The FINANCIAL SUCCESS Library

Money Minute

"Smart Ideas for Secure Finances"

Financial Planning & Investing Newsletter

JANUARY 2015

Inside This Month's Issue:

PROVIDED BY

R1 FINANCIAL GROUP

Brad Rodrigues
Financial Advisor

214.628.9100 (office)
*Full contact info. on back page

FEATURE

2014 Market and Economic Highlights

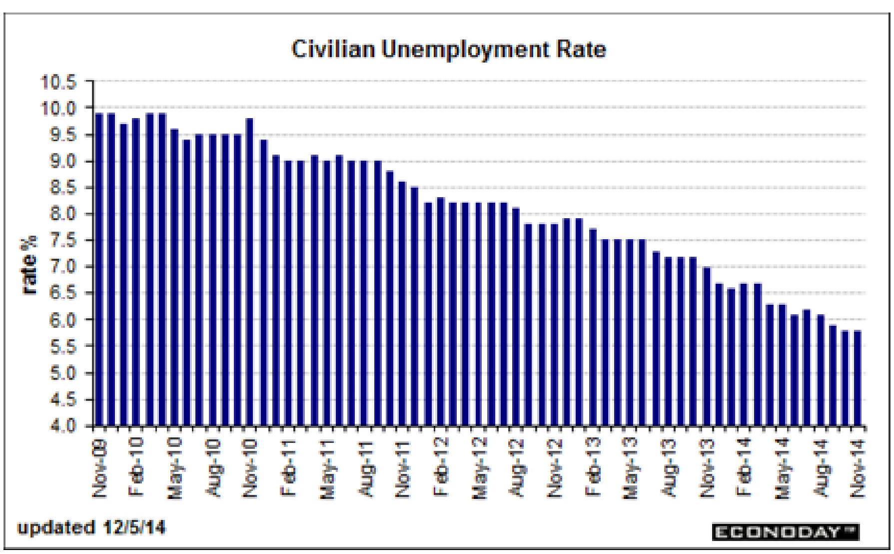
The U.S. economy chugged along in 2014, and the U.S. stood out as one of the few major economic powers experiencing accelerating growth last year. Here are some highlights from this past year:

----

1) Unemployment Rate (and Job Growth)

Beginning of year: 7.0%
End of year: 5.8%

Final year figures will not be released until January 9th (after this publication is sent to be printed), but the most recent figures show a 1.2% drop in the unemployment rate for the year. Monthly job growth topped 200,000 eight times this year (likely nine once December figures are released), making for the strongest showing in the past five years (excluding government-related hiring for the census in 2010). Barring serious disruption, we may see a sub-5% unemployment rate by the end of 2015.



(Continued on page 4)

QUOTE OF THE MONTH

"There's an old saying about those who forget history. I don't remember it, but it's good."

~ Stephen Colbert
Comedian
(1964 -)

DID YOU KNOW?

The U.S. Mint produced over 7 billion pennies last year at a cost of 1.63 cents each. The penny is the only U.S. coin that costs more to produce than it is worth.

Source: U.S. Mint, CNN Money

Amazon to Start Selling Diapers, Big Merger in Tuna Fish Business, etc.

Amazon (AMZN) is moving to sell its own brand of diapers and dive into the $5.8 billion diaper industry. The brand will be called "Elements" and will cost around 10% less that the most expensive diapers sold by Proctor and Gamble (Pampers) and Kimberly Clark (Huggies). They will cost about 25% more than P&G's low-end Luvs and 40% more than Target's Up and Up brand. The move threatens to disrupt Amazon's close relationship with P&G, Kimberly-Clark and other consumer product makers should Amazon's product offerings expand. Online diaper sales have grown to 5.2% of the market, up from just 0.9% five years ago. Elements products will only be offered for sale to Amazon Prime members, who pay $99 per year for perks such as free 2-day shipping and a large library of free streaming movies.

