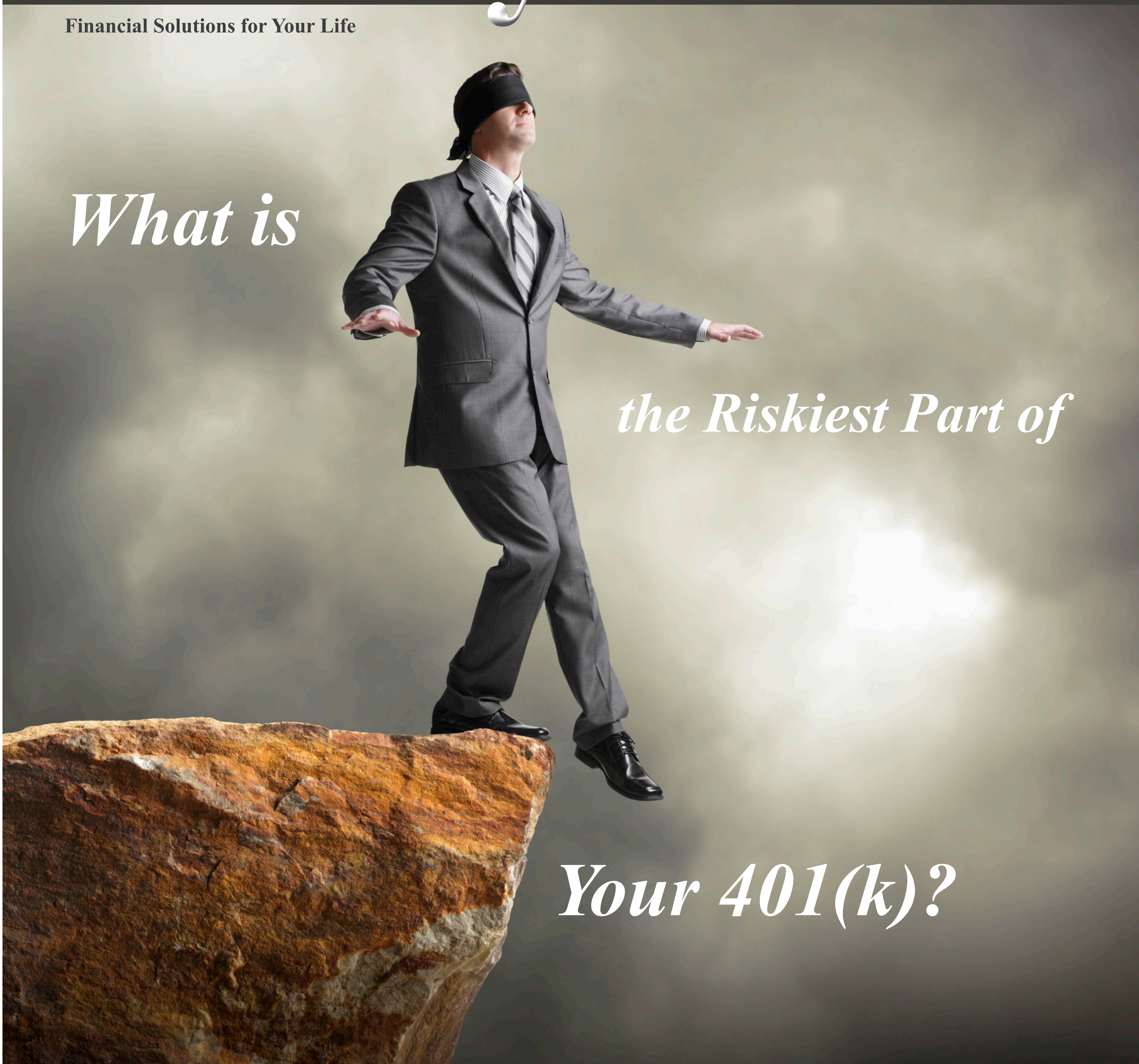
May - June 2013

Money Moxie®

Financial Solutions for Your Life



What is the Riskiest Part of Your 401(k)?

SMEDLEY FINANCIAL SERVICES, INC.®

Becoming Financially Aware

Dear Valued Clients and Friends,

"To be, or not to be" is the famous opening phrase of a soliloquy in William Shakespeare's play Hamlet. Today, some may not be asking life's greatest questions, perhaps, but are asking some of life's greatest financial questions.

