May - June 2014

Money Moxie®

Embracing Average

It's Better Than You Think

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Unfinished Business - Stock Market Volatility?

Dear Valued Clients and Friends,

In the last issue of *Money Moxie®* (March-April 2014) I wrote about understanding stock market volatility to enable us to better manage our emotions particularly through stock-market down cycles. There's more I wish to add.

Recall that between 1947-1999 stock market drops of greater than 2 percent occurred about every 111 calendar days or about three times per year. More recently, between 2000-2012 stock market drops of greater than 2 percent occurred about every 26½ calendar days. That's almost 14 times per year.

Today the news of a stock market drop of more than 2 percent gets considerable media play, you know, like 14 times per year. On the other hand, the stock market almost never climbs 2 percent in a day, but still manages to outperform other asset classes over the long run.

One dear couple called us on March 4, 2009, and wanted to get totally out of the stock market. They could no longer emotionally tolerate the market's volatility. Three market days later, on March 9, 2009, the S&P 500* did an about-face and proceeded to climb 67.62 percent in a little over 13 months (March 9, 2009 through April 21, 2010).

The opportunity cost of missing market upturns can negate the very reason you invest in the stock market. Simply put, the opportunity cost, the forfeited dollars, is very expensive tuition for making major money mistakes. Learning to tolerate stock market volatility is crucial to your long-term financial success.

What does all of this discussion on stock market volatility mean to you? It means, as Craig Bolerjack, the popular play-by-play announcer for the Utah Jazz, would say, "It's time to Buckle Up!" It means you should stay the course by not panicking 14 times per year.

Bullish Best Wishes,

Roger

Roger M. Smedley, CFP®
President

Could You Unknowingly Disinherit Your Kids?

By Sharla J. Jessop, CFP®

The answer is yes! Most people spend countless hours determining how their money will be divided among their family and loved ones. They even go so far as to have it formalized in their will or trust.

Unfortunately, when it comes to naming the beneficiaries on 401(k) and other retirement accounts, most people spend only minutes making this important decision. Furthermore, many have not reviewed the decisions in 10, 20, or even 30 years. A lot can change during that period of time (additional children, death, divorce).

Retirement accounts are distributed based on who is listed on a company's signed-beneficiary form. Even if you have elected to have your assets divided a specific way in your will or trust, if your 401(k) does not match it will not happen.

Reviewing your beneficiary designations can prevent an undesirable outcome at your death. If you have questions or need help in reviewing your beneficiary designations give our office a call (800) 748-4788.

Embracing Average

By Sharla J. Jessop, CFP®

In what area of your life is it okay to shoot for average? In your financial life! In all other areas we strive to be above average. Pushing for higher achievement makes sense when it comes to career opportunities, participating in sports, or setting goals. When it comes to investing, however, reaching for above-average returns can be financial madness.

Striving to get the highest return possible at any risk can be devastating to investment portfolios. It encourages investors to take on too much risk without properly assessing the downside possibilities. It emboldens investors to believe they can predict a future outcome when in reality no one can accurately or consistently predict future market movements.

When analyzing portfolio returns, investors often use market indexes as the benchmark by which they measure their personal investment performance. If they outperform the chosen index they feel empowered. In contrast, if they underperform that index, they feel they are failing financially. Standards for measuring long-term portfolio returns are much more complex. Investors may be well served when they embrace average.

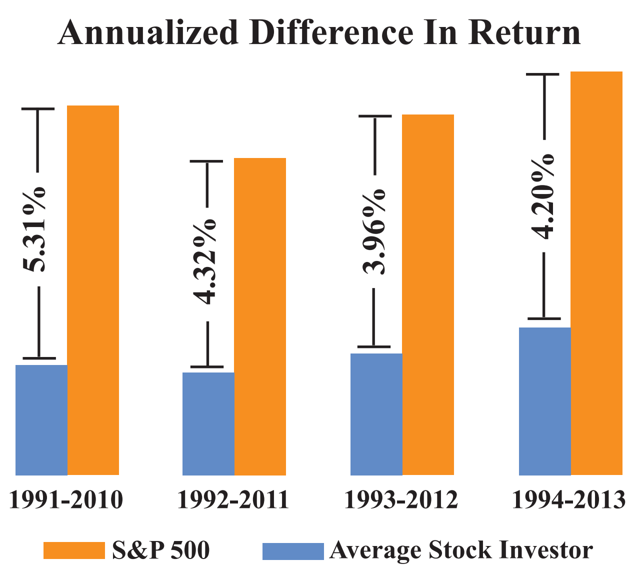
Emotional impact to market volatility varies widely and can be as diverse and unique as we are as individuals. Having said that, similarities exist in the ways investors react.

