May - June 2015

Money Moxie®

Financial Strategies For Your Life

Rising Rates Will Impact

Your Income
Your Spending
Your Investments

Since 1982

Smedley Financial Services, Inc.®

Comfortable Versus Competent

Dear Valued Financial Partners and Friends,

It's one thing to feel comfortable making financial decisions before and during retirement. It's quite another to be financially *competent* during those same time periods.

Working with retirement dollars just before and during retirement may be successfully compared to hypothermia. In the final stages of hypothermia people often feel calm and comfortable. Quoting from the Mayo Clinic's official website, "*Someone with hypothermia usually isn't aware of his or her condition because the symptoms often begin gradually. Also, the confused thinking associated with hypothermia prevents self-awareness. The confused thinking can also lead to risk-taking behavior.*" People making it to retirement may share a similar state of mind.

Spending-down assets may seem easy, *but financial decisions made before withdrawing even $1 from retirement accounts or signing employer or Social Security forms may well determine how long your money will last.* (Neither Social Security's nor your employer's representatives will have all the facts about your total financial picture.)

We could share dozens of stories about costly financial mistakes and risks that didn't need to be taken. In retrospect, many of those financial decisions affected both the husband and the wife. *Ultimately, most of those uninformed decisions had the greatest impact on the quality of life of the surviving spouse*. Here are other areas of concern.

Overconfidence: Just like entitlement is the first step in theft or fraud, *overconfidence* usually leads to unwise financial decisions. Retirement decisions are often a one-time-only proposition, without a chance for a do-over. Retirement planning can be complex and many things can go wrong. Our experience may help eliminate or reduce these costly decisions.

Enamorment: You have worked hard to build your retirement nest egg, but may have never worked with the *size* of the dollars in your nest egg. Enamorment with those very dollars could lead to your financial downfall. Even if your dollars have reached a critical mass that will sustain your lifestyle, beware! We all know of lottery winners, professional athletes, and others who have earned or inherited millions of dollars only to have that money gone in just a few years.

Too many people make financial decisions based on their coworker's or neighbor's situation. We help you make financial decisions based on your unique financial situation. Our *competence* can help you feel *comfortable* and *confident*. Let us help you. *Remember, your financial success is our passion!*

Bullish Best Wishes,

Roger

Roger M. Smedley, CFP®
President

Attend Our Lunch And Learn Workshop

Are you ready for market changes? Do you want to better understand your personal tolerance to market risk? Come to one of the SFS lunch and learn workshops and find your risk score.

Workshop dates: **Tuesday, June 16th at 12:00** **Tuesday, June 30th at 12:00**
Tuesday, June 23rd at 12:00 **Tuesday, July 14th at 12:00**

Workshops at our new office: **102 South 200 East, Suite 100, Salt Lake City – Free parking and lunch provided.** Seating is limited and RSVP is required. **Call 800-748-4788** for more information and to reserve your seat.

Rising Rates Will Impact

Your Income
Your Spending
Your Investments

By James R. Derrick Jr., CFA®

Federal Reserve (Fed) members are making plans to raise interest rates and it is going to affect your wallet! Individuals do not borrow from the Fed, so you may be wondering how it could impact you. The Fed's rate increase will start economic ripples that are going to hit your income, your spending, and your investments.

The Fed

The Fed was established by Congress and signed into law by President Woodrow Wilson on December 23, 1913. It has two objectives: seek maximum employment and maintain stable prices. (It is a highly sophisticated organization with over 300 Ph.D. economists.)

In simpler terms, the Fed is less like a surgical tool and more like a hammer. A hammer is blunt and its impact can be powerful. It doesn't perform a lot of functions, but it is extremely useful for the right problems.

The Fed has power to perform a limited number of actions. It can strike hard and fast because it does not need congressional approval and its officials are not elected. The Fed is not focused on individuals as its actions have worldwide implications.

Why the Fed Changes Rates

The purpose of changing rates is to influence decisions that will help control unemployment and inflation.

In a slow economy: If spending decreases then companies become less profitable and may choose to layoff workers, which will further decrease spending and profitability. The Fed will try to reverse the cycle by lowering rates. When the Fed rate changes, other rates follow. This may encourage spending as it makes it cheaper to borrow for education, cars, homes, etc.

In a healthy economy: When the economy is thriving and the job market is good there is a lot of pressure on companies to raise wages. Confident consumers will spend more even if prices rise a little. When prices increase beyond a "healthy rate" of around two percent, the Fed gets worried. It may raise rates to decrease borrowing and spending.