Chicken of the Sea tuna producer **Thai Union Frozen Foods** is acquiring U.S.-based **Bumble Bee Seafoods** for $1.51 billion. Chicken of the Sea currently has a 13% share of the $1.7 billion canned tuna market, and Bumble Bee has a 25% share. Starkist brand tuna is the U.S. sales leader with 36% market share. Bumble Bee Seafoods is currently owned by Lion Capital of the U.K. Starkist is owned by Dongwon Enterprise of South Korea. The deal is subject to approval by U.S. antitrust regulators but is expected to go through.

McDonald's (MCD) sales drop worsened over the past two months and saw its same-store sales fall by 4.6% in November. This was its steepest decline in over 14 years. Same-store sales have fallen every month throughout 2014 (excluding December, which has not yet been reported) and has caused a management shakeup at the company. McDonald's has blamed its woes on its now bloated menu, which has resulted in slower service. The company believes it has lost customers to more focused burger chains and **Chick-fil-A**. It is working to enhance its marketing, simplify its menu, and regain lost customers in the U.S. and abroad. Shares were down 3.8% when November sales results were announced.

Autonation Inc., the largest auto retailer in the U.S., is inching closer to allowing customers to complete the car-buying process entirely online. By the end of 2015, customers will be able to complete all sales paperwork, obtain financing, and value their trade-in entirely online. Once the service is fully up and running, customers should be able to make an appointment and pick up their vehicle in about 30 minutes...after they complete the purchase process online. GM and Toyota have launched programs aimed at simplifying the buying process, but sales from these programs have been very modest. Autonation plans to spend $300 million on systems to facilitate the online buying process. Autonation currently owns 240 dealerships nationwide.

All major U.S. wireless phone carriers are now fully engaged in a price war. **Verizon**, a long-time hold out, finally began offering cheaper plans and credits to buy new customers out of their existing contracts in order to compete with the onslaught of switch-and-save incentives and cheaper plans from its rivals. **T-Mobile** has been the leading disrupter in the industry and has added 5.6 million customers since the beginning of 2013, no small feat in a saturated marketplace with little growth. **Sprint** recently offered a promotional rate to **AT&T** and Verizon customers that would cut those customers' monthly bills in half if they changed their service to Sprint. It is clearly a buyer's market right now and a good time to shop around and compare prices on cell phone plans, even for customers who still have time remaining on their current contracts.

One of **Bernie Madoff's** long-time aides received a 10-year prison term for his role in the massive Ponzi scheme. Daniel Bonventre, 67 years old, headed Madoff's broker-dealer business for almost 40 years. Investors lost $17.3 billion as a result of the scheme that lasted for multiple decades. Bonventre was convicted of conspiracy, securities fraud and other charges along with four others at a trial that lasted more than five months.

Market and Economic News

-Economic growth (measured by gross domestic product (GDP)) for the 3rd quarter of 2014 was revised upward to a whopping +5.0% from a revised reading of +3.9. This is the highest GDP growth reading since 1999.

-This month's Bureau of Labor Statistics employment report showed blowout numbers for the month of November. 321,000 jobs were added in the month, a huge reading, while the unemployment rate remained at 5.8%.

-See this month's feature story for highlights and a recap of 2014.

At a Glance...
(as of January 6) **DJIA** – 17,331 **S&P 500** – 2,001 **NASDAQ** – 4,592 **10-yr T-note** – 1.92%

Questions? E-mail Brad@R1FinancialGroup.com

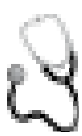
Q. "I know I need to start investing and saving more for retirement. Where should I start? I'd like to work with an advisor, but I'm not sure I have enough money such that any advisor would be interested in working with me."

-Kristen – Midlothian, TX

A. Whether working with an advisor or going the do-it-yourself route, the first step is evaluating where you are currently, where you'd like to be in the future in terms of savings, figuring out how much and through what vehicles you should start saving (IRAs, 401(k)s, etc.) given your income / current tax bracket, etc. Most advisors should be able to run through a consultation in an hour or two and will be able to steer you in the right direction. As for working with an advisor, you should inquire about how and how much you would pay any potential advisor on an up-front and on-going basis for financial planning and the management of your investments, and if you would be paying commissions, a flat fee, or a percentage of the money you invest (usually 1-2% of what you invest annually).

