8050 Hosbrook Road, Suite 200
Cincinnati, OH 45236
513.469.7014 | Toll free: 1.866.469.7014
staff@oxfordfp.com
www.oxfordfinancialpartners.com

Spring 2014

Erik's Corner

By Erik Christman CFP®, CPA*

"The Market is Rigged!...Really?"

Perhaps you watched or have heard about the *60 Minutes* piece that aired on March 30th. In the segment, an author named Michael Lewis is asked what the "headline" is. He responds without hesitation that "The market is rigged". His primary target is "high frequency traders (HFT's)" who manipulate stock market orders that travel through vast computer networks. These HFT's are so sophisticated that they have managed to program the computers to see your order and trade just milliseconds ahead of it, resulting in a profit of 1/1000th of a penny per share. Lewis doesn't know how much money is being lost to these greedy HFT's, but he thinks it's a lot. Lewis further notes with alarm that "Humans have been removed from the market!" and, worst of all, this is all perfectly legal!

So is Lewis right? Actually, yes. The stock market is a place where buyers and sellers come together and trade through a middleman, and the middleman has always taken a cut. The middleman just happens to be a computer these days. According to the Wall Street Journal, as recently as 2002 nearly 85% of stock market trades took place on the floor of the New York Stock Exchange. You sent your order to a stock broker, who sent it to a human trader called a "specialist" on the floor of the exchange. You've all seen the pictures. Lots of people yelling, screaming, making odd hand gestures, writing orders down on a fistful of scraps of paper. This is how your price was set. Back in the 1990's stocks on the exchange traded in units rounded to 1/8th of a dollar (twelve and a half cents). Somehow the specialist on the floor was supposed to take into consideration all of the buyers and sellers of a particular stock at a particular time, and find the ideal price to trade a stock measured in eighths. That means that as long as the specialist filled your order within twelve and a half cents of the "correct" price, he was doing his job very well. And he had to do this with chaos all around him. Does that sound efficient to you? Have you tried paying with cash at Kroger lately when the computers are down? Picture the panicked look on the cashier's face when they have to do simple math in their heads while serving just one customer. Do you really want to go back to the day when stocks were priced in eighths by humans, rather than 1/1000th of a penny by computers?

The reality is that trading stocks is MUCH cheaper today than it was 10 or 20 years ago; in the 1980's nobody ever dreamed of placing a stock trade online for $7. Back then, you likely would have paid $200 or more for the privilege of placing that trade, and then the price you received would have been set by a specialist who made a little profit for himself by mispricing your trade by 1/8th of a dollar. There has always been mispricing in the market; the computers have simply made the mispricing much smaller and the markets much more efficient. Interestingly, the current approach that Lewis screams about was actually mandated by the Securities & Exchange Commission's Regulation NMS (National Market System) in 2005. The brokers and markets are simply doing what they were told to do.

The biggest question for you and me is does any of this matter? In a word, NO. Most of Lewis' focus is on "trading", not "investing". If you think the key to success in the markets is by constantly day trading, looking for small imperfections in prices and buying/selling on that information, you're in for some bitter disappointment. Trading is not what investors do. Investors make informed decisions about where they want to put their money for the long term, they buy it, and they only sell it when they have made a nice profit and want to spend some of that profit years later. The small cost of placing that trade fades away to practically nothing over the years. This is where the brilliant minds at *60 Minutes* (note my sarcasm) miss the point. *60 Minutes* doesn't want to help people invest successfully; they want people to panic and tune in to the show. And Michael Lewis simply wants people to buy his book that, coincidentally, went on sale the morning after the show aired. One hand washes the other; nice work if you can get it.

