July - August 2013

Money Moxie®

5 Ways Rising Interest Rates Will Impact Your Life!

Smedley Financial Services, Inc.®

Can You Afford to Retire?

(Hint: Why 10 is a Useful Number)

Dear Valued Clients and Friends,

When it comes to your personal retirement, multiple factors and many numbers should be taken into consideration. To simplify, in a very rough way, let's consider the number #10.

Why 10? For starters, it's not because most of us have 10 fingers and 10 toes. (When looking at a newborn, don't many of us, conscientiously or not, count to 10 just to be sure? Or, alternatively, when an infant is first learning to talk, don't we often teach counting to 10?) Why 10? It's not because people are living 10 times longer. (Not yet. Not in the near future anyway!) Why 10? Because 10 is an easy number to remember? (Now you're getting closer.) Why 10? Because it makes an easy "Rule of Thumb?" (Or should we say "A Handy-Rule!")

In contemplating retirement, "Why 10?" Because that is approximately how much money it will take to generate an affordable retirement. That's right. Most of us will need to accumulate at least 10 times our annual income by retirement. By having approximately 10 times your annual salary saved, you may be in a position to pay for ongoing needs such as ever-increasing insurance and healthcare costs, perhaps assisted-living costs, and so forth.

However, don't fully count on Uncle Sam. Yes, Social Security will survive in some form, but you won't if Social Security turns out to be your only source of income.

Retirement is a matter of money and not age. Like most things in life, when it comes to retirement, "If it is to be, it is up to me!" So invest 10 seconds and give us a call to let us help you determine what your number is. The call is free and so is the consultation.

Bullish Best Wishes,

Roger M. Smedley, CFP®
President

Do you have enough money to provide income for the rest of your life?

Join us for our next workshop to explore a program designed to offer:

- Confidence from a structured plan outlining where your retirement income will be derived.
- Guidelines for creating a retirement income plan designed to last your entire life.
- Freedom to spend your retirement money as you wish within your plan's guidelines.
- Reduce uncertainty regarding the amount and regularity of your retirement income.
- Opportunity to plan a legacy for your heirs or charitable good works.

September 19, 2013 • 6:00 P.M. • Noah's • South Jordan

RSVP to (800) 748-4788

5 Ways Rising Interest Rates Will Impact Your Life

By Mikal B. Aune, CFP®

On May 21st, the Federal Reserve Chairman, Ben Bernanke, announced that the Fed was going to start tapering their bond buying program sometime in the fall. In essence they feel the economy is doing well enough that they don't need to keep pumping as much money into it. Ironically, the better economy is both good and bad news, depending on your perspective.

The bad news came as mortgage rates jumped about one-half a percent within a month. That left many people wondering how they will be impacted as interest rates continue to rise in the future. Here are five things you should know about how rising interest rates will impact your mortgage, savings accounts, and investments in bonds.

18.45%

Highest rate for 30-year conventional mortgage (October, 1981)[1]

1. Mortgage rates are still low, but are on the rise. The mortgage rate cruise ship has just started its engine as it prepares for a long cruise to the North. We have probably seen the lowest rates that we will see for a long time, maybe even our lifetime. This isn't to say that everyone should abandon ship and never plan to move. Life doesn't work out that way. It just means that if you are planning to move, and the move is in your control, then it may be better to move sooner rather than later.

Interest rates in the 4's and even 5's are still incredibly good by historical standards. As interest rates rise, you will either see your anticipated mortgage payment rise, or you will need to look for a slightly smaller and less expensive home. For example, the monthly payment on a 30-year mortgage of $400,000 went up by about $100.[2] So, either you will find it in your budget to afford the additional $100 or you will look for a less expensive home.

2. If you are thinking of refinancing, you better do it soon. Most people with equity in their home and great credit have already refinanced. However, if you have procrastinated, listen to the last call of "all aboard" and get on the low rate cruise ship before it leaves the harbor. If you didn't have enough equity to qualify before, check again, because "rising (home) prices pushed 850,000 homes into the black in the first quarter."[3] If you are still underwater, you may be available to refinance through HARP. Check out the details at Harpprogram.org.

3. Lock in your rates now, if you are ready to buy. This may help you avoid any short-term rate spikes. "Most lenders won't charge for a 45- or 60-day rate lock."[4]

3.35%

Lowest rate for 30-year conventional mortgage (November, 2012)[5]

Only pay for a longer rate lock if the deals are closing slowly. You should be able to ask your lender about this ahead of time. Also look for a free float down option in case the rates dip a little. Mortgage rates are still close to their all-time lows. So, lock in a rate for a long time, especially if you are looking to get a 30-year mortgage.