I'd recommend looking for a fee-based advisor as opposed to a commission-based representative of a broker-dealer firm since the payment structure is far easier to understand and more closely aligns your interests with your advisor's interests. As for not having enough money to start, it may indeed be difficult to find an advisor willing to work with you, but it won't be impossible. Many fee-based advisors (myself included) are happy to work with clients starting with smaller dollar amounts, particularly if those clients plan to save and contribute to their account(s) periodically.

As long as you find a trustworthy and competent advisor to work with who charges a reasonable fee, you should benefit greatly from the planning and work you will do with a financial advisor. Within the first few meetings, you should have your savings plans and investing strategies set up and on track, plus you should also get many other financial topics addressed (insurance planning, tax planning, saving for kids' college, if applicable, etc.). You should expect to spend several hours for these first few meetings, but the time spent will be well worth it. Good luck!

YOUR HEALTH

Antibiotic Use in Raising Chickens on the Decline

The trend toward more natural, less processed food is accelerating with respect to chicken and beef. Widespread media coverage of high antibiotic use in raising chicken and the cultivation of antibiotic-resistant bacteria has led to a significant shift in consumer attitudes, and currently as many as 60-72% of consumers say they are concerned with the use of antibiotics in raising animals that are processed into meat for human consumption. In 2009, $450 million was spent by consumers on chicken raised without antibiotics. In 2014, over $1.4 billion was spent on antibiotic-free chicken. Sales have increased 25-35% annually over the past few years alone. At present, only 5% of meat sold to consumers in the U.S. currently comes from animals raised without antibiotics.

Antibiotics are used to prevent, control and treat disease caused by bacteria. Most controversially, they are also used by livestock and poultry producers to promote growth. In 2012 the FDA asked meat producers to stop this practice, and the practice is set to be phased out completely by the end of 2016. Trade groups and the FDA maintain that meat from animals treated with antibiotics is safe. They also point out that there is limited overlap in the drugs given to animals and those given to humans. Animals are treated with tetracyclines and ionophores primarily (over 70% of antibiotics given), which have little or no use in humans. Humans are treated primarily with penicillins, cephalosporins, sulfa, quinolones, macrolides (over 95% of antibiotics given), and only roughly 15% of antibiotics administered to animals come from these categories. Farmers incur a roughly 10-15% higher cost when raising their animals without antibiotics, but selling prices can be $2 per pound or more higher compared to meat from conventionally raised animals.

*Source(s): American Meat Institute, Wall Street Journal

Money Minute
Trivia Question

The movie "The Interview" had its release disrupted after hackers gained access to which movie studio's e-mail system and threatened the studio if the movie was released?

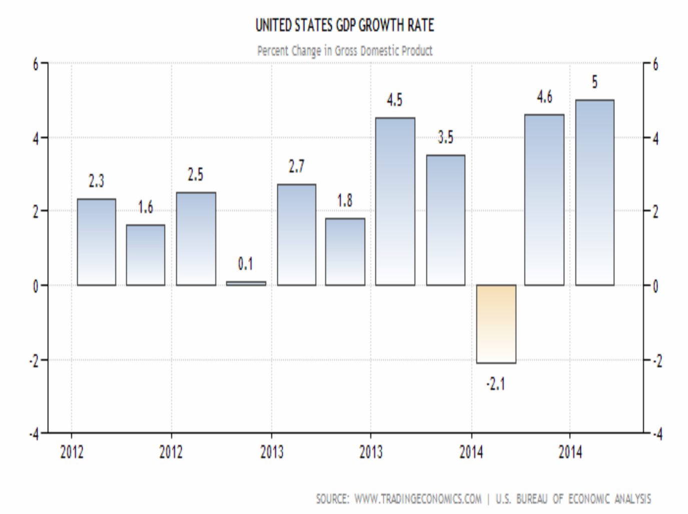
A) Sony *B) Paramount* *C) MGM* *D) Magnolia*

Last Month's Question – The European Space Agency recently landed a probe named Rosetta on a celestial body after traveling over 9 billion miles and 10 years. On what type of body did the probe land? *A) Moon* ******B) Comet*** *C) Planet* *D) Meteor*

2014 Market and Economic Highlights

(Continued from page 1)

2) Economic Growth (Gross Domestic Product)



After an unusually harsh winter and an unexpected decline in GDP in the 1st quarter of 2014, the economy hit back-to-back homeruns in the 2nd and 3rd quarters of the year. A +4.5% and +5.0% reading were above almost all estimates, and a strong 4th quarter reading (above 3.5%) would confirm a reasonably strong two-year run for the economy.

