippmann coined the terms "Cold War" and "stereotype" in his writings.)

DID YOU KNOW?

The ALS Association raised over $115 million so far this year due to the ice bucket challenge, up from roughly $3 million raised last year at this time. ALS stands for Amyotrophic Lateral Sclerosis, a.k.a. Lou Gehrig's disease.

Source: ALSA.org

Potpourri ---Stock, Company & Market News and Notes---

Office Depot Turning Around, McDonalds Hurting, Amazon Posts Big Loss, etc.

Office Depot (ODP) shares were up 25% after the company announced higher-than-expected cost savings from its $976 million acquisition of OfficeMax and cost-cutting initiatives. Sales trends remain weak for the industry as a whole, and Office Depot is still seeing same-store sales declines. The company reported a 3% decline in same-store sales last quarter but reported an increase in profit margins. Larger rival Staples has also seen its business suffer in recent years due to increased pressure from online retailers such as Amazon. Despite the pressures, Office Depot shares now trade above $6.00 - up from a low point of $1.60 in late 2012.

Yelp (YELP), the online review website, saw its shares fall roughly 18% after announcing 3rd quarter earnings and issuing slightly weaker guidance for the current quarter. Yelp posted $102.5 million in revenue during the quarter, up from $61.2 million a year earlier, and net income of $3.6 million. The company went public in mid-2012 at $15 per share and soared to over $25 per share on its first day of trading. It surged to almost $100 per share earlier this year but has fallen to roughly $60 currently. Yelp depends on local advertising for the bulk of its revenue, and changes in the way Google displays searches with the word Yelp and promotes its own Google+ local listings has hurt the company recently.

McDonald's (MCD) announced a 3.3% decrease in comparable store sales last quarter and a 14% decrease in operating income, partly due to a supplier issue in China. The company reported $2.072 billion in operating income on $6.987 billion in revenue, down from $2.416 billion in operating income and $7.323 billion in revenue a year earlier. Net income (after accounting for taxes and interest expenses) was $1.068 billion, down by 33% from a year earlier. Management announced significant changes in an effort to win back customers, including simplifying the menu, improving quality and potentially letting customers create their own sandwiches. Shares were down just 2% on the news, a reflection of McDonald's rock solid financial position, but continuing sales declines in coming quarters will take their toll on the share prices. There are over 35,000 McDonald's locations worldwide, 80% of which are owned by franchisees. The company serves 70 million customers daily.

Amazon.com (AMZN) posted a $437 million loss in the 3rd quarter despite a 20% jump in revenue to $20.58 billion. The company has long reinvested for the future at the expense of generating current profits, and the stock has surged along with increasing revenues and the thought that the company will eventually show consistent, strong quarterly profits once it stops investing so heavily for the future. Shares are down 21% since the start of the year, and the company took a $170 million charge on its Amazon Fire smartphone, which has failed to excite customers. The company boosted its employee count by 36% during the most recent quarter to 149,500.

Visa (V), the credit card processing giant, announced a $5 billion share buyback program, $1.07 billion in profit, and an increase in revenue to $3.23 billion in its most recent quarter. Spending on credit and debit cards remains strong in the U.S., and an announcement by China's cabinet is likely to be a boon to Visa and competitor Mastercard's business. Qualified domestic and foreign firms can apply to set up bank card clearing operations, a process that involves setting payments between banks and vendors through credit cards. China's consumer class still has tremendous room to grow, and credit cards are likely to be part of this growth. The company's stock has quadrupled since going public in 2008 and now sits at roughly $240 per share, an all-time high.

Banana company **Chiquita (CBQ)** agreed to be acquired by Brazilian orange juice maker Crupo Cutrale for $742 million and has ditched its previous plans to merge with rival Fyfes. Chiquita shareholders will be paid $14.50 per share.

The price of a barrel of **crude oil** is down by over 25% in the past four months and now trades below $80 per barrel for the first time since mid-2012.

Market and Economic News

-A first look at economic growth (measured by gross domestic product (GDP)) for the 3rd quarter of 2014 was released on October 31 and showed +3.5% growth rate. This was a very solid reading.

-This month's Bureau of Labor Statistics employment report will be released after this publication is printed, but payroll processing company ADP estimates another month of jobs growth above the 200,000 mark. It's data showed a gain of 213,000 private sector jobs for the month of October.

-Global stock markets rebounded in late October amidst talk from the European Central Bank and Japanese central bankers about fresh economic stimulus measures and better than expected earnings from U.S. companies.

