The FINANCIAL SUCCESS Library

Money Minute

Financial Planning & Investing Newsletter

"Smart Ideas for Secure Finances"

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Inside This Month's Issue:

PROVIDED BY

R1 FINANCIAL GROUP

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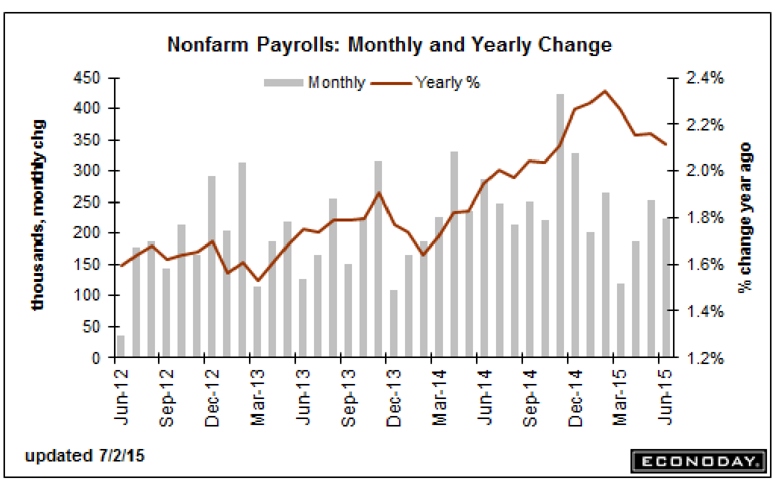
FEATURE

Mid-Year Market and Economic Update - Where Are We Now?

2015 has started off with a whimper. The U.S. stock market and economic growth were weak to start the year, and more recently, international events are not helping confidence in global markets. This month's feature will give a glimpse into where things stand with respect to the U.S. economy and stock market.

Jobs and Employment

Relatively speaking, job growth and the decline in the unemployment rate were a bright spot over the first half of the year. From 7.5% in mid-2013 to 6.1% in mid-2014, the unemployment rate declined to 5.3% at last month's reading. Monthly payroll growth, as shown below, has been in the 200,000 - 250,000 range most months, and while these numbers are far from spectacular, they are reasonably good considering how late we are into this economic expansion. An unemployment rate below 5% has not been seen since before the recession — another year of similar job growth will



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QUOTE OF THE MONTH

The person who says it cannot be done should not interrupt the person who is doing it.

~ Chinese Proverb

DID YOU KNOW?

Americans' combined wealth increased by $1.6 trillion in the first quarter of 2015 to reach $84.9 trillion, an all-time high.

Source: Federal Reserve

Gap Downsizing, CVS Taking Over Target Pharmacies, Amazon Private Label, etc.

Reynolds American was recently cleared by U.S. antitrust regulators to proceed with its planned $25 billion acquisition of **Lorillard**. The companies are the 2nd and 3rd largest cigarette makers in the U.S. Reynolds owns the Camel and Pall Mall brands. Lorillard owns Newport, the top-selling menthol brand of cigarettes. The new combined company will have a roughly 34% market share in the U.S., only trailing Altria's estimated 47% market share. Altria owns the Marlboro brand. As part of the deal, Reynolds is being forced to sell four brands - Maverick, Kool, Salem and Winston - to UK-based Imperial Tobacco, which will become the new number three player in the U.S. tobacco industry.

Taco Bell and **Pizza Hut**, owned by Yum Brands Inc., have announced plans to remove artificial colors and flavors from most of their food. Taco Bell will make the changes by year end, which will affect 95% of the chain's core menu items. It will also stop using trans fats and other artificial preservatives and additives by the end of 2017. Pizza Hut has already eliminated trans fats and MSG from its food and plans to remove artificial flavors and colors from its pizzas by the end of July.

Gap Inc. announced that it plans to close a quarter of its North American stores, the second time in four years the company has shuttered a significant number of its stores. 175 store closures are planned, most by early 2016, which will leave 500 stores and 300 Gap outlet stores in operation. Slowing sales are the culprit for the closures, and the company will see its sales decline by $300 million annually due to the closures.