Alarmists have been claiming for years that the market is rigged, yet smart investors keep setting money aside and keep watching their retirement nest eggs grow. Household balance sheets (i.e. the sum total of the average American's home, investments and bank accounts) have recently reached all-time highs. The little guy seems to be doing quite well, thank you, and it's BECAUSE they invested in stocks all these years and didn't get distracted with alarmist news programs.
What's really "rigged" here is the way the media gets people all worked up just to make sure they can get more eyeballs watching their show. More eyeballs equals more advertising space sold which is really what the news business is all about. It's shameful, really. Maybe Michael Lewis will write a book about the news industry next—Don't hold your breath.

Oxford Financial Partners is a Cincinnati-based firm dedicated to serving the needs of retirement-minded individuals. We provide independent, objective financial planning and investment advice to our clients. For more than a quarter century, our clients have benefited from the advice and perspective we provide.

The dedicated team at Oxford is the key to the success of our firm and our clients. We leverage our 70+ years of professional experience to deliver the advice necessary to help meet our clients' needs across 20 states.

Every day we continually strive to earn our clients' trust, confidence and respect. We invite you to explore our site to learn more about our dedicated team and personalized services.

Investment Review

Fresh off of the strong gains of 2013, investors started the New Year with hopes of a smooth ride to additional gains. Instead, like the weather in many parts of the U.S., the equity markets got off to a chilly and somewhat difficult start. Investors would soon be challenged by higher valuations and a still uncertain economy. Even the weather itself entered the debate. Winter storms kept snow-bound buyers out of showrooms and shops, potentially affecting economic growth. Of course, what would a market decline be without a bit of international intrigue? Russian troops rumbled across the border as Crimean citizens voted to leave Ukrainian rule and join Russia. By February, the Dow Jones Industrial Average had fallen about eight percent. As usual, the reaction was both swift and predictable. The Wall Street Journal reported on March 7th that $28 billion was withdrawn from equity funds for the week. Meanwhile, almost $15 billion of fresh money went into bond funds.

History shows market declines are just part of investing. Over a 33 year period, the S&P 500 has experienced an average high-to-low drop, sometime during the year, of 14.7%. Even considering the drops, the market rose in 25 of those 33 years. As the quarter wore on, sentiment again shifted to the positive. By the end of the quarter, most equity markets completely regained earlier losses and ended with modest gains. Knowledge of market history and discipline are traits we hold in high regard. During the first quarter, they again came in handy.

Domestic Equities: As noted above, despite the challenges, domestic equities recovered all of the mid-quarter losses and then some. The S&P 500 Index, a well-known measure of large U.S. companies, rose a respectable 1.8% for the first quarter. Small stocks did a little better. The Russell 2500 climbed 2.3%.

International Equities: Foreign stocks followed much of the same direction for the quarter as their domestic counterparts. The mid-quarter declines were apparently linked to fears that the Ukrainian "crisis" would spread. As the situation appeared to be contained, markets recovered. The MSCI Developed Markets Index erased the losses and was able to move up 0.7% for the quarter. Emerging markets didn't quite make it into the black. They edged down 0.4%.

Fixed-Income: Janet Yellen, the newly installed Chair of the Federal Reserve, continued to calm markets by sticking with the accommodative stance taken by her predecessor. Bond prices turned in solid returns for the quarter. The Aggregate Index, a measure of the broad bond market, rose 1.8%. Investment grade corporate bonds came in with a 2.9% gain. Lower-rated high-yield bonds, or junk bonds, jumped 3.0%. As memories of the Detroit problems of last year faded, municipal bonds rose an impressive 3.3%.

% Return as of 03/31/2014			
Equity Indexes	**1st Q**	**1 Yr**	**3 Yr**
S&P 500	1.8	21.9	14.7
Russell 2500	2.3	24.0	13.9
MSCI EAFE	0.7	17.6	7.2
Emerging Market	-0.4	-1.4	-2.9
Wilshire REIT	10.1	4.4	10.5
Bond Indexes			
TIPS	1.9	-6.5	3.5
Aggregate	1.8	-0.1	3.7
Governments	1.3	-1.2	3.2
Mortgages	1.6	0.2	2.8
Investment Corporate	2.9	1.5	6.1
Long Corporate	6.2	2.0	9.2
Corporate High-Yield	3.0	7.5	9.0
Municipals	3.3	0.4	5.8
Cash Equivalents			
3-Month T-Bill	0.0	0.1	0.1
Consumer Price Index	0.5	1.1	2.0

It is an honor to help with your planning and your investments. It is important for us to communicate as your situation and needs change. You probably have recently filed your taxes for 2013. It is likely that recent tax changes have affected you. We would be happy to discuss those issues with you as part of your overall plan.

