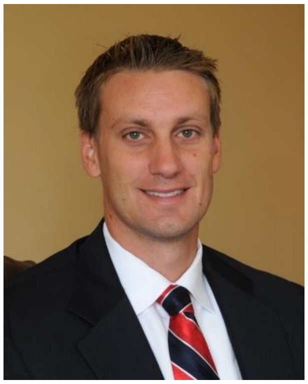


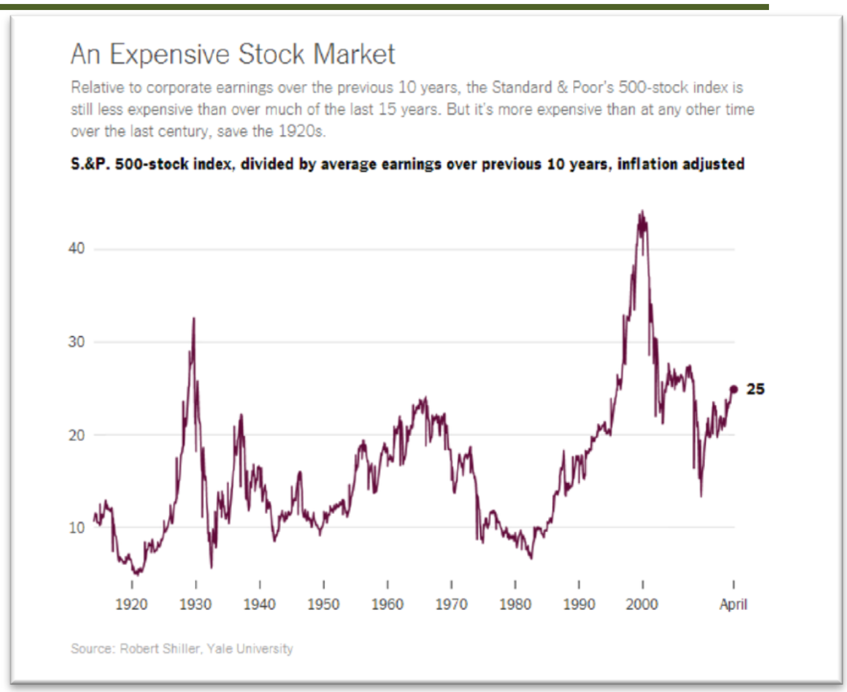
Strategic Investing: Time to Be Watchful

See below for disclosure

Cubby Bice

The S&P 500 touched 1,900 for the first time ever on Tuesday, May 13, 2014. Although the index closed just below that threshold, this marked the third consecutive record close for the Dow Jones Industrial Average (16,715) and Standard & Poors 500 Index (1,897) while the NASDAQ continues to underperform its peers this year amid a rotation away from momentum stocks, especially in tech. (**Source: CNN Money 5/2014)**

The Standard & Poors 500 Index has achieved recent milestones at a very fast pace. Since first closing over the 1,500 line in March 2000, it took the Standard and Poors 500 Index 13 years to eclipse the 1,600 level. After that, this broad based index then logged the next few round number milestones all in the past year. (**Source: CNN Money 5/2014)**



With relatively little fanfare, the stock market currently has caused even some of the most devout of investors to become cautious again.

While the economy has been growing relatively slow for almost five years, the overall stock market has been rising in a strong manner. An investment in the Standard & Poors 500 Index would have doubled from early 2009 through early 2013 and then gained an additional 18% over the last year.

Investors who were more aggressive in their portfolios were rewarded from their equity investments over the last few years. Those who were more conservative and cautious might not have been as lucky. This still should not force investors to consider taking more risk than their situation suggests. Currently, the equity market can be considered high, but interest rate-sensitive investments still need to be evaluated with caution. With interest rates at or near all-time lows, most investors know that in the current economic climate, bond investments, often considered safe, can still pose a lot of risk.