Throwing in the towel

Volatility tempts even experienced investors to give in at the wrong time. Take for instance an investor who was spooked by the bear market of 2008. Many investors fled the market for good, seeking fixed, low-yielding options for their money. During that bear market period, from October 9, 2007, through March 9, 2009, the S&P 500 lost 56.78 percent. Hypothetically, if after suffering this large loss, the investor moved to an investment growing at 3 percent, it would take more than 28 years to break even.

Concentrating investment focus

Investing in one area of the market that represents the same sector does not reduce risk. Concentrated sector allocations may cause investors to fall behind when the market heads down. For instance, the S&P 500 represents 500 American large capitalization stocks. Even though there are 500 stocks, they are all part of the same market sector.



A portfolio concentrated in one sector results in greater risk. When that sector of the market heads south, you may quickly forget how great it was on the upside. You have heard us say that when it comes to money the pain of losing is greater than the thrill of winning. As such, a 40 percent loss has a much greater impact on a portfolio than a 40 percent gain. Assuming an investor suffered a loss equivalent to the S&P 500 during the 2008 bear market, he or she would have to gain 131.35 percent, and it would have taken four years to break even. Let's say that again. For over four years their investments were still below the high point of October 2007.

Timing the market

When left to their reactive behaviors, investors often sabotage their investment performance. Dalbar has long studied the results experienced by investors. Year after year, we see the same information reported. Investors are not able to outperform, let alone keep up with, market returns. This is believed to be the result of chasing returns, becoming overly cautious during periods of increased volatility, and consequently making poor decisions at inopportune times. Outperforming the market every year is an unrealistic goal. If an investor

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is consistently changing strategies or investments in an effort to get the best return, he or she is missing the value of average returns over longer periods of time. The chart illustrates how investors are falling short of the market. To put it in perspective, a 3 percent increase in return, over 24 years, will double your money.

Embracing average returns

It's not exciting or flashy, but consistent returns are important in reaching financial goals. This can be accomplished through diversification. As an example, a portfolio with 60 percent allocated to the S&P 500 and 40 percent allocated to fixed-income has a greater chance of smoothing out big market swings. Generally you will not have the hottest returns nor will you suffer the greatest losses. When compared to the same 2008 bear market, the hypothetical 60/40 portfolio would have lost only 35 percent compared to the S&P 500's 56.78 percent loss. The break-even point comes at just shy of two years as compared to over four. This type of diversified portfolio does not prevent losses but it does help reduce market risk. The result is average returns.

When it comes to investing, the most important factor should be reaching your financial goals with a reasonable amount of risk based on your objectives and risk-tolerance. We believe that if investors avoid the emotions that push them to chase high returns and remember that consistency pays in the long run, they will be better positioned to meet their investment expectations and concurrently their goals.

If it has been awhile since you have reviewed your portfolio, investment strategy, and financial goals, we encourage you to meet with one of our wealth management consultants. Call us to schedule an appointment to meet in person or speak over the phone (800) 748-4788.

SFS Employees' Favorite Apps

Audible	**Documents To Go®**	**Find My iPhone**	**Flixter**	**Goodreads**
Books	Business	Utilities	Entertainment	Books
Lumosity	**My Fitness Tracker**	**myWOD**	**OverDrive**	**PDF Maps**
Education	Health & Fitness	Health & Fitness	Books	Navigation
Pro HDR	**Ski Tracks**	**Snapseed**	**Spotify**	**TED**
Photo	Health & Fitness	Photo	Music	Education

3 Myths Of The Market

By James R. Derrick Jr., CFA

Every year we find reasons to question the future prosperity of America. We wonder whether investors' prospects are dimming. Last year, our minds were occupied with government slowdowns and shutdowns. This year, we are more focused on the question, "*Has the stock market come too far too fast?*" While the problems are real, they should not derail us from our plans. Most difficulties are overcome and the myths of the market are not true. Keeping proper perspective will help us make better financial decisions.

Myth #1: Investing is rigged

The U.S. stock markets are the most efficient in the world. All investors have the potential to build their wealth as they participate in it. The longer we invest in a diversified portfolio, the more likely we are to have success.