Over the coming years, we will likely see much of what we have seen in the first quarter of 2014. There will be storms, political intrigue, declines and recoveries. They are inevitable. We can, however, prepare for them. We can know your goals, be vigilant and follow our principles to help get you "all the way home."

Operations

By Patrick Walsh CFP®, Associate Planner

Zero Taxes on Investments — Opportunity Permanently Extended!

Last year Congress voted to extend the tax regime for those making less than $450,000/year, and these moves are expected to be permanent. This is great news as this renews the opportunity to take advantage of one of the best tax relief laws we've seen.

For those clients in the 10% or 15% tax bracket, capital gains and dividend tax rates drop to ZERO! Some of you still have some high capital gains on stock and/or mutual fund investments held for years, inherited, etc. If you are in need of diversification or have cash needs, this tax break could make the timing very attractive.

We encourage you to contact your Tax Advisors to see if you could take advantage of this opportunity.

Personal Financial Portal 101 – The Decision Center

Around this time last year, Oxford launched the Personal Financial Portal (the PFP as we like to call it around here). Quite a few of you have asked us to set you up on the system, but if you haven't yet, I would strongly encourage you to do so. This is a complimentary tool to all clients of Oxford Financial Partners, and will become an essential tool in our ongoing collaboration with our clients and prospects to help them towards achieving their financial goals.

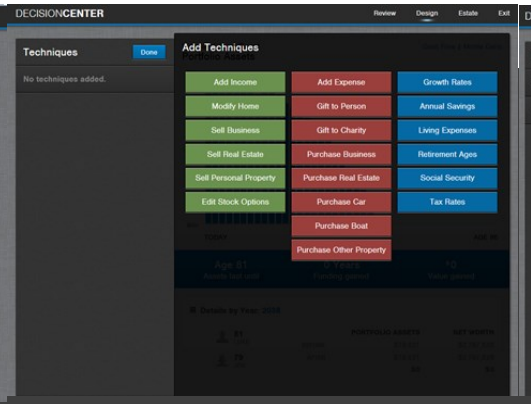
The PFP is a single resource where you can watch your investments, track your spending, create budgets, set goals and monitor your progress toward achieving financial independence. This information is automatically updated each day, with secure access via the internet or your mobile device. You also have the ability to link accounts you may have that are held outside of Oxford—(401(k), bank accounts, credit cards, etc.) so that they are all stored in a single place.

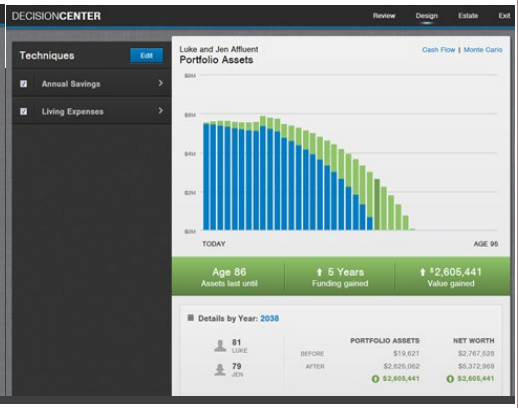
Quite simply, it's changing the way we share planning solutions with clients, and vastly increasing the efficiency at which we are able to do so. Whether it is for retirement, insurance, or education, many of you have had to plan for something during your lifetime, and you probably remember filling out what seemed like a 100 page booklet to gather all of your information. I am happy to report those days are over. With the new Decision Center, these planning meetings can now be more interactive, productive, and maybe even dare we say it, fun!

