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Erik's Corner

By Erik Christman CFP®, CPA*

Successful Investors Make a Plan

The research firm DALBAR produces an annual report called "Quantitative Analysis of Investor Behavior". I know it doesn't sound very exciting, but the research conclusions have profound implications for retirees.

DALBAR has published this annually since 1994 and the data and conclusions are nearly the same each year. Some data:

- For the latest 30 year period ended 12/31/13, the average stock mutual fund investor earned only 3.7% annually, while the S&P 500 earned 11.1% annually. That is a huge gap of 7.4% per year.
- What are the sources of this gap?
  - About 1% is due to poor mutual fund selection.
  - Another 1% or so is due to fees and expenses of investing in mutual funds.
  - The rest is attributable to emotions and lack of discipline. As a group, retail mutual fund investors will chase the highest performing funds, and will pull out of those funds when their ranking falls or returns are less than expected or there is a hiccup in the market.

Even worse:

- The DALBAR report concludes that attempts to correct irrational investor behavior through education have proved to be futile. The belief that investors will make prudent decisions after education and disclosure has been totally discredited. Instead of teaching, financial professionals should look to implement practices that influence the investor's focus and expectations in ways that lead to more prudent investment decisions.
- Similarly, Louis S. Harvey, President of DALBAR, argues that "It is now past the time for the investment community and its regulators to understand that the principle of educating uninterested investors about the complexities of investing is unproductive. We need a fundamental change that transforms investment thinking into meaningful decisions and choices for retail investors."

But the news is not all bad.

Some investors have found a way to do far better than the typical retail investor. They have defined their goals. They follow a set of timeless investment principles through good times and bad. They have joined their goals with these principles and turned it into a written investment plan. They have persevered and now they are prospering.

Our clients already know what I'm talking about. It's called **Power of 5 Investing®**. If your family or friends don't have a written investment plan, they should. Have them contact us to learn more.

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

After surging higher through most of the year, investment assets turned in a mixed performance in the third quarter. As usual, there were plenty of events to generate drama. The U.S. Treasury announced that it would be ending bond purchases by October. Ukraine's increasing tensions with Russia fueled both fear and a new round of international sanctions. As the militant Islamic State forces grew more aggressive, President Obama ordered airstrikes in Iraq.

These matters, however, were similar to what we have seen over the past few years. Many will remember the downgrade of the United States, the "fiscal cliff" and the Greek crisis. Another related item was the sovereign debt crisis. Sometimes these have lasting effects and sometimes they don't. It is interesting that in July, after an extended battle with creditors, Argentina finally defaulted on its bonds. It hardly made the newspapers. Through all of this, the S&P 500 experienced one of the greatest bull markets of all time.

One of the greatest challenges to investing many saw was an impending collapse of the dollar. The argument had it that the easy money policies of the Fed would lead to a collapse of the dollar. Actually, it went the other way. As the U.S. economy strengthened, assets actually flowed toward dollar assets, not away from them. During the third quarter, the dollar rose more than eight percent against the yen and the euro.

In our last letter, we noted that markets have been remarkably calm. While results were good, the gut-wrenching large moves had faded away. As we predicted, that can't last forever. Markets are rarely so predictable. That changed a bit toward the last of the quarter. The Dow had triple-digit moves, up or down, for five straight days. This isn't the dire new world. It is likely just a return to more normal volatility.

Being a disciplined investor is pretty straightforward. One examines risk carefully and prudently, and develops a thoughtful, outcome-based solution. Then, one repeatedly adjusts for personal circumstances, market conditions and valuations. Unfortunately, it seems an impending crisis, real or imagined, comes along every few months to tempt us away. Don't give in. In the words of 1970s Saturday Night Live character, Roseanne Roseanadanna, "it's always something."

Domestic Equities: Stocks benefited from the strength of U.S. currency. As other currencies weakened, money flowed to the perceived safety of the dollar. As market participants worried about growth and stability, large capitalization stocks were the dominant beneficiaries of that flow. The S&P 500 managed a gain of 1.1% for the quarter. For the calendar year the index is up a solid 8.3%. Smaller stocks were the flip-side of the action in large stocks. As the turbulence in the currency markets caused investors to seek safety, smaller company shares lost favor. The Russell 2500, a popular gauge of small company shares, dropped 5.3% for the quarter. The index is still barely positive for the calendar year, eking out a gain of 0.3%.

International Equities: Foreign stocks also felt the shift in risk and currency volatility. As the dollar soared against the yen and the euro, foreign stock prices came under pressure. The MSCI EAFE index sank 5.9% for the quarter, wiping out the previous gain for the year. The index is now down 1.4% for 2014.

It should be noted that the currency markets have something of a self-balancing effect over time. A more expensive dollar makes foreign goods cheaper in dollar terms. This can cause money to flow toward foreign currencies and away from the dollar.

Fixed-Income: Over the past few years, analysts have made it clear interest rates, given they are near 30 year lows, have to go up. While this may be true, the real question is: when? As we have seen over the past year, the answer is: not right now. As with large stocks, the risk and currency fears benefitted bonds. The Barclays Aggregate Index rose 0.2% for the quarter and is up 4.1% in 2014. Municipal bonds turned in a similar performance. That index was up 1.5% for the quarter and is up 7.6% for the year.