Rates will Rise

Rates have been low since 2008 when the Fed brought short-term rates down near zero percent. Those who were able to borrow benefitted from low interest rates. Right now the Fed is not worried about price inflation, but it does want to get rates back up to "normal."

Your Spending

The result will be higher rates when you take out a mortgage or get a loan for a new car. Anything with a variable rate, like some credit cards, will probably see an increase. Debt is going to get more expensive. Paying debt off and living within your means will be important.

*Please see **IMPACT** on next page*

IMPACT
Continued from previous page

Your Income
The labor market is improving. Many companies have announced plans to raise wages for workers, but the expected improvement has not yet hit. It's coming!

Wage growth was just around 2 percent in the last year and the Fed believes the country is headed towards 3.5 percent. This is good news for workers and it gives the Fed confidence to slowly raise rates to normal. However, if wage growth is too high the Fed will become uncomfortable and will really drop the hammer down—acting quickly, with force just to make sure prices don't get out of control.

Your Investments
Back in 2013, Ben Bernanke, then Chairman of the Fed, suggested the Fed might end (taper) its stimulus. The stock and bond markets went crazy! The event even has a name: "The Taper Tantrum!" In the end, the Fed continued its stimulus. The Fed is unlikely to catch investors by surprise when it finally does raise rates. Its members have been quite open about its plans and the economy is able to withstand a very gradual rise in rates.

Investors should expect more volatility, but in spite of the choppiness, the returns should still be positive. That's what we have seen in the past.

Prepare Your Personal Economy
Make sure you are saving some income for rainy days even if it means cutting back on a little spending. Make sure the risk you are taking in your investments matches your ability and willingness to handle it. Finally, align your portfolios for the future.

Will the Fed hike rates in September? Will it be just 0.25 percent? How long will the Fed wait to make its next move and will it go too far too fast? The answers will be "data dependent," a phrase the Fed members have been using lately. It will depend on U.S. economic growth, wage growth, and price inflation.

A gradual economic improvement will allow time to digest the news and act slowly—waiting months between each rate increase to see the impact. There are no signs of overheating for now. If that changes, the Fed is not going to sit idle. It would have to act. After all, to a hammer, everything looks like a nail.

Research by SFS. Data from public sources. This is not a recommendation to purchase any type of investment. Investing involves risk, including potential loss of principal. The S&P 500 index is often considered to represent the U.S. market. 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.

Are You Ready To Go-Go

Retirement is classified in three stages, Go-Go, Slow-Go, and No-Go years. Each stage offers unique financial planning opportunities. One planning opportunity is structuring retirement plans to help retirees enjoy as many of the Go-Go years as possible before health and age prohibit.

The Go-Go years are the honeymoon stage of retirement, and like most honeymoons, they will be filled with adventure and learning opportunities. Retirees want to pursue passions and travel, which will require additional money. If not planned for, these extra expenses could cripple a retirement plan.

Luckily, there are ways for retirees to safely manage the Go-Go years without adding excess pressure on the second and third stages of retirement. I will share two

What's Your Risk Number?

By Sharla J. Jessop, CFP®

Potential Long Term Return 8.3%

Tolerance to market risk can be a tricky thing. When markets are growing it is easy to believe that we are more tolerant of risk than we may actually be. For example, if an account grows by 10 percent we feel good about the growth; that is until we see that one area of the market grew by 20 percent. Suddenly, we feel slighted. In response we reposition investments to take on more risk. This is a common mistake. Risk tolerance should be based on our willingness to lose money. After all, who has a limit on how much money they are willing to make?

Smedley Financial has a new tool that helps our clients identify their risk tolerance. We use this tool to confirm your investments are properly aligned with your actual tolerance for risk. It encompasses all investments regardless of where they are held.

Through a 5 minute quiz covering topics such as portfolio size, top financial goals, and what you are willing to risk for potential gains, we will pinpoint your exact Risk Number.

This technology empowers us to make sure the Risk Number of your portfolio, including all investments, matches your personal Risk Number.

Taking the quiz is easy and can be done in the privacy of your home or office, on a computer or mobile device, at any time. We email you the link and after you have completed the quiz we will see the result. By pinpointing your Risk Number we can analyze your personal portfolio to verify everything is on track.

Call today and request your risk tolerance analysis.

?

By Rodney A. Walker, CFP®

techniques used to assist retirees in managing the Go-Go years without depleting their nest egg.