The pictures below give you a taste of what the new interface looks like. The first box shows where this sample client currently is on their journey to retirement. All of their accounts have been linked, and assumptions have already been entered for spending needs, investment growth rates, etc. You will see that the system is projecting their funds to run out at age 81.

The next step becomes what actions can be implemented to be sure this family is on track for retirement. As you can see from the middle picture, there are 20 available "techniques" that we can add in which will give us a real time adjustment to the end result. In this example, I chose to add in some additional annual savings, and to reduce living expenses in retirement. The system updated immediately on the fly and shows that this couple now has five more years of longevity for their retirement.

We are very excited about this new tool and its interactive capabilities. If you or a friend are interested in learning more about what this system has to offer, please feel free to contact us and we will be happy to share more with you. More general information on the Personal Financial Portal can be found on our website at www.oxfordfinancialpartners.com.





Personal Financial Portal—The Vault

The Vault feature of the Personal Financial Portal provides you with an online "safe deposit box" to store all types of personal records. The Vault can be used to store traditional documents (such as wills, trusts, and tax returns), personal files (such as birth certificates, passports, and monthly statements), and unique items (such as family photos, audio files, and medical records.) You can view and retrieve these documents at any time, and you can set parameters on what Oxford is able to see inside your vault. Want to share a document with us? There is a folder for that. Want to store something more private that you do not wish to share with us? There is a separate folder for that which is not viewable by anyone other than the user.

It's Time to Spring Clean

By Kim Stark

Do you prefer to keep your receipts, post-its, magazine articles arranged just so? Congratulations – studies show you're probably a healthy eater, generous with your cash, and good at following rules.

But if you've got a cluttered desk, take heart – you might be a creative thinker and an idea machine. My husband Andy loves to quote Einstein – "if a cluttered desk is a sign of a cluttered mind, of what then is an empty desk a sign?"

I'm a little OCD so everything is organized (including the pantry and Tupperware) and only kept if vitally important. Andy on the other hand has every receipt, bill, coupon he's ever had. I'm talking for his entire lifetime. I guess we are proof that the study has some merit, except I don't tend to be good at following rules.

To provide some harmony in our home, we finally agreed to buy a good scanner and shredder as well as embrace technology to learn how to obtain/maintain records on-line. During this painful (for Andy), cleansing (for Kim) experience, we have learned some things about what documents are important to keep and what can be destroyed. Again, keep in mind that so many documents now are available through your bank, financial institution, on-line appliance manuals, etc. But as a rule of thumb, refer to the table below:

Documents to Keep at Home	When to Toss/Shred
Bank Deposit Slips/ATM Receipts	After you reconcile your bank statements
Banking Statements	After a calendar year; store with tax returns if needed to prove deductions
Brokerage and other Investment Statements	Shred monthly and quarterly as new ones arrive. If cost basis information is not maintained by firm, be sure to maintain.
Credit Card Bill	After reconciling them with your credit card or bank statement, unless needed for a return or warranty
Receipts	After reconciling them with your credit card or bank statement, unless needed for a return or warranty
Household warranties and receipts	After you no longer own the items or warranty has expired
Insurance Policies	After receipt of renewal
Safe-Deposit Box Inventory	Never toss—but review and update annually
Tax Returns and Supporting Documents	After seven years
Copy of your Credit Cards	Keep as long as you have the card
Documents to Keep in a Safe Deposit Box	**When to Toss/Shred**
Birth and Death Certificates	Never
Estate-Planning Documents	Never– also make sure your financial advisor, executor/executrix and an power of attorneys have a copy
Life-Insurance Policies	Never, or when a term policy has ended
Loan Documents	After you sell your home, auto, or whatever loan was for
Marriage license/divorce decrees	Never
Social Security Cards	Never
Passport	Remember to renew before expiration