For adults: Do I first get out of debt or save or invest? The answer is "Yes!" You need to concurrently do all three. Why? Because if you don't begin to save and invest, even when you have debt, the probability is extremely high that you never will begin to save and invest for your future.

For adults teaching children and grandchildren: Do I teach my children and/or grandchildren first how to spend or to save or both? The answer is "Of course!" Over the years they will need to do both, spend and save.

If you have to choose between teaching children and/or grandchildren to spend or to save, I believe it is better to teach them to spend wisely. For many years I personally believe I did just the opposite. But over time I've had a paradigm shift. I now believe it is smarter and wiser to teach children first how to spend because so many young people and young parents get into financial trouble from overspending.

The key is that, as adults, priorities must be agreed upon and decided. Priorities only work if they are followed. As always, we invite you to come in and see us or call us so that we can be of the most service and benefit to you.

Bullish Best Wishes,

Roger

Roger M. Smedley, CFP®
President

2013 Economic Update Webinar

Stocks started 2013 at an incredibly positive pace. Despite being four years into the current recovery, the economic picture continues to gradually improve. In the SFS 2013 Economic Update webinar we will discuss the key areas that will determine if further growth is coming in the second half of this year.

We will also cover the basic principles and benefits of an SFS lifetime income plan. This plan is designed to keep your retirement income safe while allowing your assets to grow.

We invite you and anyone you'd like to include to tune in.

Upcoming Webinars:
Tuesday, June 25th at 3:00 PM
Wednesday, June 26th at 10:00 AM

If you have any questions
please contact our office at (800) 748-4788.

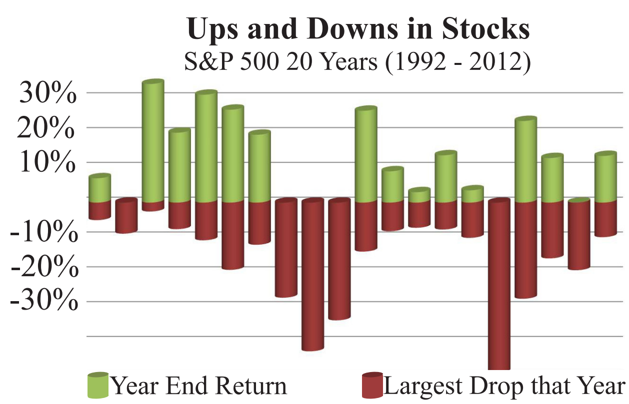
What is

the Riskiest Part of Your 401(k)?

By Sharla J. Jessop, CFP®

You have control over the most important factors that determine successful retirement savings in your 401(k). You control the contributions, investments, and withdrawals. You are the riskiest part of your 401(k)!

Inherent risk does not exist in a 401(k). Why? A 401(k), 403(b), IRA, or Roth IRA is not an actual investment. These are merely vehicles or accounts that allow us to save money for the future in a tax-preferred environment.



On average stocks have positive returns.
The challenge is having the patience to ride through the drops so you can participate in the gains that follow.

The risks come in other areas, most of which we have the ability to control. This article will discuss four of the most misunderstood risks: investment risk, active user risk, savings rate risk, and self-plundering risk.

Investment Risk

Within the 401(k) or qualified retirement account, there is generally a wide variety of investment options. These include different sectors of the market and ranges of risk, as measured by volatility. These options can be conservative, aggressive, or anywhere in between.

227%
S&P 500 Total Return over the last 20 years.

We cannot control what the world stock and bond markets do, but we do have some control over how our money is invested and how much risk we are going to take. As participants, we choose which of the investment options we will use. This requires us to know which mix of the options will meet our investment risk tolerance, emotional needs, and time-frame.

Active User Risk

We drive the level of risk. If we choose investment options that are too aggressive, we increase our risk. If we do not diversify among the options, we increase our risk. If we change investment options in response to information we hear or read, we may increase our risk.

The chart to the left shows how volatility in the market changes from year to year. Investors evaluate each year based on the ending market price. Was it positive or negative? Participants tend to forget that even though a year may have ended positive, we could have experienced significant volatility mid-term. Take for instance 2009. The market ended up 23.5 percent by year end. Looking back, it's easy to forget that during that year the market was down 27.6 percent.