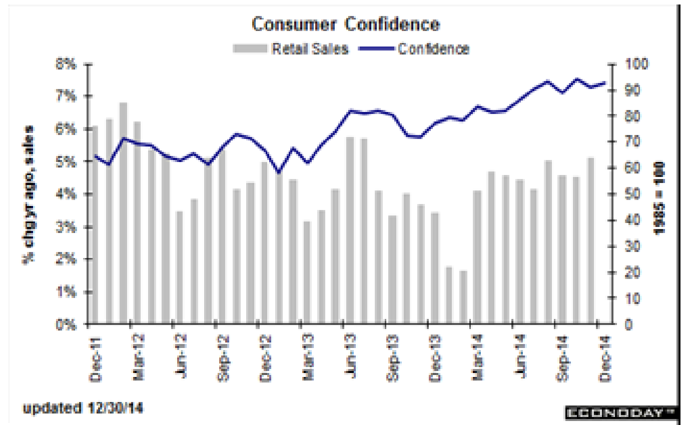
3) U.S. Stock Market (S&P 500 index)

<u>Beginning of year</u>: 1,848
<u>End of year</u>: 2,058
Change: +11.4%

The large cap U.S. stock market index was one of the few bright spots for global stocks this year, gaining over 12% for the year when dividends are accounted for. (The index is already down roughly 6% from its Dec. 29 peak, however.) Small company stocks, measured by the Russell 2000 index, notched a modest gain for 2014 (just above 4%), and have almost completely erased those gains in the first several trading days of 2015. It is important to remember that stocks are forward-looking, and we will need to see continued improvement in corporate earnings and the global economy in order to see further market gains.

After six consecutive years of market gains, it may be difficult to realize a seventh in 2015...though many similar predictions were made at the start of 2014. I'm not in the business of making such predictions, but I would not be surprised to see a year of negative returns for many asset classes, including U.S. stocks. Stocks have historically notched positive calendar year returns roughly 75% of the time and negative returns roughly 25% of the time. Based on history, we are perhaps overdue for a year of negative returns, but again - I do not advocate trying to "time the market" or use such history to make significant investing decisions.

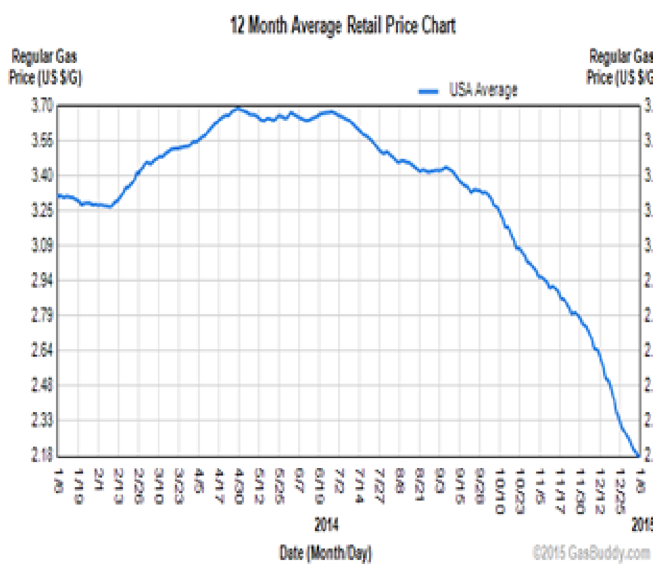
4) Consumer Confidence / Retail Sales



Consumer confidence has surged to levels not seen since before the most recent recession, which should bode well for retail sales. Holiday sales numbers have not been released yet, but high confidence, along with very low gasoline prices should, bode well for consumer spending over the next year.

