Oxford
FINANCIAL PARTNERS

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

Winter 2013

By Erik Christman CFP®, CPA*

For a number of years now I have followed the writing of Nick Murray. Nick is a 40+ year veteran of the financial services profession, and I always find his long-term perspective enlightening. Nick recently wrote the following article and was gracious enough to allow me to share it with you. I couldn't have said it better myself

2012: The Year Pessimism Got Skunked…Again

The election. The fiscal cliff. The national debt. The federal deficit. Slow (to nonexistent) economic growth. Chronically high unemployment. Superstorm Sandy, the east coast's Katrina. Impending tax increases. The euro plague, leapfrogging from Greece to Spain, next perhaps to Italy and even France. The weak dollar. The Federal Reserve continuing to push on a string. The China slowdown. The LIBOR scandal. The Facebook IPO fiasco. Yet another new strain of flu virus. The end of the world foretold by the Mayan calendar. Two thousand twelve was certainly a banner year for catastrophe, was it not?

How very odd, then, that the broad equity market—which started the year at 1277 on the S&P 500 and has flirted with 1450 as I write on the winter solstice—so signally failed to get the message. With dividends, it seems to be on track to have returned something like fourteen percent in this seemingly most relentlessly dismal of years. How shall we account to ourselves for this dichotomy, which seems on its face not merely inexplicable but downright weird? Well, I can think of two possible explanations.

The first and most obvious is that the stock market is just dead wrong: that it has recklessly ignored the plethora of real and impending disasters that are bearing down on us with each passing day, and which will surely swamp our economy and precipitate a market meltdown… any day now. For simplicity's sake, let's call this Door Number One: Pessimists Right, Market Wrong.

But then there's that other possibility. Which is, of course, that the pessimists have not just been momentarily wrong: they've been fundamentally—and perhaps fatally—wrong about the whole equation. They have, in short, been focusing entirely on the fiscal, monetary and economic mistakes of ***countries***. But the equity market—as is its wont—has been much more narrowly focused on the variables which always ultimately drive it: the healthy, growing (and by some measures record breaking) earnings, cash flows, dividends and cash positions of ***companies.*** We'll call this, as I'm sure you've already anticipated, Door Number Two: Market Right, Pessimists Wrong.

This is just one armchair observer's opinion, you understand, but—as I have all along—I'm going with Door Number Two. And thereby hangs a tale.

It is fashionable in pessimist circles to note that the equity market as denominated in the Standard & Poor's 500-Stock Index is closing out 2012 just about exactly where it ended 1999, in the mid 1400s—having all these years "done nothing." This observation, narrowly correct as it clearly is, misses a couple of important things.

The first of these is, of course, that at the close of 1999 the market was within weeks of the bitter end of its greatest two-decade run of all time, during which the Index had gone up quite a bit more than ten times. It was at that point, by any and perhaps every measure, way ahead of itself.

The second and to me even more telling point is that while the Index has been, on net, treading water for these unlucky thirteen years, the earnings and dividends of its five hundred component companies have essentially doubled. (As the late American philosopher Charles Dillon Stengel always said: "You could look it up.") OK, technically the earnings have a tad more than doubled, and the dividends a tad less, but the point is made: the prices of the great companies in America and the world relative to their earnings and dividends have to all intents and purposes halved, lo these thirteen years past.

One may therefore suggest, not unreasonably, the possibility that the market may in these thirteen years have gotten almost as far behind itself as it was ahead of itself in 1999. And that what it has been doing in 2012 is playing catch-up.

And there is perhaps more to this thesis than most investors may suspect. At the end of 1999, the S&P 500 was completing a year in which it earned about $50. Dividing those earnings by 1450, the Index's earnings yield stood at 3.5%—at a moment when the yield on the 10-year U.S. Treasury bond (though falling rapidly) was still around 5%. It could have been argued (and in fact this thesis turned out to be the correct one) that the bond was a better value, or at least a very competitive safe haven.

CONTINUED ON PAGE 3

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

2012 was yet another year marked with drama and concern. Investment markets reflected the same. As we continued the recovery from the financial crisis, many believed challenges and uncertainty were ahead. Others believed the fragile recovery would continue. Ultimately, both would be right.