First is a carve-out account. The carve-out takes a block of money from a portfolio and places it in a special account away from assets that will be used for all stages of retirement. This technique is effective for retirees that like the freedom to choose how much and when they will withdrawal money from the account. Once the account is depleted it is gone. Retirees need to adopt a mindset of slow and steady spending. Pace travel and extra spending to allow the carve-out account to provide many years of excitement to retirement.

Second is front loading payments for the Go-Go years. Front loading is where retirees have an extra amount of money deposited into an accessible account each month for a certain number of years. This is effective for retirees that enjoy knowing they have extra money each month and can plan ahead. Retirees need to be prepared for when these extra payments will cease. No one likes to be forced to cut back on spending.

Both techniques help retirees enjoy their Go-Go by giving a structure to spending. Identify which technique works best for you and start living your Go-Go years.

Indexing: Best Thing Since Sliced Bread?

By Mikal B. Aune, CFP®

There has been a lot of buzz lately about indexing, and for good reason. Statistics show that many actively managed investments don't beat their benchmarks.[1] So, should we all invest solely in indexes? To answer this question, let's look under the hood to get a deeper understanding.

Let's say that the U.S. economy is like an engine made up of 500 parts. Each part is important and together they create motion, either forwards or backwards.

The S&P 500 is most widely regarded as the engine of the of the U.S. economy. This engine is made up of 500 stocks like GE, IBM, Apple, and Chevron. If most of these stocks are heading up, the economy is moving forward. The converse is also true.

For most people it would be too complicated to go out and buy 500 parts and build an engine from scratch. We go to a dealership to buy a whole engine already assembled.

The investment challenge is that buying all 500 stocks in the exact quantity of the index is impractical for most and one cannot buy an index directly. An index investment can assemble one portfolio that resembles the 500 parts of the index.

When you buy an index fund you usually get several important benefits such as clear goals, diversification, and reasonable fees.

The objective and implementation should be clear. One does not have to spend hours researching prospectuses to determine exactly what is being held.

When buying an engine, one gets the parts. This diversification reduces your risk because if one stock drops another may do better. With diversification there is a better chance of making money over long periods of time.

Passive investing requires little tinkering under the hood. This helps keep fees reasonable.

Like any investment there are drawbacks: risk, investor behavior, and inefficient markets.

Index investments behave almost exactly like their indexes. This seems so simple that it shouldn't need mentioning. However, many people only look at the potential return without contemplating the risk.

A good illustration is the "Great Recession" when the S&P 500 went down by 57 percent from October 2007 to March 2009. People indexing only in the S&P 500 lost over half of their 401(k) and couldn't retire as planned. This greatly impacted people planning to retire who were taking too much risk.

Research shows that individual stock investors have significantly underperformed the S&P 500.[2] This is mostly due to investors buying and selling at the wrong time. Just holding an index investment does little to solve this problem and accomplish your goals.

Indexing works best where markets and information are efficient. However, many investors believe that when searching for worthwhile opportunities in other places where information is scarce, it may be worth it to hire an expert to gather more information.

Indexing has become popular and new indexes are introduced all of the time. Not only can you find indexes tracking "the market" but also segments of the market like tech stocks, international markets, and even commodities like oil.

Please see ***INDEXING*** *on next page*

INDEXING

Continued from previous page

The success of indexing might also be its downfall. "Investing theories run in cycles. A success becomes a fad and a fad becomes a failure. Smart people bet against fads."[3]

One must ever be on the watch to ensure they aren't just following a fad, but that they are using a strong investment strategy built for the current market environment and their own risk tolerance.

What do you do if your engine isn't working perfectly or you want some improvements? You can either do it yourself or go to a mechanic. In the investing world, the mechanic is an active manager.

That active manager is going to replace the parts he/she thinks are hindering performance with other parts designed to boost performance.

Smedley Financial specializes in designing efficient portfolios for the current market environment. We don't just build engines, we build cars. We typically use indexing to be the engine of a portfolio but then we use other investments to build the remainder of the car.

If you would like to know if your engine is tuned correctly and your car is ready for the road ahead, please contact us for a free review. SFS

1. "The Case for Index-Fund Investing," *Vanguard*, March 2015. https://personal.vanguard.com/pdf/s296.pdf
2. Dalbar Study
3. "Is Vanguard Too Successful?" *Forbes*, January 21, 2015.