In this current environment, an adjustable mortgage makes sense only if you know you will move within a few years. You don't want to get a 5-year adjustable loan and stay in the home for 30 years.

Rates going up will probably slow down the housing recovery a little, but it won't be derailed. Rates are going up because the economy is healthier. For savers, the increase in interest rates is a mixed bag.

4. Interest in savings accounts, CD's, and money markets will increase. This is good news and bad news.

Continued on next page

 (Continued from page 1)

The good news is that the abysmally low rates we have seen for the last few years will go up a little. The bad news is that you probably still won't keep up with inflation.

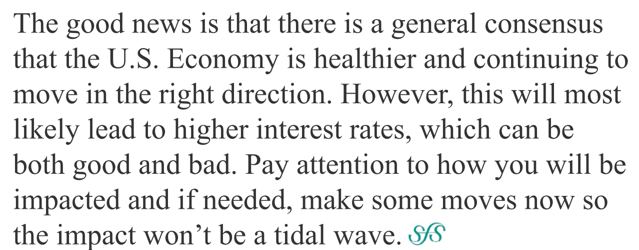
One concern is that we may have inflation like we did in the '80s. So, if you are looking at putting your money in a CD or other investment that is locked up, avoid locking it up for a long time. For example, right now may NOT be a good time to put your money in a 5-year CD paying 1%. Inflation was already 2.1% in 2012.[6]

If inflation goes up higher, being locked in and earning only 1% would feel like a jail sentence. Another strategy would be to place your money in a one-year CD and roll it into a new CD every year anticipating that rates may go up each time you renew.

5. Bond investors, be cautious. Since the market crash in 2008, many people have fled the stock market and moved into bonds in search of safety.

However, bonds are not without their own risk. As inflation increases, the value of a bond may actually go down.

Many bond investors have seen this firsthand as they have watched bonds in their account stay flat or go down despite the growth in the stock market this year. This is not to say that you should get out of bonds completely. Even aggressive investors often have some bond exposure to help with the unpredictability of the future. However, in a rising interest rate environment you have to pay attention to what types of bonds may still do well and incorporate those bonds into your portfolio.



The good news is that there is a general consensus that the U.S. Economy is healthier and continuing to move in the right direction. However, this will most likely lead to higher interest rates, which can be both good and bad. Pay attention to how you will be impacted and if needed, make some moves now so the impact won't be a tidal wave.

1. Federal Reserve Bank of St Louis: 30-Year Conventional Mortgage Rate.
2. Calculation based on $400,000 loan for 30 years at 4% vs 4.5% interest. Includes only principle and interest. Does not include taxes and insurance.
3. CNNmoney.com, 5 things to know about rising rates, Anne C Lee. http://money.cnn.com/2013/08/01/real_estate/mortgage-rates.moneymag/index.html.
4. CNNmoney.com, 5 things to know about rising rates, Anne C Lee. http://money.cnn.com/2013/08/01/real_estate/mortgage-rates.moneymag/index.html.
5. Federal Reserve Bank of St Louis: 30-Year Conventional Mortgage Rate.
6. http://www.usinflationcalculator.com/inflation/historical-inflation-rates/.

Investing involves risks. Stock and bond values fluctuate in price so that the value of an investment can go up or down depending on market conditions. Stock prices may fluctuate due to stock market volatility and market cycles, as well as circumstances specific to a company. Bond investing is subject to interest rate risk and credit risk. Typically, when interest rates rise, there is a corresponding decline in the market value of bonds. An investment in a money market may or may not be insured or guaranteed by the U.S. Government. There is no assurance that a stable net asset value of $1.00 per share will be maintained. Money market fund yields fluctuate. CD's are typically insured up to a limit and offer a fixed rate of return. They do not necessarily protect against a rising cost of living. The FDIC insurance on CD's applies in the case of bank insolvency, but does not protect market value.

SmedleyFinancial.com Update

There are many financial resources on our website available to you. We recently added a blog, which contains articles from our newsletters and other happenings at Smedley Financial. The blog is searchable so you can find articles that are related and tagged with keywords. Or if Sharla Jessop is your favorite author, you can easily find all of her articles by simply clicking on her name. Go to SmedleyFinancial.com and click on Blog or scan the QR code to the left on your smartphone to be taken directly to our blog.

"The Most Powerful Force in the Universe"

By James R. Derrick Jr., CFA

Those who understand interest, receive it. Those who don't, pay it. As investors, we believe this and we strive to go one step further. We seek to get paid interest on our interest. We call this compounding interest.