5) Oil and Gasoline Prices

The massive drop in oil and gasoline prices was definitely the story of the year. The price of a barrel of oil peaked in the summer at roughly $120 per barrel and has since fallen under $50 per barrel. Many parts of the country are now seeing sub-$2.00 gasoline after seeing prices hover near $3.80 earlier in 2014.

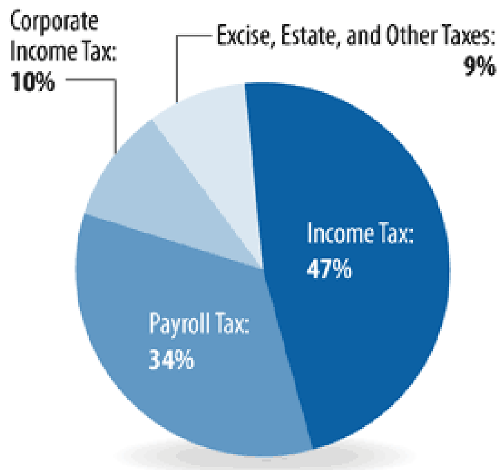


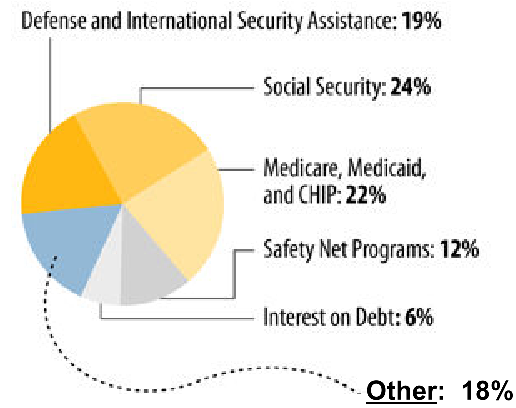
Best wishes to all readers for 2015!

Where Does Federal Revenue Come From, and Where Does It Go?

This month's "Up Close" does not directly relate to investing or financial planning, but after running across a great article on the topic of federal tax revenue and spending, I thought this information would interest most readers. We all pay taxes and/or derive some benefit from the federal government's spending, and we all vote for elected officials who control taxes and spending. The numbers below are from fiscal year 2013.

Sources of Federal Tax Revenue -and- **Federal Spending Categories**





Other: 18%

-Benefits for federal retirees and veterans: 8%	-Education: 1%
-Transportation infrastructure: 3%	-Science and medical research: 2%
-Non-security international: 1%	-All other: 3%

On the revenue side, income tax is the largest source by a fairly wide margin. Payroll tax - the next largest source - consists of social security and Medicare taxes paid by employers and employees (12.4% total for social security up to the first $118,500 of earnings in 2015, 2.9% total for Medicare taxes on all wages). Somewhat surprisingly, corporate income tax accounts for a relatively small percentage of federal revenue (10%). The remaining revenue comes from excise taxes on fuel, alcohol and tobacco sales (3%), estate tax (0.7%), profits on assets owned by the Federal Reserve (3%), and various other sources.

On the spending side, defense, social security, and Medicare/Medicaid make up the bulk of spending (65% total). Safety net programs - which account for 12% of spending - are things like the earned income tax credit, child tax credit, SNAP (food stamps), housing assistance, Pell grants, child nutrition programs, Head Start, job training programs, etc. Interest on debt (6%) is the amount paid annually on outstanding government bonds that make up the national debt. The national debt currently stands at over $17 trillion. Only 1% of the budget is devoted to education spending, as states are largely in charge of funding their education systems.

We are just under two years away from the next presidential election, and we will undoubtedly begin hearing about candidates' positions on tax and budget issues in late 2015 and early 2016. Hopefully the figures above will assist voters in better understanding candidates' tax and federal spending plans and positions at that time.