Charity **Cancer Fund of America** and 3 other affiliated charities run by a group of family members in Tennessee has been charged with bilking donors out of $187 million, the largest ever alleged fraud associated with a charity. Most of the money raised from 2008 - 2012 went to pay telemarketers, and the operators of the charities kept most of the remaining money for themselves. These individuals spent money on cars, travel, college tuition for family members and dating website memberships, among other things. The little money that was spent on cancer patients was spent on care packages containing things like snack food, shampoo and iPod cases. The individuals used accounting fraud to try to hide high administrative and fundraising costs and to hide the fact that so little money was being spent on programs. The civil suit is unlikely to recover a significant portion of the misappropriated funds.

CVS Health announced it is paying $1.9 billion to purchase and operate **Target's** in-store pharmacies and clinics. Target currently operates 1,660 pharmacies and 80 clinics. The deal will allow CVS to expand its footprint and allow Target to focus on selling baby, kids and style items. CVS is already the number one provider of prescription drugs in the U.S. It currently runs 7,800 stores and had $139.4 billion in revenue in 2014. Target's pharmacies operated at a loss in 2014. Target currently has only a 1.2% market-share in the U.S. prescription drug market, and it is unlikely the deal will face heavy scrutiny from regulators. Walgreen's, Express Scripts, Wal-Mart and Rite-Aid round out the top five companies in the retail prescription drug market.

Amazon.com is preparing to expand its private-label brands to include grocery items such as milk, cereal, orange juice and coffee, along with baby food, household cleaners, razors and many other items. Private-label items tend to have higher margins than name-brand goods for both retailers and manufacturers despite their lower prices. Costco's Kirkland brand is perhaps the best example of private label brand success. It is unclear whether Amazon's private label products will be sold exclusively to Amazon Prime members (who pay $99 per year for benefits like free 2-day delivery on many items). Amazon has rolled out a grocery delivery program called Amazon Fresh in limited cities, which offers same day and early morning delivery of fresh grocery goods.

Silk Road founder Ross Ulbricht has been sentenced to life in prison for his role in the underground online drug bazaar. The website facilitated the sale of illegal drugs and fake IDs. The site was set up to accept only bitcoin, a digital currency that is almost impossible to trace. Ulbricht was an Eagle Scout and grew up in Austin, TX.

Market and Economic News

-Economic growth (measured by gross domestic product - GDP) for the 1st quarter of 2015 was revised upward to a final reading of -0.2%. 2nd quarter GDP figures are due out in late July and are expected to be positive.

-This month's Bureau of Labor Statistics employment report showed a solid 223,000 jobs added in June The unemployment rate decreased to 5.3%, down from 5.5% the prior month.

-See this month's Mid-Year Market and Economic Update feature story for more information.

At a Glance...
(as of July 8) **DJIA** – 17,515 **S&P 500** – 2,046 **NASDAQ** – 4,909 **10-yr T-note** – 2.20%

Readers' Q&A

Questions? E-mail Brad@R1FinancialGroup.com

Q. "Is it a good idea to withdraw money from my traditional IRA to buy a car? I need about $20,000 to buy a car, my credit is no good due to the actions of my ex-wife, and the best financing rate I've been able to get is 11.9%."

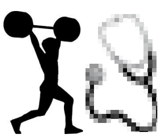
-Jonathan – Forney, TX

A. 11.9% is certainly not a great interest rate, and I can understand you wanting to avoid paying that. On a 5-year loan for a $20,000 car, you would wind up paying about $6,600 in interest over the loan term. At a more reasonable 4.9% rate, you would pay about $2,600 in interest. Withdrawing $20,000 from your IRA would cause you to have to pay income tax and a 10% early withdrawal penalty. The 10% penalty on $20,000 that you would otherwise avoid would be $2,000 in this case, or about half as much as the "penalty" you would pay for accepting the high 11.9% interest rate. This does not take into consideration that you will have to come up with money to pay the income tax on the IRA withdrawal, which may be 15%, 25%, 28%, etc. depending on your income for this year. For example, at a 25% tax rate and 10% penalty rate, you'd have to withdraw roughly $30,770 to have enough money to pay the income tax and penalty and leave yourself with $20,000 in cash to buy the vehicle. So, neither option is very promising.