Albert Einstein called compounding interest *"the most powerful force in the universe"* and *"the eighth wonder of the world."*

S&P 500 Returns		
Time Period	How Often It's Positive	Average
One Month	42%	0.6%
One Year	53%	7.6%
Five Years	60%	42%
Ten Years	80%	115%
Twenty Years	100%	447%

Last 50 Years: June 30, 1963 to June 30, 2013

It is this mathematical force that has driven the Dow Jones Index to new highs and to over 15,000 this year.

Like everything in life there is a catch. It takes time to achieve compounding interest and it involves uncertainty.

Time

One of the first questions we ask investors is "What is your time horizon?" In other words, "When do you plan to spend this money?"

This is critical because it may take some time to realize the benefits of compounding interest. On June 30, 1993 the S&P 500 was at 450. Fast forward one year and the return was negative 1 percent. Move forward ten years and the total return was 116 percent. Twenty years later, in 2013, the total return was 256 percent!

It pays to be patient with investments. It pays to keep a long-term perspective.

Uncertainty

The stock and bond markets do not travel in straight lines. There are days when they rise and there are days when they fall. If we don't accept the uncertainty, then why would we expect to receive a reward.

As investors, we must accept some risk and we believe that over long periods of time, these markets will reward us.

In the last 50 years, the S&P 500 has gained 2,215 percent. Despite this fact, the market was positive only 42 percent of the months. That sounds like a frightening outcome, but the average return for all months was still a positive 0.6 percent.

The good news is that the longer the time period, the more likely an investor is to achieve growth. Positive returns occurred in 53 percent of the years, in 60 percent of 5-year periods, in 80 percent of 10-year periods, and in 100 percent of 20-year periods.

What can we expect in the future?

I believe there is still room for growth. I believe potential for improvement in technology, housing, energy, and employment could fuel this growth.

I expect that the further we look in the future, the more likely we are going to see opportunities to compound returns.

I believe the Dow Jones Index, which currently is flirting with the 15,000 level, is likely to reach 30,000. In my mind it is not a matter of if, but when.

What does all this mean? As we like to say at SFS,

"Now is always the best time to invest." SFS

Research by SFS. Investing involves risk, including potential loss of principal. The S&P 500 and Dow Jones represent indexes. One cannot invest directly in an index. Past performance does not guarantee future results. The opinions and forecasts expressed are those of the author and may not actually come to pass. This information is subject to change at any time, based on market and other conditions, and should not be construed as a recommendation of any specific security or investment plan.

New Car Comeback

By Rodney A. Walker, CFP®

It is amazing how the automobile has become such a staple to our society. Many Americans depend on their automobile every day, making the automobile as much a part of a family as the food we eat or the clothes we wear.

With the recession many Americans have avoided updating their cars. Polk, an automotive research company, reported the average age of U.S. small cars is now at 11 years old. Compare that to 1995 when the average age was at 8.4 years.

However, recent data is showing Americans are starting to replace that old car. CNN Money reported that car sales rose again in May of 2013 with General Motors, Ford Motor, Chrysler Group, and Toyota Motor combined for a 7 percent increase in sales.

This is great news for the economy. Increased sales usually lead to increased production, which in many cases means hiring additional workers.

At some point, we all go through the car buying experience. The process can be a roller coaster of emotions.

People select cars for many reasons: price, status, resale value, familiarity, dependability, safety, to name a few.

There is no magic formula that tells a person which is the best car for them. You should identify the factors that are most important to you. Then make research a major part of the process.

There are many companies that publish information about cars. One remarkable tool, created by Edmunds, is a calculation of the "True cost to own" or TCO of a car. This calculator is located at: www.edmunds.com/tco.html.

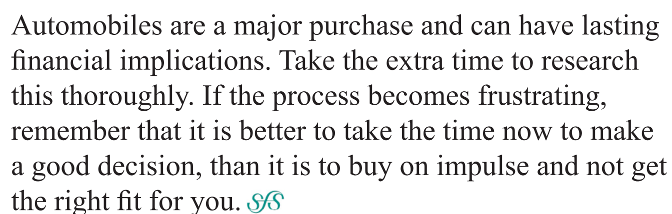
After entering the make, model, and year of a car, the calculator shows the TCO for that car over a 5 year time horizon, including the cost of depreciation, taxes, fees, fuel, insurance, maintenance, and repairs.

With this information buyers can narrow down their list of vehicles. They may find that some vehicles will be too expensive to insure, depreciate too quickly, or have too costly of repairs.