At a Glance…
(as of November 6) **DJIA** – 17,530 **S&P 500** – 2,026 **NASDAQ** – 4,623 **10-yr T-note** – 2.38%

Readers' Q&A

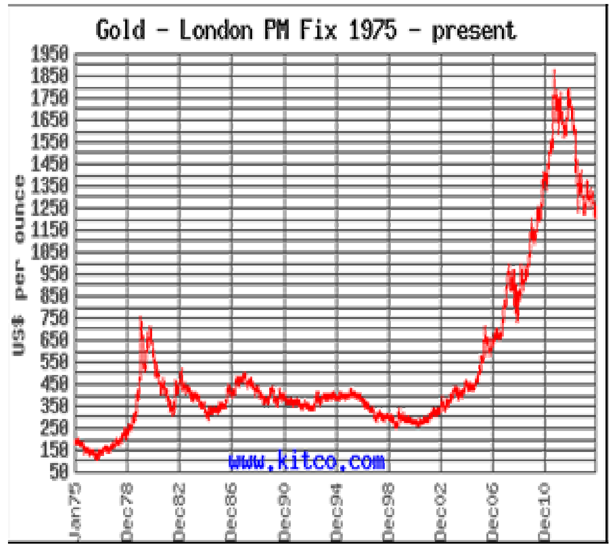
Questions? E-mail Brad@R1FinancialGroup.com

Q. "Is gold a good investment right now?"

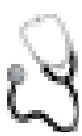
-Betty – Bedford, TX

A. I try to refrain from recommending individual investments in this newsletter without knowing a person's financial situation, background, risk tolerance, etc., but I will say the chart to the right strongly suggests the answer is no. Gold had a great run from the year 2000 through mid-2011, going from $250 per ounce to over $1,800 per ounce (briefly). If you are looking to buy low and sell high, you probably missed the boat on gold.

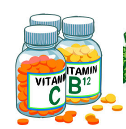
The market for gold displayed all of the telltale signs of a bubble several years ago: close to vertical price increases at the market peak, droves of unsophisticated investors being drawn in after huge price gains had already occurred, emotionally-charged advocates touting the benefits of gold on T.V. and in local gold shops, etc. But, bubbles do come to an end, and for a person who wants to buy and hold gold for several years, one must realize that bursting bubbles can take many, many years to deflate. Gold experienced a similar bubble from 1976-1980, when the price of gold shot up six-fold before falling dramatically and stagnating in price for the next twenty years.



Gold prices have fallen from $1850+ to roughly $1,180 over the past three years. The price of gold will eventually find a bottom, but I don't think we are there yet. Without knowing anything else, I would strongly suggest looking at alternatives to an investment in gold.



YOUR HEALTH



Sugar Substitutes Linked to Higher Blood Glucose Levels

Recent experiments have shown that artificial sweeteners used in soft drinks and many other foods can raise blood sugar levels in mice and people. High blood glucose levels are a key risk factor for developing diabetes, and the use of zero-calorie sweeteners like sucralose, sacharin and aspartame were shown to alter the bacteria in the guts of test subjects and trigger high blood glucose levels in a recent study published by Israel's Weizmann Institute of Science. The alteration of bacteria in the gut may explain why, in many cases, individuals who use zero calorie sweeteners find it difficult to control their weight. Among the study's findings: mice whose diets included the aforementioned sweeteners had significantly higher blood glucose readings compared to mice that ate no sugar and mice whose diets included real sugar. The study also transferred gut bacteria to mice bred to have no existing gut bacteria and who had never consumed artificial sweeteners. These mice showed raised blood glucose levels, suggesting the gut bacteria was the cause of the raised blood glucose levels. 380 non-diabetic humans were studied as well, and the long-term effects of artificial sweetener use were similar. Subjects who used artificial sweeteners had significantly altered gut bacteria.

Roughly 100 trillion microbes live in the human body, and the genetics of these microbes can be easily manipulated by drugs or changes in diet. More work needs to be done in this area, acknowledged the study's author, but this study has sparked a larger interest in understanding the role of microbes in regulating human health. *Source(s): Yahoo Health, Wall Street Journal

Money Minute
Trivia Question

Thomas Eric Duncan, the man who exposed several people in the United State to the Ebola virus, acquired the disease while working and caring for individuals in what African country?

A) Nigeria *B) Chad* *C) Liberia* *D) Angola*

Last Month's Question – What organization has recently become the target of U.S. military air strikes after it beheaded westerners and broadcast its exploits on the internet? *A) al Quaida* ****B) ISIS*** *C) SMC* *D) Free Syrian Army*

The Math Behind Accumulating Wealth Through Investing

(Continued from page 1)

Examining these numbers, a couple of things are immediately apparent:

-A relatively small amount of money invested over time can lead to the accumulation of a very significant amount of money over a 20-30 year period of time.

-The difference between accumulation after 20 years and accumulation after 30 years is very significant, as is the difference in accumulation between lower average rates of return (5-6% per year) and higher average rates of return (8-10%).