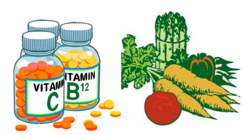
I'd take the following actions: I'd keep shopping for a car loan and see if there is any way you can get a loan at a more reasonable interest rate. You could seek a loan co-signer with good credit and/or offer to put down a larger down payment (and withdraw a smaller amount from your IRA to pay for this). You could also see if a family member with good credit would be willing to take a loan in their name only. There are downsides to these options, but they would prevent you from having to incur the tax and penalty due to a large, lump sum withdrawal from your IRA.

If those do not work, you could consider financing at the 11.9% rate for a year or two, getting your credit cleaned up, then attempt to refinance the loan at a better rate. You could do this in combination with perhaps shopping for a less expensive car, or you could even make due with a much less expensive used car paid for with an IRA withdrawal. Overall, it would be ideal to leave as much money invested in your IRA as possible to maximize your future retirement savings and avoid paying any early withdrawal penalties.

Good luck, and please feel free to get in touch for assistance as you move forward.



YOUR HEALTH



Vaccine Bill Signed in CA, Study Shows No Vaccine-Autism Link

California Governor Jerry Brown recently signed a bill outlawing families from opting not to vaccinate their children based on personal and religious reasons. The legislation follows a large outbreak of measles at Disneyland that began in December 2014. 131 cases of measles were reported during that outbreak, and 70% of the cases involved individuals who were unvaccinated. 30% of these individuals had one or more doses of the MMR (measles-mumps-rubella) vaccine, and two doses of the MMR vaccine are recommended and considered 97% effective in preventing measles. SB 277 requires only children who attend school outside of the home to receive vaccinations. Parents who wish to avoid vaccinating their children would have to home-school under the new proposal.

Another large study has shown no link between the MMR vaccine and autism. An examination of insurance claims for 96,000 U.S. children born between 2001 and 2007 showed that those who did receive the MMR vaccine did not develop autism at a higher rate than those who did receive the vaccine. The results held for children who had older siblings with autism, a group considered to be at a higher risk for developing autism. Roughly 1% of the children in the study (994) were diagnosed with autism during the study's follow-up period, and among those children with an autistic older sibling, roughly 7% (134) developed the disorder.

This study is the latest in a string of studies that have tried to debunk the theory that MMR might be linked to autism, which dates back to 1998, when Dr. Andrew Wakefield published a research paper claiming a link between MMR and autism. Wakefield has since been found guilty of serious professional misconduct and is no longer allowed to practice medicine in the UK. This recent study was published in the Journal of the American Medical Association.

*Source(s): AutismSpeaks.org, Wall Street Journal

Money Minute
Trivia Question

A police officer recently made national headlines and subsequently resigned after a cell phone video showed him pinning to the ground and handcuffing a 15-year old girl in what Dallas suburb?

A) McKinney *B) Plano* *C) Richardson* *D) Carrollton*

__Last Month's Question__ – Which company is embroiled in controversy after some of its flooring products were found to contain high concentrations of formaldehyde, a known carcinogen? ****A) Lumber Liquidators*** *B) Home Depot* *C) Lowe's* *D) Floor and Decor*

Mid-Year Market and Economic Update - Where Are We Now?