If buying used, this tool will help identify a sweet spot and it will be a little different for each make, model, and year. Some cars can depreciate quickly in first year, while others can depreciate slowly over several years. Some may have heavy repairs in year three and others not until after year five.

With all this information available online, you can feel more confident that you are getting something you want and more comfortable that it is a good financial decision.

After researching several cars comes the fun part: the test drive. This is where the rubber meets the road. Regardless of the research, if the car doesn't feel right, you should not buy it. Be prepared for the sale associates to try and sell it to you anyway. Don't be afraid to test many different models until you find the one you love. Remember that you're the one who is paying for it and should enjoy driving it.



Automobiles are a major purchase and can have lasting financial implications. Take the extra time to research this thoroughly. If the process becomes frustrating, remember that it is better to take the time now to make a good decision, than it is to buy on impulse and not get the right fit for you.

Imagine living longer than you ever thought possible.

Retirees face multiple financial obstacles. Identifying and addressing these obstacles before retiring is critical. Lifetime Income Planning can help increase the probability of providing an income that will last throughout your lifetime. Scan this QR code and read more about Lifetime Income Planning or visit the Our Services tab on our website.

College Education - A New Path

By Sharla J. Jessop, CFP®

What's happening to the college experience in America? It's changing. Not because of the campus environment, but rather because of the financial burden that faces today's students.

The cost of obtaining a college degree continues to grow at a rapid pace. So, does college still pay off? The answer is yes! However, the path taken to obtain a degree has changed from the traditional route.

Students are getting savvy about spending more for their degree. Reducing costs is a major concern. As a result, many high school graduates are starting their college experience at the local community college. They receive the same level of basic education at a fraction of the cost compared to a private institution. Once the basics are covered, they transfer to their college of choice.

Why pay more to go out of state or to attend an Ivy League? In-state colleges offer a wide variety of academic majors and activities to create a great campus experience. The in-state tuition advantage makes going to these colleges a great investment. In addition, cost conscious students are willing to live at home while going to college. This way they can save on room and board as well as the cost of food.

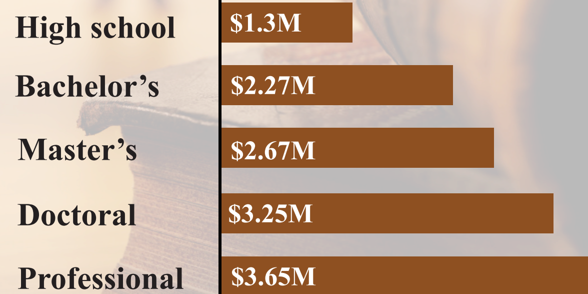
Technology has had a major impact on college education—not only in the classroom but also as an educational avenue. Some students are opting to take college courses online. Recorded lectures and study materials permit them to attend class at their convenience. This flexibility offers students the opportunity to work and attend college at the same time. For many, technology makes what used to seem impossible, possible.

Many have given up on the traditional college education and are looking for a trade specific education, something that requires less time, a lower financial outlay, and the opportunity to get started in a career while completing required courses.

It's safe to say that when it comes to education, that students are making the rules based on their individual needs and financial resources.

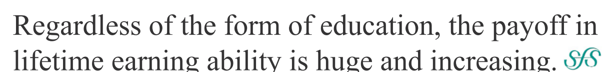
Does College Still Pay Off?

Higher Education and Lifetime Salary



The focus on various degrees is also changing. Choosing a degree has a significant impact on one's lifetime earning ability. Those obtaining engineering degrees have the potential to secure higher paying jobs throughout their lifetime than those with literature or education degrees. This being said, it's important to note that just having a four-year degree, regardless of the field of study, gives students an upper hand when it comes to lifetime earnings. Many employers are not fixated on a specific degree. They believe they can train an employee in the areas they need. However, employers view a college degree as a definite advantage. Typically, these employees know how to manage their time and resources, research information, and solve problems, making them valuable employees.

Regardless of the form of education, the payoff in lifetime earning ability is huge and increasing.



Your SFS Team

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Some of the following products and services may be used to implement the plans we create.

Investments
- Managed Accounts
- Mutual Funds
- Exchange Traded Funds (ETFs)
- Stocks
- Bonds
- Non-managed
- Alternative Investments

Annuities
- Fixed
- Variable
- Indexed
- Immediate
- Deferred

Social Security
Strategies & Options

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- Whole Life
- Universal Life
- Variable Universal Life

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- Long-Term
- Short-Term

Long-term Care Insurance
- Traditional
- Hybrid

Health Insurance
- Individual
- Medicare Supplement

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