Of course, $500 per month / $6,000 per year is a totally arbitrary amount of money. To figure what $250 per month / $3,000 per year would accumulate at a given average annual return and timeframe, simply halve the final number on the chart. For $1,000 per month / $12,000 per year, double the amounts shown, and so on. Overall, these numbers should provide a decent starting point for anyone trying to estimate what their periodic investments will add up to over time.

"Compound interest is the eighth wonder of the world. He who understands it, earns it ... he who doesn't ... pays it."

-Albert Einstein

Lump Sum Investing...

Of course, periodic investing is not the only way people invest, and there are many instances in which individuals invest lump sums of cash for long periods of time. A person may rollover a workplace retirement plan into an IRA and not contribute any more money to that account. He or she may decide to invest a large portion of personal savings, a windfall such as an inheritance or a large bonus from work. In any of these cases, cash is invested up front and may be left to grow for many years without any further contributions (or withdrawals). Here are the results of such a hypothetical investment:

Hypothetical: $100,000 initial investment

---After 20 years---

Average Rate of Return	$ Money Accumulated
@ 5%	$265,300
@ 6%	$320,700
@ 7%	$387,000
@ 8%	$466,100
@ 9%	$560,400
@ 10%	$672,800

---After 30 years---

Average Rate of Return	$ Money Accumulated
@ 5%	$432,200
@ 6%	$574,300
@ 7%	$761,200
@ 8%	$1,006,200
@ 9%	$1,326,800
@ 10%	$1,745,000

Again, starting with $100,000 was an arbitrary choice, but one that makes calculation to any other starting dollar amount very easy. For example, investing $20,000 for 20 years and achieving 8% average annual returns could result in $466,100 divided by 5, or roughly $93,200. Investing $250,000 for 30 years while earning 7% average annual returns would net $761,200 multiplied by 2.5, or roughly $1,903,000. More importantly, these tables show how very significant sums of money can be accumulated over time with relatively modest starting sums. For example:

-An old 401(k) worth $25K today could be rolled into an IRA and be worth $100K - $150K in 20 years if invested wisely and with care, so it is worth paying attention to it.

-The extra $10,000 sitting in your checking account could be worth $70K - $100K+ in 30 years if invested wisely.

These figures are obviously important to individuals in their prime working years, but they are also important to those within 5-10 years of retirement or who are already retired (55-70+ years old). These lump-sum investment figures are particularly important to older investors because of the need to not only invest up <u>until</u> retirement but also to invest <u>through</u> retirement, a period of time that may last 25+ years. Furthermore, investing during these years can be done not only for ones own benefit, but can also be done with heirs, charitable organizations and/or a family foundation to be set up upon ones death in mind.

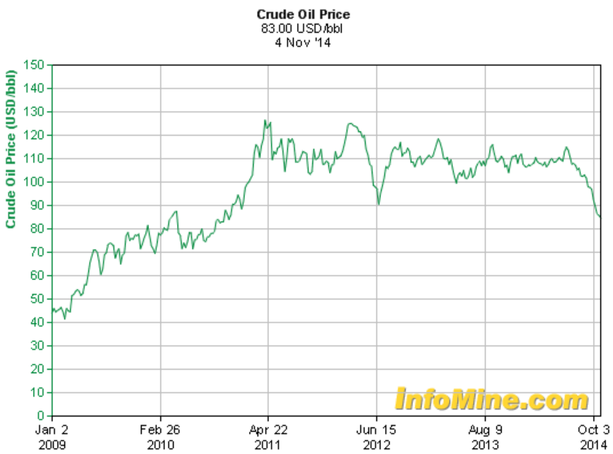
Saving and investing is universally important regardless of ones income level and net worth. Though the scale of investment earnings differs based on dollars invested, the impact of investing over time is almost certain to be significant and something on which we all should concentrate.

As always, consult your financial and tax advisors before making any investment decisions.

Oil Prices Swoon, Auto Sales Climb: What Does it Mean?

If you drive an automobile, you have undoubtedly noticed that the price of gasoline has plummeted from a national average of $3.66 per gallon of regular as recently as July of this year to under $3.00. Dallas, TX now has an average price of $2.66 per gallon of regular (as of Nov. 5), and nationally, current prices are at their lowest point since November of 2010. The fracking boom in this country has certainly made its mark on global crude oil supplies, and the price of crude oil, from which gasoline is derived, has also sunk to a four-year low recently (see bottom left). What is happening?

Price of Crude Oil
(2009 - Present)



Annual U.S. Vehicle Sales
(1992 - Present)

Source(s): InfoMine.com, Econoday

In the past, oil markets have seen Organization of the Petroleum Exporting Countries (OPEC) cut production in an attempt to increase prices; however, Saudi Arabia recently announced it would not lower its output and would actually lower prices for oil exported to the U.S. Many believe this is an effort to drive many smaller U.S. companies engaged in fracking out of business. Fracking is a relatively expensive way to extract oil from the earth and is profitable only at oil prices above $70-80 per barrel, according to a recent Wall Street Journal article. Saudi oil supplies are still accessible through cheaper, traditional drilling methods, meaning Saudi oil extraction is still profitable at prices well below $70-80 per barrel. Current market dynamics are quite interesting to say the least.