These periods of volatility can cause investors to get sidetracked. They forget their long-term plans. They try to outguess the market by moving in and out. These decisions are often based on emotion, and it is generally to their financial detriment.

On the flip side, some participants remember the volatility and become risk averse. They forget that over time they have experienced more positive years than negative. They forget their long-term objectives and become too conservative.

Savings Rate Risk

We have seen a significant decline in the personal saving rate among Americans. While a 401(k) allows contributions up to $17,500 each year ($23,000 for those 50 and older), many make minimal contributions. Just like investing too conservatively, saving too little will leave many far short of living a desired lifestyle at retirement.

Continued on next page

 (Continued from page 1)

One of the benefits of a 401(k) is that you can make systematic investments directly from your paycheck. You don't have to sit down and write a check each month. It happens automatically. Not only that, the company may offer a matching contribution. That's free money! Our clients experience greater success when their savings plan is set on autopilot.

At any time, investors have the ability to increase their investment amount. Unfortunately, as raises and bonuses come, rather than increase their contributions, investors often allow the raise or bonus to be absorbed into their cash flow.

Self-plundering Risk

Participants who view their 401(k) as a savings account or emergency fund fall prey to this particular risk. They access their money by taking loans or withdrawals, diminishing the opportunity for long-term growth. Even if a participant takes a loan and pays it back, they will experience opportunity loss. This is the difference between the interest rate they paid themselves through the loan and the market returns they missed out on. The difference becomes more significant when you compound the missed opportunities over their working years and throughout retirement.

Taking early withdrawals is even more damaging. Participants not only miss out on long-term savings and compounding returns, but they will also pay taxes and penalties. The taxes are based on marginal tax rates, but the 10 percent early withdrawal penalty is exact.

For example, say that a participant has a 25 percent federal tax rate and a 5 percent state tax rate. If they were to take a $20,000 withdrawal from their 401(k), they would lose $8,000 (40 percent) to taxes and penalties, netting a meager $12,000. Suddenly that withdrawal doesn't sound so enticing.

There are many misconceptions regarding risk when it comes to 401(k)s. We want to make sure you are well informed about the benefits and risks in these accounts.

As we see it, a 401(k) is an ideal vehicle that provides us with a tax-preferred way to save for the future. Will a 401(k) be enough to support someone in retirement? Probably not. While most companies offer a company-match to 401(k) participants, many no longer offer pension plans. This makes it paramount that we save more on our own for retirement.

Our investment decisions, savings habits, and our willingness to stick to a plan can prevent us from increasing our risks. Working with one of our wealth consultants can help you make the most of your 401(k) opportunities and avoid some of these risks. Having a plan and making educated choices is just the beginning.

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.

Lessons of the Bitcoin

and Other Bubbles

By James R. Derrick Jr., CFA

Bitcoin is a new form of money. It is 100 percent electronic and it just exploded in popularity. In just 6 weeks a Bitcoin went from $25 to $250. What an exciting time for Bitcoin speculators. Why even question it? This is a new electronic age and the possibilities are endless.

Not so fast! On April 10, 2013, the Bitcoin imploded. In just a few hours the value of a Bitcoin fell from $266 to $76.

What is the problem with Bitcoins? Where do we begin? The synthetic currency has no intrinsic value. It represents ownership of nothing. It is not backed by any government. It is not a commonly accepted form of payment. Its owners could be hacked and robbed, or it could be replaced by a more popular made-up currency. The Bitcoin mania may turn out to be one of the most spectacular bubbles of all time.

What should we watch for when trying to detect a bubble?

(1) Insane predictions (with or without good explanation)
(2) Excessive attention as too many people discuss and act like experts
(3) Repeated use of the phrase "this time is different"
(4) Deviation from normal supply and demand because of manipulation

The U.S. stock market has had a string of new highs over the last few months. This in and of itself is no cause for alarm. Hitting new highs is exactly what stocks are supposed to do. That is how investors make money. (Read "Patience is a Rewarding Virtue" from the previous issue of the *Money Moxie*.)

How do we know if stocks are in the process of forming a bubble? There are a few simple reasons why investors should not be overly concerned at this point.

The term bubble was first used in the early 1700s to refer to wild price fluctuations associated with the "South Sea Bubble." Another famous episode was the Dutch tulip mania of 1637. In recent history, we have survived the dot com bubble, the real estate bubble, the oil bubble, and possibly the gold bubble.