Editorial: Minimum Wage Revisited Post Mid-Term Elections

After Republicans gained control of the Senate in November and now control both houses of Congress, we are unlikely to see any passage of an increased federal minimum wage. However, four states passed legislation to increase their states' minimum wage during the recent mid-term elections, bringing the total number of states whose minimum wage exceeds the federal minimum wage ($7.25 per hour) to 29. President Obama wants to raise the federal minimum wage to $10.10 per hour (a figure that is higher than every state's current minimum wage), but six states and D.C. currently have planned increases to meet or exceed this level within the next three years.

Though extremely unlikely to happen without a shake-up in Congress, is fighting for a higher minimum wage

Editorial: *Minimum Wage Revisited Post Mid-Term Elections*

worth it? It sounds harmless enough (unless you are the business owner having to pay the increased wages), but a CBO report from last spring estimated roughly 500,000 jobs would be lost as a result of such an increase. Also, just 18% of the additional earnings from such a hike would go to people living below the poverty line, and 30% would go toward people in families three times above the federal poverty line. Half of families living below the poverty line in the U.S. have no wage earners. I examined similar statistics in an article I wrote last March, and though a hike in the federal minimum wage is a simple, tangible action that would surely help some individuals and families, it seems clear that it would harm others profoundly through the loss of their jobs. I am no policy expert, but the Affordable Care Act (about which I wrote last month) seemed to have had similarly mixed results and many unintended consequences. I fear another policy decision put forth as being a "no-brainer" and a "win-win" will simply not work out as intended.

Are there any viable alternatives to forcing employers to pay their lowest paid employees more? Republican Paul Ryan recently put forth a proposal to expand the earned income credit (EIC) program. For those who are not familiar, the EIC gives relatively generous refundable tax credits to individuals and married couples for working. The credits can exceed the total amount of all payroll and income taxes paid for some, resulting in the federal government actually paying many individuals and couples to work. The program is currently very heavily skewed toward people with children.

-For example, a single person earning between $6,450 and $8,150 can receive a $496 earned income credit. The credit starts at zero, ramps up to this level at this earning range, and is then reduced as earnings rise. The credit is eliminated when earnings reach $14,590 for single people with no kids.

-The EIC is far more generous for those with children. For example, a single person or married couple with 1, 2 or 3+ kids earning $13,650 in a year can receive an EIC of $3,305, $5,150 or $6,143, respectively. These are the maximum EIC amounts for last year and begin to shrink when earnings reach $17,150 (single) and $23K (married). The EIC is phased out completely when earnings reach roughly $38,000 - $44,000, depending on marital status and number of children.

Congressman Ryan's plan increases the EIC for individuals without children and lowers the eligibility age to receive benefits to 21 from 25. It also raises the income thresholds to receive maximum benefits. One advantage of tweaking the EIC instead of the minimum wage is that money distributed via the EIC will go in greater part to people who need it (since it is based on ones annual earnings) as opposed to increases in the minimum wage, that go to anyone earning it including teenagers and adults who are part of a household with greater earnings.

The EIC program is far from perfect. Up to 26% of the program's payments in 2013 were made in error according to a 2014 report by the Treasury inspector general. Also, the loss of benefits for earning increasingly higher wages creates a perverse incentive to work less and earn less (much like most other safety net programs), whereas an increase in hourly wages creates greater incentive to work.

EIC enhancements are far from being a panacea, but I don't believe that a sharp increase in the minimum wage is a "no-brainer" as many Democrats would have us believe. I think most Americans would like to see a portion of our tax dollars go toward assisting those in need. I would rather see the federal government try to innovate and assist lower earners through EIC enhancements and/or other means instead of simply passing the burden on to businesses that employ low-wage workers, especially when such a move is almost certain to cause a significant loss of jobs. I certainly don't have the answer here, but my gut feeling is that there has to be a better way. I hope that partisan politics from both sides does not prevent lawmakers from making an effort to work together to find a better way - if one does indeed exist - and that candidates don't simply use this issue to rally their bases during the next election.

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

R1 Financial Group
7616 LBJ Freeway, Ste. 724
Dallas, TX 75251
214.628.9100 (office)
www.R1FinancialGroup.com
E-mail: Brad@R1FinancialGroup.com

Brad Rodrigues
Financial Advisor