The first quarter of 2012 saw considerable gains for equities as optimism grew. It would not last. Soon, the enthusiasm turned to anxiety. Important economic matters like the "fiscal cliff" and tax reform loomed. This was made more uncertain by contentious and potentially polarizing elections in the fall. With the losses of 2007 and 2008 still fresh in many minds, some rushed for the exits. Many feared higher taxes or political change. Equity markets were buffeted by bouts of anxiety and hope.

An investment in stocks is ultimately an investment in business. While politics and fiscal policy are important parts of business, they are not the most important parts. Top marginal tax rates have been as high as 90% in the past. Political regimes and their challengers have come and gone. What is most important is business productivity and earnings. Even with all of the uncertainty, they were quite strong. The elections were held. Some liked the result and some didn't. At least they were over and we could concentrate on more important things. As each uncertainty was lifted, markets rose. After the usual drama and posturing, a temporary fix to the fiscal cliff was reached. In the face of all of the uncertainty and change, business productivity won. The S&P 500 surged 16.0% in 2012.

Domestic Equities: As earnings improved and uncertainties faded, domestic indices turned in powerful results. The Dow Jones Industrial Average turned in a 10.2% return. The S&P 500, referenced above, bolted to a 16% gain. Smaller stocks, as represented by the Russell 2500, did marginally better. That index jumped to a 17.9% gain for the year.

International Equities: For much of the year, international equities were viewed with some suspicion. The economic woes in Greece and Spain threatened to spread. Rescue efforts seemed unorganized and halting. While problems remained, stocks appeared reasonably priced even given the turmoil. Again, business and earnings proved most important. The MSCI EAFE index, an index of international equities from developed countries, jumped to a 17.3% return. Emerging markets stocks also did well. That index was up 18.2% for the year. As an example that markets can do well during dark times, you need look no further than Greece. Despite very deep problems, the Dow Jones Greece equity index soared 28.5% in 2012.

Fixed-Income: Bond investments provided more muted returns in 2012. The Barclays Aggregate index, a common measure of the broad bond market, increased 4.2%. Treasury Inflation-Protected bonds did better, gaining 7.0%. Municipal bonds continued their run despite some pressure late in the year. The Barclays Municipal index rose 6.8% in 2012. Data from mutual funds show that investors continue to add money to bond funds. At the same time they are reducing exposure to equities. This is apparently in reaction to the volatility of equities during the financial crisis. It is important to remember that it is the *future* expected return of an asset class that should be examined not just the past.

Despite the gratifying results of 2012, we are by no means "out of the woods." We never are. Many of the challenges of 2012 remain. The fix to the fiscal cliff was only temporary. Both sides have withdrawn to strategize on the coming federal debt ceiling fight. It will likely be just as dramatic and contentious as the fiscal cliff drama. Foreign debt concerns may resurface. Potential gains in 2013 may be as halting and hard-fought as those of 2012. Most often, markets behave this way.

That doesn't mean we will sit and wait for whatever happens. We know that macro-economics, taxes and politics are important. But we also know *what is important to you*. This is the power of informed, disciplined advice. Whatever the external events, we will remain engaged in examining your personal situation and your goals. That is our commitment to you.

Of course, you may have questions concerning the new income tax and estate tax laws.

If we can help with these or any other questions or concerns you have, we are here.

Source of data – – Morningstar, U.S. Department of Commerce, Wall Street Journal, Rothschild Market Review, Bureau of Economic Analysis, Bloomberg, Market ABX indexes, The Federal Reserve. The performance of an unmanaged index is not indicative of the performance of any particular investment. It is not possible to invest directly in any index. Past performance is no guarantee of future results. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. 3 year performance data is annualized. Bonds have fixed principal value and yield if held to maturity and does not enter into default. Bonds have inflation, credit, and interest rate risk. Treasury Inflation Protected Securities (TIPS) have principal values that grow with inflation if held to maturity. High yield bonds (lower rated or junk bonds) experience higher volatility and increased credit risk when compared to other fixed income investments. REITs are subject to real estate risks associated with operating and leasing properties. Additional risks include changes in economic conditions, interest rates, property values, and supply and demand, as well as possible environmental liabilities, zoning issues and natural disasters. Stocks can have fluctuating principal and returns based on changing market conditions. The prices of small company stocks generally are more volatile than those of large company stocks. International investing involves special risks not found in domestic investing, including political and social differences and currency fluctuations due to economic decisions. investing in emerging markets can be riskier than investing in well-established foreign markets. CRN201301-2075815