There is a related question, "*Is investing like gambling?*" The clear answer is no. When we invest we purchase part of a company (stock) or a promissory note (bond). We become owners of these and we have rights to future cash flows that may come from them. The risks and outcomes are determined by the free market. If a company is successful then all investors that own it have the potential to benefit.

This does not mean that markets are perfect. There have always been some who try to take advantage of others. However, investors become their own worst enemies when they make poor financial decisions. Saving too little and trading too often are two of the most common mistakes. Save sufficiently and invest wisely to attain your goals.

Myth #2: America is broke

The United States is in better shape now than it has been for many years. The unemployment rate is down to 6.3 percent and consumer confidence is up. Workers are expecting raises, and according to surveys of executives it looks like it may actually happen this year. Household debt is at record-low levels and corporations have more cash than ever.

Some people may argue that we don't make anything in this country. This is false. U.S. manufacturing is up 22 percent since 2009 and near record levels. We have an abundance of natural resources, educated workers, and innovation. We have laws to protect and promote business.

Worries over ballooning government debt (over $17 trillion) are diminishing for now. The expanding U.S. economy has led to greater tax revenue (up 8 percent) and a lower deficit ($306 billion). These numbers may not sound great. We still have a long way to go to reach a surplus so we can pay off some debt, but these are the best numbers since 2007. The future appears brighter.

Myth #3: A market crash is imminent

Herbert Stein famously said, "*If something cannot go on forever it will stop.*" We all know that when the market stops climbing, it can be painful. Two stock-market crashes in the last 15 years are still vivid in our memories. However, just because stock prices have increased doesn't mean a crash is coming this year.

What can we expect?

The Dow Jones index had double-digit increases in 2012 and 2013. This has happened more frequently than one might think. In the last 99 years, returns of this magnitude have occurred back to back 22 times. What happens in the year that follows two positive, double-digit years? The average return is a positive 5 percent. That would be a reasonable expectation for 2014.

When we examine critical factors for a healthy market, we see more positives than negatives right now. Of course, there are no guarantees. SFS

*Research by SFS. Data is from the Congressional Budget Office and the Federal Reserve Bank of St. Louis. 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.

Building a Business

Part Two: Financing

By Rodney A. Walker, CFP®

I clearly remember the first loan I received. I was ten and had no idea what I was doing. I wanted a Joe Montana rookie card and was determined to own it. I begged my parents to give me the money for the card. They finally told me I could have the $50 to buy the card. Once I heard they would give me the money, I stopped listening to what I had to do to pay it back.

After I purchased the card, my parents sat me down and explained how I would pay them back. I remember feeling helpless and a bit afraid that I would not be able to repay the loan. I wished I had never bought the card.

That feeling of jumping into something with no plan for the consequences still haunts me today. When building your business dream, financial assistance may be necessary. Prudence will also be critical to make your vision a reality.

Rather than borrowing money just to borrow, form a plan so your company is not buried in debt. Below are two items that business owners should think about when determining how much money to borrow.

First, every business has risk—some more than others. How will lenders view your business risk? The riskier the business, in the lender's eyes, the more expensive it will be for you to borrow.

Second, determine how much money will be needed, short- and long-term to make your business a success. Clearly outline how the money will be used before it is actually needed. Delaying the planning may result in a need for emergency funding. Securing these loans when your business is in trouble will cost you more in the form of higher interest rates and aggressive repayment plans.

Let's look at a few of the options that are available to help small businesses get off the ground.

7(a) loans - These long-term loans can last up to 25 years for real estate and 10 years for certain types of equipment. They have a maximum of $5 million and no minimum amount. Funds can be used to construct or renovate a building and purchase equipment, furniture, and supplies.

Microloan - This is a small loan that typically has a maximum amount of $50,000. It may carry an interest rate between 8 percent and 13 percent. Entrepreneurs often use these funds for inventory, supplies, equipment, and working capital.

Grants - Many different types of grants are structured to help small businesses. Unlike loans, grants don't have to be paid back. It is important to research as many grants as you can to find the best one available to you.

• Amber Grant: Grant in which women entrepreneurs may receive anywhere from $500 to $1,000 to help fund their businesses.

• Love Our Local Business: In the past year, 15 of these $5,000 grants have been awarded to small business owners.

• Government Grant: If your company deals with Research and Development (R&D), you may qualify for help from the government. A great website and resource is available at SBA.gov.