Just because in the investing world, "it's always something," doesn't mean we just resign ourselves to whatever may come along. Taking into account the uncertainties of our world is at the core of our process. Wall Street predictions often fail miserably; preparation has a much better record. We know that our job is to listen carefully to your goals. Then, we prepare your portfolio for the frightening "always something" that is sure to appear. Simply put, it is our job to help get you all the way home.

We will be talking soon. In the meantime, if there is anything you need, please let us know.

Operations

By Patrick Walsh CFP®, Associate Planner

Important Year-End Information

If you are going to want a distribution other than what is already scheduled from your IRA, want to make charitable donations, or any other "has to be done before year-end" event, please notify us no later than December 1st to ensure that it gets done before year-end. This will give us time to send the paperwork to you, get it back, and get it processed. We cannot make promises after that date.

As a reminder - If your scheduled IRA distribution normally occurs during the middle or end of the month, your December distribution will be processed during the first couple of weeks in December (the exact date has not yet been determined). This is done in order to ensure that there are no complications with your December distribution, due to the high volume of requests the back office receives at year end. You will not be receiving another distribution after that until your regularly scheduled date in January. Also, if you want a distribution to occur in early January 2015, please contact us in early December so that we can send you the paperwork to avoid any delays in processing your requests on a timely basis.

Required Minimum Distributions for 2014

As a reminder, if you are over the age of 70 ½ or have an Inherited IRA, the IRS requires you to take a Required Minimum Distribution (RMD) from your IRA accounts. Throughout the year, we review this amount for those required to take distributions from their Lincoln Financial IRA accounts. Most clients have scheduled IRA distributions that will satisfy the requirements. However, anyone who has a remaining RMD requirement for 2014 will be contacted by our office in November. In addition, on an annual basis during the month of February, we notify all clients (both current and any new clients who will be required to take a RMD in the new year) of the dollar amount they need to withdraw from their Lincoln Financial IRA accounts.

Reminder: Social Security Integration with Medicare

One question we have gotten several times over the last year is in regards to how the application processes for Social Security and Medicare are related to each other. If you are already receiving Social Security retirement benefits by the time you turn age 65, you need not apply for Medicare. Conversely, it's important to remember that unless you are receiving Social Security benefits, **you need to apply for Medicare if you want it**. The enrollment process is NOT automatic.

Anyone who is a U. S. citizen or legal resident and is turning 65 is entitled to a first enrollment period that lasts seven months – from three months before the month of their 65th birthday to three months after that month. For example, if you turn 65 in September, your enrollment period is June 1 to December 31. Your coverage begins according to which month of your initial enrollment period you sign up:

Months 1, 2 and 3: the first day of the month in which you turn 65

Month 4: one month after enrolling

Month 5: two months after enrolling

Months 6 or 7: three months after enrolling

[Source: www.medicare.org]

Trick or Treat

By Kim Stark

Last quarter, I talked about "For the Sake of Your Family Peace and Harmony" and the importance of naming different people to be responsible for your health decisions while alive and estate at death. This quarter I want to talk about another sector of your "assets" that are often forgotten.

Have you ever wondered what happens to your e-books, iTunes songs, eBay account, Facebook, Amazon, Picture storage etc., etc., etc. when you die? You should! Not only can it have personal information including charge card numbers, but so much of it has emotional significance such as photos, blog posts. What may be just as important is that unless someone is responsible for managing these sites upon your disability or death, your personal information will be "out there" forever. Unfortunately, there are not many laws protecting virtual estates. You need to take steps now to keep your digital estate safe. Here are some suggestions:

1. **Take Inventory** – include your social media pages, shopping sites, bank and credit card accounts that you access from your computer or other digital devices. Record your user names and passwords, including how to access your computer for pictures, spreadsheets, word docs, etc. you have stored. I'll bet the list is longer than you think. There is no website that I'm aware of that will tell you just how many accounts you've created so you will need to search your memory (or if you are a little OCD like me, you are one step ahead and already have all of this on an excel spreadsheet).

2. **Appoint a Digital Executor** – As we discussed last quarter, one person may be best selected to be responsible for your healthcare decisions, another best for financial decisions. Your digital executor should be the person who is digitally savvy, but that you can also trust with your personal information. It might be your 21 year old child or your best friend, clergy, or spouse. In your will, you can give this person "authorization to access, control or delete each account". DO NOT include the sites and passwords in your Will. Unless your assets are in a Trust, the Will becomes public record when you die. This could lead to identity theft.

3. **Storing Your Personal Information** - You can store your information in a safety deposit box, ask your attorney to hold onto it for you or a better suggestion is in the "Vault" in your Personal Financial Portal. As we've introduced previously, the Personal Financial Portal is a complimentary tool offered by Oxford Financial Partners. The "Vault" is only one small feature of this valuable tool. If you haven't checked it out yet, I would encourage you to do so. It's an incredible resource. The information you store in your "Vault" can be private and not accessed by anyone but you. If you do not currently take advantage of the Personal Financial Portal (or PFP as we like to call it) and would like more information, don't hesitate to contact Pat Walsh for log-in information and a password.

4. **Write Down Your Wishes** – do you want your spouse to have access to your emails or do you want your Digital Executor to delete them immediately. (Just remember, your Digital Executor can see everything) Do you want someone to put a memorial on your Facebook, LinkedIn page?

Don't let your family wonder if you've left them a Trick or a Treat. Be prepared with nothing but helpful treats.