Research by SFS. Data from public sources. This is not a recommendation to purchase any type of investment. Investing involves risk, including potential loss of principal. The S&P 500 index is often considered to represent the U.S. market. One cannot invest directly in an index. Past performance does not guarantee future results. Diversification does not guarantee a profit or protection from losses in a declining market. 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.

Summer Fun!

By Nashaela Lyons

Everyone should have a "bucket list." On mine, you will find "swim with dolphins in a tropical paradise." Last summer, I visited a luxurious resort right on a Mexican beach and I swam with dolphins! Below are tips I used for my magical vacation:

1. Create a vacation fund
Every month put some money into your vacation fund. Consider an automatic transfer and when you come across extra money (tax return, bonus, or inheritance), add it to your vacation fund.

2. Create a trip budget
- Transportation - airfare, rental car, parking, gas, taxis
- Lodging – room rate and hotel taxes
- Food – groceries, meals, drinks, and snacks
- Entertainment – tickets and fees for national parks, amusement parks, museums, excursions, and other events
- Gifts and souvenirs
- Currency conversion (if traveling internationally)

3. Travel discounts
Spend time looking for deals on hotels, airfare, excursions, etc. Don't be afraid to ask for additional discounts before booking. Tell them you are shopping for the best deal and let them compete for your business.

4. Expect the unexpected
Flights get delayed, weather changes, credit cards get lost. Be aware and set aside 10 to 15 percent of your travel budget for emergencies or surprises.

You don't want to spend the next twelve months paying for last year's vacation, long after the fun has faded.

If you can't afford a dream vacation this year, you can still enjoy summer! You can cut costs by taking advantage of attractions closer to home. Spending time with those you love without spending a lot of money may sometimes bring bigger rewards than an expensive splurge. With a little extra planning you can make your summer one to remember and make memories that will last a lifetime.

Your SFS Team

Smedley Financial Services, Inc.® is an independent registered investment advisory firm. We work for our clients. Our wealth managers have the flexibility to implement our financial plans, retirement plans, and income distribution plans using the strategies that work towards each client's needs and goals. We work with individuals, businesses, and family estates. We provide financial solutions for your life.

Wealth Accumulation
- Managed Accounts
- Indexed Investing
- Mutual Funds
- Exchange Traded Funds (ETFs)
- Stocks and Bonds
- Alternative Investments

Family Protection
- Term Insurance
- Whole Life Insurance
- Universal Life Insurance
- Variable Universal Life Insurance

Retirement
- Social Security Maximization Strategies
- Medicare Supplement
- Guaranteed Income (Annuities)
- Lifetime Income Planning

Disability (Injury)
- Short-Term Disability Insurance
- Long-Term Disability Insurance

Elder Care
- Long-Term Care Insurance
- Hybrid LTC

Self Employed
- Health Insurance
- 401(k) Plans

Roger M. Smedley, CFP®
President & CEO
Founded 1981

Sharla J. Jessop, CFP®
Vice President &
Private Wealth Consultant
Joined 1994

James R. Derrick Jr., CFA®
Vice President &
Chief Investment Strategist
Joined 2000

Rodney A. Walker, CFP®
Private Wealth Consultant
Joined 2001

Nashaela Lyons
Client Service Specialist
Joined 2013

Shane P. Thomas
IT Specialist &
Advisor Relations
Joined 2003

Mikal B. Aune, CFP®
Private Wealth Consultant
Joined 2006

Lynette S. Watts
Client Service Specialist
Joined 2000

Smedley Financial Services, Inc.®, a registered investment advisory firm since 1982
102 South 200 East, Suite 100 P.O. Box 4133 Salt Lake City, Utah 84110-4133
801-355-8888   800-748-4788
info@SmedleyFinancial.com
SmedleyFinancial.com

Securities offered through Securities America, Inc. Member FINRA/SIPC. Advisory services offered through Smedley Financial Services, Inc.®
Roger M. Smedley, Sharla J. Jessop, James R. Derrick, Rodney A. Walker, Shane P. Thomas, Mikal B. Aune, representatives.
Smedley Financial Services, Inc.® and Securities America, Inc. are separate entities.
Certified Financial Planner Board of Standards, Inc. owns the certification marks CFP®, CERTIFIED FINANCIAL PLANNER™ and federally registered CFP (with flame design) in the United States, which it awards to individuals who successfully complete CFP Board's initial and ongoing certification requirements.
MONEY MOXIE® is published by Smedley Financial Services, Inc.® Copyright 2015 Smedley Financial Services, Inc.® All rights reserved.