Operations

By Patrick Walsh CFP®, Associate Planner

Required Minimum Distribution Reports Coming in February

As a reminder, if you reach the age of 70 ½ during the course of a year, the IRS requires you to take a Required Minimum Distribution (RMD) from your IRAs. In February, you will receive a detailed report on your RMD. This report will contain valuable information such as what an RMD is, the facts used to calculate your amount, and an estimate of what your RMD will be in the years to come. This is just one of the many value-added services we provide to our clients.

As in years past, we will review this amount for those required to take distributions from their Lincoln Financial IRAs.
Most clients have scheduled IRA distributions that will satisfy the requirements. However, anyone who has a remaining RMD for 2013 will be contacted by our office later in the year to make sure you satisfy your requirement.

Expanded eDelivery Offerings from National Financial Services (NFS)

We are pleased to announce, that effective immediately, NFS has added confirming prospectuses as well as shareholder reports and proxies to its eDelivery service.

Clients currently enrolled in eDelivery of trade confirmations will automatically receive confirming prospectuses electronically.
Clients currently enrolled in eDelivery of statements will automatically receive shareholder reports and proxies electronically.

You May Opt Out of Additional eDelivery Services

Clients enrolled in eDelivery of statements and trade confirms are being notified by NFS via email about the opportunity to electronically receive confirming "trade-related" prospectuses, shareholder reports and proxies.
In all cases, clients will receive email instructions from NFS describing how to opt out of the expanded eDelivery offerings on myStreetscape if they desire. Also:

- When email notifications are undeliverable, clients will receive letters through the U.S. mail notifying them that a document is ready for online viewing via the URL and access key provided. They also will be asked to review and update their eDelivery email address, if needed.
- Certain confirming prospectuses and shareholder reports may not be available within the eDelivery program, and clients will continue to receive them via U.S. mail.
- Fidelity fund proxies are scheduled to be enabled for eDelivery very soon.

How to make eDelivery Selections

Sign in to MyStreetscape
Click on "Account Details" from the "Select Action" dropdown box for the account in which you wish to enroll.
Click "Edit Account Details" button and enter an email address under Account Holder.
Go to "Document Delivery Instructions," select "Online" for each document type and choose the prefilled email address from the drop-down box.
Click the "Save Edits" button and accept the agreement

The Year Pessisimism Got skunked . . . Again Continued from page 1

Today near 1450, with earnings in excess of $100, the S&P 500's earnings yield is about 6.7%, while the 10-year Treasury's is 1.8%, suggesting that the relative values of stocks and bonds have very sharply reversed since 1999. And that's not all.

Dig a little deeper, and we discover a couple of very intriguing facts about dividends. The more obvious of these is that—for only the second time since 1958—the current dividend yield of the S&P 500, at slightly higher than 2%, is greater than that of the 10-year Treasury. (The only other time this has happened was during the Great Panic of 2008-09.)

More obscurely but perhaps more importantly in the longer run, since 1871 the average dividend payout ratio—the percentage of their earnings that companies paid to shareholders as dividends—has been 53%. It's currently 29%. This certainly doesn't insure that companies will be significantly raising their dividends anytime soon. But it tells us that, at least historically, they have a lot of room to do so—or to buy back stock, which is simply enhancing shareholder value by another means.

Set aside the staggering economic progress of the developing world—China, India, Brazil and the like—in these thirteen years. Set aside the fact that the cost of computing has fallen by something like 98% since 1999, thereby empowering the rise of a billion global smartphone users. Set aside the stunning reality that the United States has gone from the most abject dependence on foreign oil to a point where it will emerge as the world's leading oil producer by 2020.

And set aside, if you can, the inarguable fact that the fiscal conditions of the West's democracies are an unholy mess. Tocqueville said it 170 years ago, and it's never been truer than it is today: "A democracy will always vote itself more benefits than it is prepared to produce." Set this aside, I say, because as they become almost daily more genuinely global, the great companies become progressively less dependent on the economies of the older democracies on both sides of the Atlantic. At his confirmation hearings in 1953, President Eisenhower's nominee for secretary of defense could opine (if not in so many words) that what was good for General Motors was good for this country. In 2013, General Motors will sell as many cars in China as it does in the United States. This is not your father's Oldsmobile, and it isn't his stock market, either.