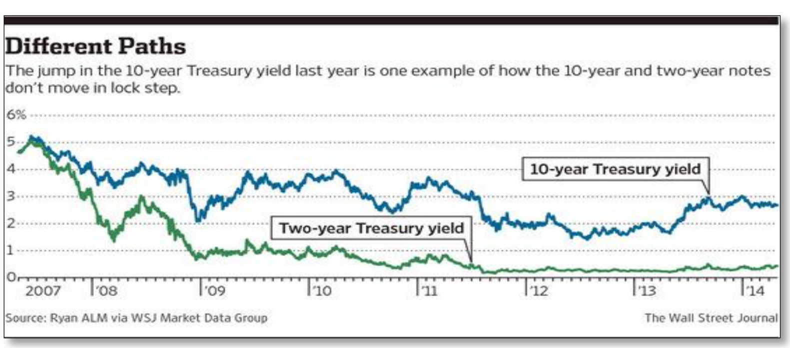
Robert Shiller, a well-respected market follower and Nobel laureate in economics, says his data suggests that today's stock market, relative to long-term corporate earnings, shows that stocks have been more expensive only three times over the past century than they are today. Those other three periods are not exactly reassuring either: the 1920s, the late 1990s and in the prelude to the 2007 financial crisis.

Mr. Shiller reminds investors that some analysts on Wall Street can always come up with justifications for high stock prices. He uses examples such as: “The internet changes everything” or “The business cycle has been repealed.” Some of the current justifications for higher stock prices even have a ring of reality to them. According to Mr. Shiller, “There is no way to predict the future.”

While equity investors need to be cautious, so do bond investors. Even in these uncertain times, some bonds can grow even more sensitive to rising rates at exactly the wrong time. Long-dated bonds are typically among bonds whose rate sensitivity can increase as rates rise. Rate sensitivity, or duration, is a measure of the extent to which a bond's price will move in reaction to a broad movement in interest rates. Rate sensitivity is a big issue for bonds for two reasons.

First, longer term bonds typically are sold in maturities of as long as 20 to 30 years, and in general, the longer a bond's maturity, the more sensitive it can be to broad rate moves.

Second, some of these bonds can be sold with a call, or redemption provision that allows the issuer to redeem them after only 10 years. The issuer might do that if yields are lower at the 10-year date, repaying holders of the existing issue and selling new bonds at a lower, less-expensive rate. As long as investors expect a 30-year bond to be called at 10 years, it many times trades at the prevailing 10-year yield. But if yields were to rise and it no longer made sense to call it after 10 years, the market immediately could reprice it at the higher yield—and lower price—of a similar 30-year bond.



As the "Different Paths" chart illustrates, currently the 10- year and Two- year Treasury yield are not in lockstep.

Although we need to keep a watchful eye on interest rates, Federal Chairperson Janet Yellen’s comments echo her earlier signals that the Fed has no intention of acting soon to raise its key target for short-term interest rates even though the job market has strengthened and economic growth is poised to rebound this year. The Fed has kept short-term rates at or near record lows since December 2008.