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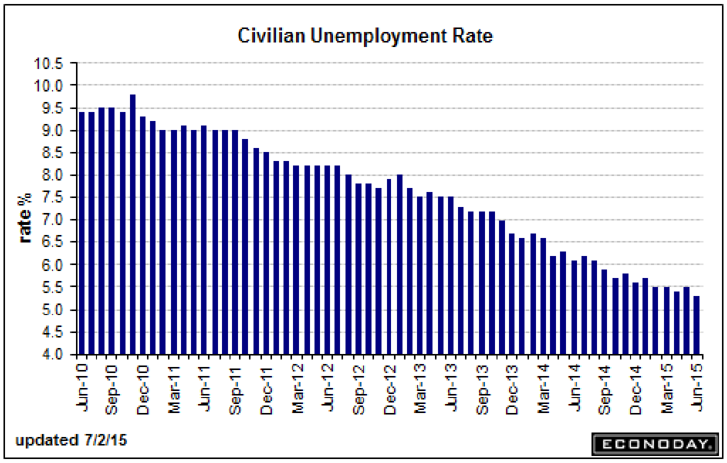
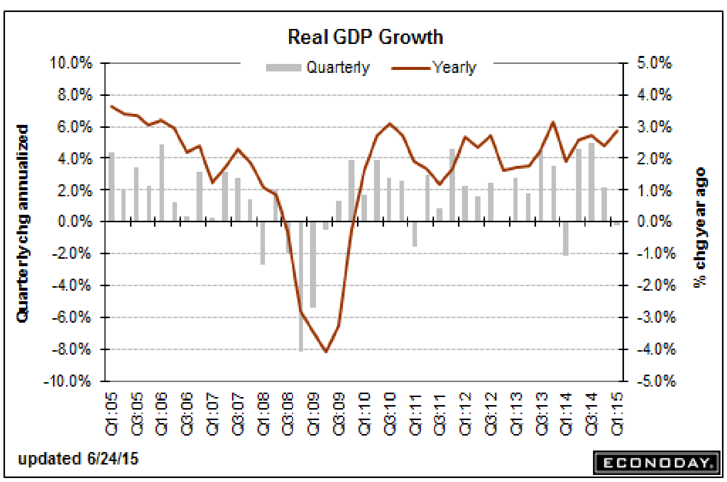
likely get us there.



Economic Growth (GDP)

Economic growth was a bright spot during the second and third quarters of 2014, checking in at over +4.0% in each quarter. The fourth quarter of 2014 was a weak +2.0%, and the first quarter of 2015 (difficult to see on the chart below) showed a contraction of -0.2%. As in 2014, bad weather was blamed for the contraction, as was a stronger U.S. dollar. We will get our first reading for the second quarter at the end of July.



Falling Oil Prices

The decline in oil prices was the most significant story of the past year, as the price of a barrel of oil fell from well over $100 to under $50. I've discussed this in several issues over the past six months, so I will let the chart (above right) do the talking this time.

Crude Oil - Price per Barrel (NYMEX)

U.S. Stock Market (S&P 500 Index)

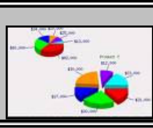
After six consecutive years of gains, U.S. stocks, measured by the S&P 500 index, are down by just over 1% for the year as of July 8th. A decline that started in late June has dragged the index down by almost 4%. This decline was accompanied by two international situations in Greece and China.

China and Greece

Greece missed an interest payment to the International Monetary Fund and officially defaulted on its bailout loan on June 30. It is the first developed nation to do so. The country is back at the negotiating table with its creditors in an attempt to borrow more money and shore up its financial system. The country's stock market and many banks have been closed in the days following the default.

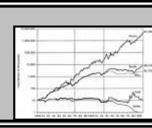
China's stock market, which rose roughly 150% since the beginning of 2014, is seeing its bubble begin to burst. The country's stock market is down over 35% in the past month alone (as of July 8th), and government interventions have done nothing to stem the decline thus far.

The past two years have been a period of relative calm for global markets, and both the situation in Greece and China are a threat to the stability of global financial markets in the short term. These too shall pass, but 2015 may be the first year since 2008 that stock market investors experience negative returns. Complacency on the part of investors is not a good thing, and after six consecutive years of gains, a year of negative returns might not be a bad thing for investors in my opinion. Stay tuned...