New vehicle sales have spiked over the past year, but it would be difficult to attribute these gains to cheaper gasoline since the drop in gas prices started just four months ago. An economy continuing to improve, healthy job growth numbers and persistently low interest rates are all likely contributors to the strength in automobile sales. U.S. new vehicle sales still remain below the peak pre-recession sales pace of roughly 17.8 million units sold per year (see chart above right) but have come quite a long way from their recession low point of roughly 9.5 million units sold per year. If gas prices continue to fall, consumers may indeed feel like they have more discretionary income and go out and spend some of that money on new car purchases. Rising interest rates may eventually act as a drag on sales, but new vehicle sales will be less sensitive to such an occurrence since the manufacturers themselves typically provide financing for new car purchases.

Editorial: *Is it "Un-Patriotic" for Corporations to Avoid Taxes?*

You may have read or heard about the corporate practice known as "tax inversion" over the past several months. In the news lately were cases involving U.S. companies reorganizing and/or being acquired by another company in a foreign country that has a lower corporate tax rate. Typically, the U.S. corporation continues to operate and do business in the U.S. as it was previously, and the goal of inversion is simply to reduce the corporation's tax bill. The practice is perfectly legal, though the Obama administration has recently initiated changes to limit the appeal of the strategy. (More on this later.) Is it wrong for these companies to undertake actions to simply avoid paying taxes to the U.S. government? First, some background information on the subject.

Editorial: *Is it "Un-Patriotic" for Corporations to Avoid Taxes?*

The Federal government collected $2.775 trillion in revenue in fiscal year 2013. Only roughly 10% of this amount - $273.5 billion - came from corporate income taxes that year. The biggest sources were individual income taxes ($1.316 trillion) and payroll taxes ($947.8 billion), and the remainder came from excise taxes, estate taxes and other smaller sources. The federal budget deficit was $680 billion in 2013, the lowest it's been since 2008. The deficit exceeded $1 trillion from 2009 through 2012.

In the U.S., the current corporate tax rate tops out at 35% for corporations earning more than $18.3 million. States and local governments also impose their own corporate taxes, and rates range from 0% to 12%. The average top marginal rate for state and local corporate taxes is approximately 7.5%, and since corporations can deduct their state/local income taxes on their federal returns, the average net effective rate is roughly 40%. How does this compare to other countries around the world?

Country / Area	Average Effective Corporate Tax Rate*
Australia	30%
Brazil	25%
Canada	26.5%
China	25%
France	33%
Germany	29.58%
Hong Kong	16.5%
Ireland	12.5%
Russia	20%
United Kingdom	21%
Europe Average	19.68%
Asia Average	21.91%
Global Average	23.57%
United States	**40%**

*Source: KPMG

One can clearly see why U.S. companies would want to pursue action to avoid paying corporate income taxes at U.S. rates, but the situation is not as bad as the numbers on the preceding chart may suggest. The U.S. tax code is notoriously full of provisions and deductions - some general and some specific to businesses in certain industries - that reduce the effective tax rate U.S.-based corporations actually pay. However, it seems foolish to characterize legal action taken by corporations to reduce their tax burden as "unpatriotic" or "unethical." It seems like a natural action to take, given the reality of how high the U.S. corporate tax rate is compared to others countries around the world.

How big a problem is inversion, and what does the U.S. government stand to lose in terms of tax revenue if the practice is left unchecked? A recent CBO report projected $19.5 billion in lost tax revenue from 2015 through 2024 due to tax inversions by corporations. It projected $4.5 trillion in corporate tax revenue over that same period of time. Relatively speaking, this is a small amount of money and is so because corporations only stand to realize tax savings on their overseas earnings, not on what they earn by doing business in the U.S. Only roughly 50 corporations have undertaken a tax inversion strategy since 2000 according to a recent Washington Post article. Nevertheless, President Obama recently put forth alterations to the tax code to make tax inversions more difficult to pull off, and Ireland also altered some provisions in its tax code to reduce the attractiveness of the strategy.

So - is all of this tax inverson talk much ado about nothing? In terms of the U.S. government's bottom line, yes, but it does highlight the need for reform in our current tax system. Most lawmakers believe something needs to be done to overhaul the current corporate tax system, and with Republicans winning control of the Senate and now controlling both houses of Congress, we may see action on this issue very soon.

Please send comments via e-mail to: Brad@R1FinancialGroup.com

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