Private investors - Investors frequently look at existing businesses as well as start-ups.

Many options are available for financing. Take the time to identify which source of funding will best serve your business. It is important you understand all the terms and conditions.

Remember not to make the mistake I made with my Joe Montana rookie card. Having a plan in place prior to funding can help your business be more successful. FYI: The card is now worth around $300.

6 Mistakes Could Send You Over The Retirement Cliff

By Mikal B. Aune, CFP®

Retirement is a balancing act. It's like a person walking on top of a wall. On one side is a cliff with a pool full of sharks. On the other side is a white sandy beach surrounded by blue water and a cabana set up waiting for you with a tall glass of lemonade. If you make a big mistake with your money in retirement, you can find yourself being eaten alive. If you are wise with your money, you can find more comfort and relaxation. Below are six critical mistakes that have the potential to devastate a retirement plan.

Lack of communication

You need to communicate your expectations for retirement and what it looks like. Discuss how much money you will need in order to accomplish all of the activities you want to do: travel, home remodeling, etc. Know what money is intended for major expenses and what money is intended for monthly living expenses. If you spend too much on large one-time expenses, you may seriously jeopardize your monthly income.

No measuring stick

Many retirees have no way of knowing if their money will last through retirement. In part, this is because they are not using a measuring stick. As a general rule of thumb, you should not spend more than 4 percent of your retirement assets per year. Another good benchmark is a 4-year checkup. After 4 years of retirement, if you have more money than what you started with, you should be on the right track. At Smedley Financial we use an elegant system that tracks yearly progress and lets you know whether you are going to outlive your money.

No spending plan

Too many people spend more than they should and don't realize it until it is too late. Once they realize the mistake, they have to dramatically change their lifestyle. You should create and live by a monthly spending plan. When looking at potential expenses, evaluate how they will affect your goals. For example, helping out children can be one of your goals, but it might compete with your needs for security and independence. It is usually the hard decisions like this that seriously harm a retirement plan. With children, set clear and simple boundaries. Explain that you are taking care of yourself so they won't have to.

Investing extremes

Many people believe that at retirement they should put their money in the bank. Others feel they need to make up for lost time and invest aggressively. Both approaches have problems. Conservative investors often underestimate the negative impact of inflation over time. You may be in retirement for 30 or 40 years. Conversely, overly aggressive investors may lose their shirts as evidenced by the recession of 2008-2009. To address these issues, take a balanced approach that doesn't have you investing at the extremes.

No plan B

Most people assume that bad things happen to others. We realize bad things can happen to us as well, but often act as if we are willing to play the odds that it won't. Consider this sobering fact: at age 65, a typical married couple in good health can expect to spend $260,000 on healthcare costs during their remaining lifetimes. Have a plan B in place to cover unforeseen expenses like long-term care costs, medical expenses, and home repairs that are not covered by insurance.

Falling for a scam

As always, if it seems "too good to be true" it probably is. On April 30, 2014, the Securities and Exchange Commission (SEC) halted an IRA scam in Utah that cost investors $22 million. The company had been "paying" 12 percent on paper, but when investors tried to get their money back they were given the runaround. As with most scams, it is unlikely they will recover their money. Look out for red flags. Don't jump in just because somebody promises great returns. Look for a track record for the product and for the company. Even if the investment seems like it is on the up-and-up, it may be a good practice to dip your toe in the water before you jump in with both feet.

Retirees get into financial trouble in dozens of ways. If you feel like you are being eaten by sharks, don't despair. Seek out a trusted professional at Smedley Financial to help get you back on track. If you have managed to avoid these six common mistakes, give yourself a pat on the back, sit down in your private cabana looking at the crystal blue water, sip some lemonade, and enjoy the beauty of retirement.

1. http://money.cnn.com/2007/08/13/pf/expert/expert.moneymag/
2. http://www.retirementoptimizer.com/
3. Center for Retirement Research at Boston College, "What is the Distribution of Lifetime Health Care Costs at age 65?" March 2010
4. http://www.thinkadvisor.com/2014/04/30/sec-halts-ira-scam-that-cost-investors-22-million

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.

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- 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

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- 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
420 East South Temple Suite 420 P.O. Box 4133 Salt Lake City, Utah 84110-4133
Phone: (801) 355-8888 (800) 748-4788
Web: www.SmedleyFinancial.com
Email: info@SmedleyFinancial.com

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