UP CLOSE

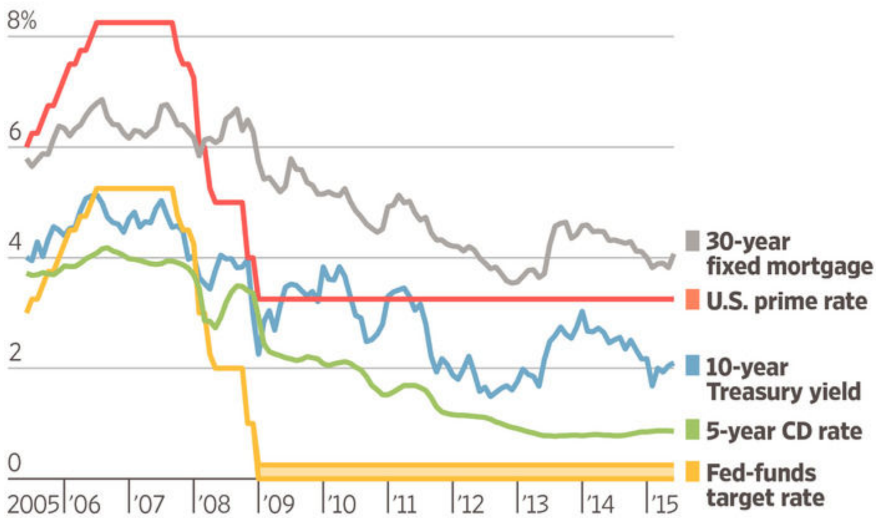
In-Depth Information for Smart Investors



Fed Indicates Interest Rates Are Finally Set to Rise

One of most significant and lingering effects of the Great Recession was the Federal Reserve stepping in to provide economic stimulus in the form of ultra-low interest rates. By lowering its benchmark Fed funds rate to near 0%, virtually all forms of consumer borrowing - from auto loans to mortgages - became very inexpensive. The downside for investors and consumers was that interest rates on bonds and CDs also fell to record lows, which made it difficult to earn a decent return. Alas, it seems that we may be at an inflection point as the Federal Reserve has indicated it is gearing up to

Changes in U.S. Benchmark Interest Rates - 2005 to Present



Source(s): Wall St. Journal, Bankrate.com, Ryan ALM

raise its key interest rate, the Fed-funds target rate. Such a move would, to varying degrees, ripple across the financial landscape and cause interest rates of all kinds to begin to rise. A rate hike could be the start of bond yields and CD interest rates rising back toward historical norms. It could be the start of 30-year mortgage rates climbing firmly above 4.00% and staying there for the foreseeable future. It could be the end of extremely generous auto loan financing rates.

A rate hike by the Fed would be a vote of confidence for the economy, a sign that it thinks the economic recovery is far enough along to withstand higher rates. Employment statistics (unemployment rate and jobs added each month) are already better that the Fed's initial targets for a rate hike, and most observers expect a rate hike either late in 2015 or early in 2016. What could disrupt these plans? A disruption to the global economy (perhaps triggered by Greece's potential exit from the Eurozone), bad jobs data, weak inflation numbers, weak economic growth numbers, a significant stock market pullback and any number of other negative events could make Fed leaders keep interest rates lower for longer.

When a rate hike actually does occur, we are very likely to see volatility in financial markets. In spite of this, a rate hike should be viewed as a positive. It will signal an undoing of what was an emergency response to a U.S. economy in freefall in late 2008, and it will act as a vote of confidence for the U.S. economy.