Why are we so prone to pricing bubbles? Will they ever end?

Greed: The idea that $100 could turn into $150 tomorrow creates fans. That excitement leads them to forget that it is one of the most volatile ways to gamble. Given that it has no real value, it may be more likely to fall 50 percent than rise 50 percent.

Conformity: When opinions converge on an incorrect idea, we call it groupthink or herd mentality. When money is involved, we call these bubbles, and they are dangerous because they can be costly.

(1) Stocks represent ownership of real companies that have value and can grow in value
(2) Valuations of companies compared to earnings are near historical averages
(3) Fundamental improvements in the economy are taking place that support a rise in the market

Bubbles involve a high degree of risk. One way to avoid unnecessary risk is to watch out for investments that don't have real value or have deviated too far from their true value. Those values are derived from how much the next person is willing to pay.

On the other hand, stocks market gains can benefit everyone who participates. Stocks represent ownership of something real. Time has shown that carefully investing in a diversified portfolio can yield positive results over time. SFS

Remodeling Your Home Right

By Rodney A. Walker, CFP®

It is unavoidable. At some point, remodeling your home will cross your path. You may remodel to get more value from your home when you sell it. You may wake up one day and decide your 40-year-old shaggy carpet has just become too unsightly. Your reason for fixing up your home is a critical factor to determining how to best spend your remodeling money.

According to *Remodeling Magazine,* remodel projects typically capture only 61 percent of their cost. This is the highest this figure has been in nearly 3 years. All remodeling projects should increase home values. If you might sell the home in the next few years, then you must focus on the projects that are worthwhile financially.

The most popular areas to remodel are kitchens and bathrooms. During the planning phase, consider the value that each of these contribute to your home. For example, if a home is valued at $350,000 and the kitchen represents 15 percent of the price of the home ($52,500), don't spend $55,000 on remodeling the kitchen.

Be careful with additions. They are expensive and in some cases might make your home harder to sell. Try and keep the home's square footage similar to that of homes that surround the area.

It might be more cost effective and a better investment to sell your home and move to another neighborhood where the home you want will be similar to those around it.

Don't be afraid to communicate with realtors and appraisers in your area. They know what buyers want and don't want. They can give great advice on what to remodel to increase value and help attract potential buyers. Appraisers will be extremely informative even if you have no plans to sell. They can give you ideas on how to keep your home current and modern.

A remodeling budget is absolutely necessary. Make a list of improvements you would like, and assign estimate prices. Consider if any should to be done together and then prioritize.

Get multiple quotes for every major project. Bids for jobs vary wildly. You may be able to save thousands on one project.

Don't get carried away. Remodeling is stressful enough. Going way over budget will add a lot more stress. A great way to save a lot of expense is doing some of the work yourself. The Joint Center for Housing Studies of Harvard University indicated in 2011 that the average cost of a minor kitchen remodel by a professional was $4,532 compared to a do-it-yourself cost of $1,490. A minor bathroom remodel by a professional was $2,160 while a do-it-yourself bathroom was just $816. However, make sure you know your limits and get help when you need it.

Expect the unexpected. With a remodeling project, don't forget to be flexible. Leave part of your budget aside in case unexpected problems arise. You need a reserve amount to fall back on without jeopardizing your financial future.

Whatever the project, enjoy the process. Remember the end goal and how great the remodel will be when it's complete.

Can We Really Be Energy Independent?