Especially if you have a personal predilection to pessimism, the turn of the year might be a good time to ask yourself—or, even better, to ask your financial advisor—whether, in fact, it might be the market that's right and the pessimists who are wrong. In terms of your own financial planning, and especially of your retirement income planning, this could turn out to be the single most important financial question you ask in 2013.

CLIENT'S CORNER

Contributed by Janet Strube

LIFE AFTER DEATH

Two and one half years ago, my husband passed away leaving me to cope with living my life without him. As well as being my husband of 50 years, he was my best friend, so having to face the rest of my life without him seems to me to be an utterly awesome task. How could I go on without him; we had been joined at the hip for so long.

As I look back on our life together, it was quite full. Yes, we had our problems, but we worked them out together; we raised three sons who have become productive members of society, we built a home on about 14 acres of land, enjoyed antique cars and the clubs related to them, and we took a vacation every year from the time our youngest son was three years old. When our sister and brother-in-law moved with their family to Denver, we would head west most every year with our tent, pop-up camper or, finally, our small fifth wheel trailer; stay with them for a day or two then the nine of us would head to some other part of this great nation. We visited every state in the Continental United States, visited every Civil War Battlefield, almost every National Park and many State Parks and Capitals. Our trips were a close family time; and as the kids grew up, it became just the four adults that continued to travel once a year.

About eight months after I lost Herb, a good friend of mine lost her husband. She has not seen much of the United States and as the two of us confided in each other about our losses and our feelings, we decided that we should not give up the things in life that we enjoy. We are both in good health and have the finances to do the things in life that are important to us, so we scheduled a tour of the Canadian Rockies.

This would be the first major trip for me without Herb, and it seemed awesome and somewhat threatening. How would I deal with doing all these things without him? I know Herb would want me to go on with my life and would tell me to pick yourself up by the bootstraps and keep going so that is what I must do. Preparing to go was a bit tense for me and my stomach was rather unsettled the last day or two up to the time we were well on our way.

We flew from Cincinnati to Salt Lake City and then on to Vancouver, BC. Where we met up with our tour group. Out of 40 people, Carole and I were the only two people from the United States. Everyone else was from Australia, New Zealand, Tasmania, South Africa, Malaysia, or the United Kingdom. Fortunately they all spoke English, but with quite a heavy accent, so we had to listen carefully. The only two Canadians were the Tour Director and the bus driver. Most of the tour members were married couples, but there were eight other single women who had traveled a long way by themselves to join the group. All forty of us became a cohesive team, getting to know about and looking out for each other, and single or married seemed not to matter.

We traveled on a motor coach and ferry boat from the West coast of Canada through the Rockies: from Vancouver Island (Victoria) to Whistler, Kelowna, Banff, Emerald Lake, Yoho, Glacier and Jasper, visiting resorts, riding gondolas, whale watching, and riding in a bus with huge tires on the Athabasca glacier, then walking on that glacier in the falling and swirling snow. In Jasper we went river rafting and walked a trail along a river bed. After all this we boarded a train on VIA rail in Jasper and rode the train for three days and nights all across Canada, going from lovely Mountains, to foothills, then plains where wheat and hay were being reaped and bailed, then on to the river, lake and woodland areas and on to the city of Toronto. Here we visited Niagara Falls and a winery before boarding a train and flying home.

All in all, as soon as we became totally immersed in the tour and met all the wonderful people on the bus, the nervousness and uptight feelings left and I became comfortable with everything. Carole and I became closer friends than we had been before; we relied on each other, confided in each other and laughed together until we thought our sides would split.

The weather was wonderful, the country just beautiful and the company superb, thus the decision was made that we will probably do it again, and maybe ask a couple of our friends who are widows to join us.

Our clients are an amazing group of people, and in future issues we would like to share more of your stories. If you have something you'd like to share, be it travel, charities, volunteer boards, etc., please email a photo and article to staff@oxfordfp.com for inclusion in a future issue.