Editorial: *Does the U.S. Oil Export Ban Still Make Sense?*

As you may be aware, U.S. oil companies are not (for the most part) allowed to export crude oil. An export ban that was put in place back in 1975 was designed to protect U.S. consumers from volatility and price spikes. The export ban was a response to the oil crisis and shortage following the 1973 oil embargo by middle eastern oil producing countries, which highlighted U.S. reliance on foreign oil. Making matters worse, the U.S. saw its domestic oil production peak in 1970 and decline over the next four decades. Today, advances in shale drilling technology have fundamentally changed America's position in the world with respect to its energy needs. The U.S. is currently awash in oil (and natural gas) and is second only to Russia and Saudi Arabia in terms of oil

Editorial: *Does the U.S. Oil Export Ban Still Make Sense?*

production. Many oil producers are calling for lifting the oil export ban now, and the primary reason is money. Let's take a closer look at the issues surrounding this debate.

Price spikes and fuel shortages in the early to mid-1970s due to the oil embargo resulted in conservation efforts, the birth of concern for fuel economy and federally-mandated fuel economy standards for cars and trucks and, of course, a ban on exports of U.S. oil. All of these actions were government efforts to help limit the nation's reliance on oil imports (a phrase that would be repeated by politicians often over the subsequent 40+ years) and help reduce volatility in the price of oil and gasoline for Americans. Oil imports fell later into the 1970s and early 1980s, but U.S. domestic oil production also fell dramatically over the following decades. We witnessed U.S. involvement in the middle east many times over the past 30+ years and a close U.S. relationship with Saudi Arabia, a leading oil producer, over that time period. Despite the U.S. government's efforts and the export ban, oil and gasoline prices have still been vulnerable to large swings.

The domestic oil boom that started in 2010 flooded the market with new producers and has now created a huge supply of domestic oil. Last summer, we saw crude oil prices peak near $115 per barrel. Now, prices sit under $60 per barrel. A key detail about oil prices: oil is a commodity used by countries around the world, and Brent crude is the most widely-cited benchmark for oil prices. It refers to oil from fields near the North Sea. The benchmark for domestically-produced oil in the U.S. is known as West Texas Intermediate (WTI), and the important point to note here is that WTI is usually priced at a discount to Brent. This discount has been as high as $14-15 per barrel and as low as $3-4 per barrel in recent years, but domestic oil producers believe that if the export ban is lifted, they would be able to sell their oil at higher prices and make more money. This is particularly important now since oil prices are depressed and many domestic producers are under significant financial pressure.

Domestic oil producers claim that they are at an unfair disadvantage to oil producers outside the U.S. and that the original reasons for the oil export ban no longer exist. The argument is that the world needs oil, and the extra dollars received per barrel would help these oil producers now more than ever. No one predicted America's transformation into an energy powerhouse, and now that it is, domestic producers want to see laws changed to help their businesses. Also, there are a limited number of refineries that can refine the variety of crude oil produced in many parts of the U.S., and doing away with the export ban would remove this log jam and get this crude oil refined into gasoline more easily.

Who objects to lifting the export ban and why? There are several arguments. One is that lifting the ban would cause even more drilling for oil, which would increase overall greenhouse-gas emissions. Another objection to lifting the ban is that doing so would raise prices for consumers. Industry experts disagree as to whether this would be the case or not, but such an argument is clearly appealing to voters.

Another very important factor in this debate: U.S. oil refiners that turn oil into finished products like gasoline and diesel are happy with the current state of affairs. They are able to buy oil at lower prices, then export their finished products abroad at market prices. If this last sentence struck you as odd, you are not alone. Yes, refiners are allowed to sell gasoline and diesel abroad, but companies that drill crude oil out of the ground cannot directly sell their products abroad. This inconsistency is difficult for me to understand.

The export ban has received some attention over the past several years, but it is likely to be a somewhat peripheral issue in the upcoming presidential election. The average voter most likely cares about the availability of affordable gasoline, and export ban or not, we currently have just that. Global supply and demand are the key drivers of oil prices, and lifting the export ban would likely not have a significant effect on this balance. Interestingly, both Republicans and Democrats have expressed interest in revisiting the ban. Though it does not rank as high as other issues (like tax reform, for example), I do think Congress should take a closer look at this issue and figure out whether the export ban still makes sense.

Comments? Send e-mail to Brad@R1FinancialGroup.com.

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