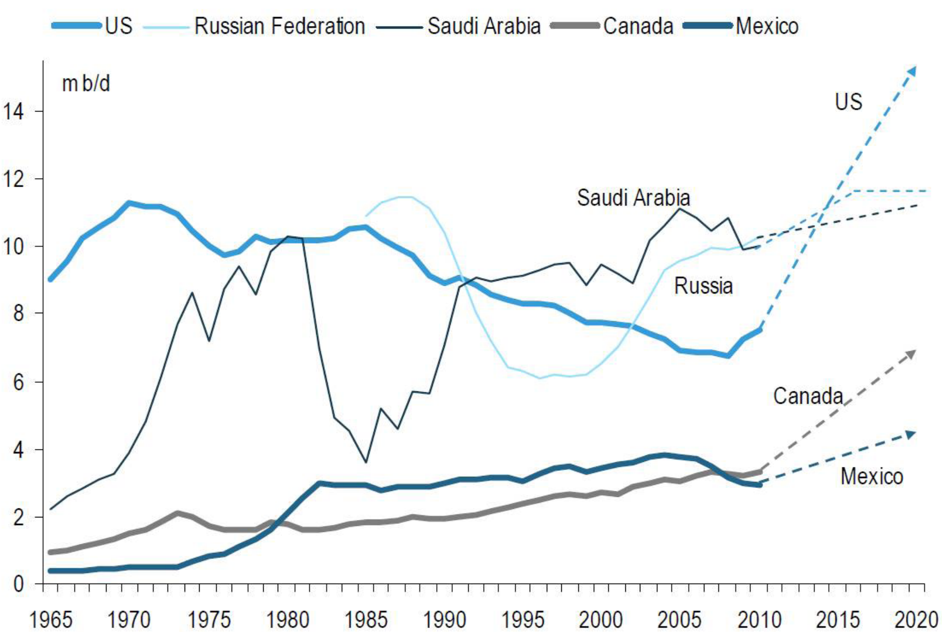
By Mikal B. Aune, CFP®

Major developments that have led to a boom in the energy industry have placed the United States on track to becoming the largest energy producer in the world, surpassing Saudi Arabia and Russia.[1]

In the State of the Union address, President Obama indicated that "we're finally poised to control our own energy future. We produce more oil at home than we have in 15 years."[2]

According to a Citigroup report titled Energy 2020: Independence Day, "U.S. oil and gas production is evolving so rapidly—and demand is dropping so quickly—that in just five years the U.S. could no longer need to buy oil from any source but Canada."

U.S. Energy Production is On the Rise



Source: BP, Citi Investment Research and Analysis

The International Energy Agency predicts that "the United States will overtake Saudi Arabia to become the world's biggest oil producer before 2020, and will be energy independent 10 years later."

New technologies like hydraulic-fracturing, or "fracking," have made the extraction of oil and gas from shale rock profitable.

In Utah, towns like Vernal and Roosevelt have had an influx of workers as oil companies race to develop new oil wells. The energy boom in Utah is just a microcosm of what is happening in the nation. More energy production creates jobs, which pump money back into the economy. It reduces our reliance on foreign countries, which allows us to control our own future.

Unfortunately, energy independence by itself may not lead to lower gas prices. Canada is completely energy independent, yet their gasoline costs about the same as ours. This is because there is a global market for oil and there is one price at which it is sold.[3] We may only see a decrease in prices if the cost of oil drops globally.

Fracking also gives us access to vast natural gas reserves. Some estimates indicate we have over a 100-year supply if consumption remains at 2010 levels.[4] Higher supply and lower prices are leading to more manufacturing in the United States.

Many power companies are switching to natural gas to fuel their electric plants. Natural gas burns cleaner than coal. Therefore, it is easier for power plants to meet emission standards. This abundance of natural gas has also made energy bills more palatable for cooling in the summer and heating in the winter.

The potential benefit of energy independence is not without its hurdles. Environmental concerns, limited infrastructure, and water restrictions have slowed progress. Despite these hurdles, the race towards energy independence sprints forward. Energy independence has become a reality that may improve the economy and your pocketbook.

(1) Mark Thompson, "U.S. to Become Biggest Oil Producer - IEA," *CNNMoney*, 11/12/12.
(2) http://www.whitehouse.gov/the-press-office/2013/02/12/remarks-president-state-union-address.
(3) David Kestenbaum, "Energy Independence Wouldn't Make Gasoline Any Cheaper", *NPR*, 10/26/12.
(4) Gerri Willis,"What Obama Can't Take Credit For in SOTU," *Fox Business*, 1/24/12.

Your SFS Team

Smedley Financial Services, Inc.® is an independent registered investment advisory firm. We work only for our clients. Our wealth managers have the flexibility to implement our financial plans, retirement plans, and income distribution plans using the investment strategies that work towards each client's needs, risk tolerance, and goals. We are never in a position where we are required to recommend a product we do not believe best serves the needs of our clients. We work with individuals, businesses, and family estates.

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

Life Insurance
- Term
- Whole Life
- Universal Life
- Variable Universal Life

Disability Insurance
- Long-Term
- Short-Term

Long-term Care Insurance
- Traditional
- Hybrid

Health Insurance
- Individual
- Medicare Supplement

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