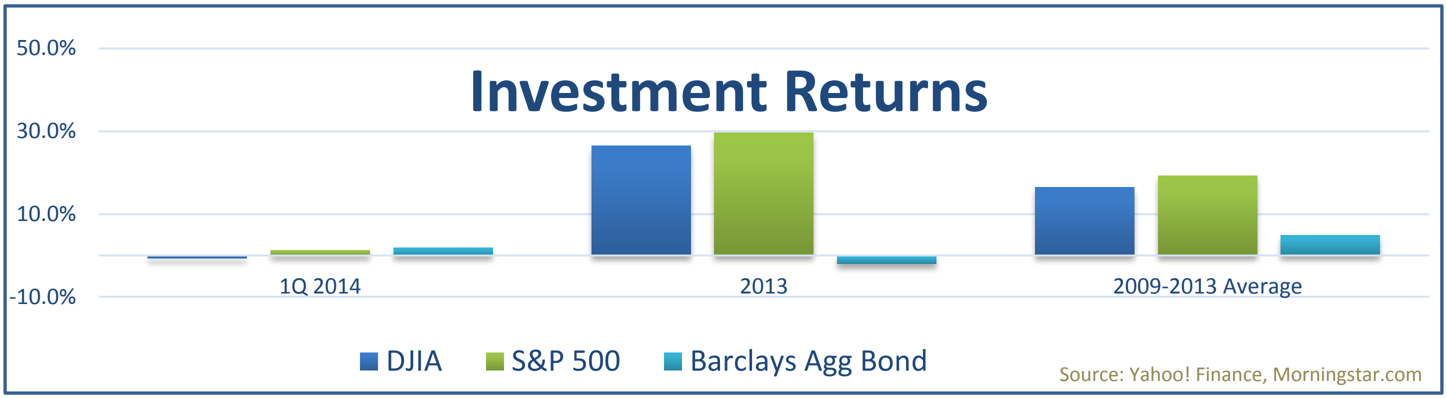
So What Can Investors Do?

Many investors could have been even more adversely affected in the last market downfall if their investments were more aggressive than their situation suggested. During the last downfall, some people felt they could make fast money by purchasing and flipping homes or putting money into speculative investments or trying to pick the right moment to invest in a fallen company. Unfortunately, these people often suffered significant losses.

Sadly, many investors learned that it might be in their best interest to create realistic time horizons and return expectations for their own personal situations and to adjust their investments accordingly. For example, if you will need more cash flow from your investments over the next one to five-year period you might consider different choices relative to someone who has a ten- to fifteen-year time horizon. When contemplating an investment, one question that is very important is, "What is your time horizon?" The answer can help you decide what type of investment vehicle you should consider, which investments to avoid and how long to hold each of your investment categories before making major adjustments.

The concept of diversification always sounds simple, but it’s not! There is no guarantee that even a diversified portfolio will outperform a non-diversified portfolio in any given market environment. Sir John Templeton warned investors not to become discouraged and certainly never to try to recoup their losses by taking even bigger risks.

Investment decisions that are driven by emotion can also cause problems for investors. Vanguard Investments remind us that investing can provoke strong emotions. In the face of market turmoil, some investors may find themselves making impulsive decisions or, conversely, becoming paralyzed, unable to implement an investment strategy or to rebalance a portfolio as needed. **(Source: Vanguard.com, 2014)**



Discipline and perspective are the qualities that can help investors remain committed to their long-term investment programs through periods of market uncertainty.

One strategy you can employ is to turn each of your mistakes into a true learning experience so you can avoid the same mistake in the future. Investors should ask themselves if they might have fared better in a difficult period like 2008 with an advisor to guide them. Investors currently working with advisors should be encouraged to ask themselves several questions including:

- *Do I receive constant and strong communication and updates from my financial professional and their company?*

- *Is my financial advisor available and even initiating a regular discussion and review of my personal situation?*

- *Has my financial professional kept abreast of the ever-changing economic, tax and investment landscape so they can use this information when guiding me in making decisions?*

Hopefully, you answered "yes" to each of these questions.

We strongly believe it is prudent for investors to work with an advisor who offers constant communication and frequent discussions, as well as one who is continually reviewing economic, tax and investment issues and drawing on that knowledge when offering direction and strategies to their clients. We pride ourselves in offering:

- consistent and strong communication to all of our clients;
- a schedule of regular client meetings; and
- continuing education for every member of our team on the issues that affect our clients.

In conclusion, I share with you one of Sir John Templeton's main principles of success. He said, "Success requires study and work. It is harder than you think." We continue to study and appreciate that our clients allow us to do the work.

A good financial advisor can help make your journey a lot easier. Our goal is to understand our clients' needs and then try to create a plan to address those needs. We then monitor your portfolio. While we cannot control financial markets or interest rates, we keep a watchful eye on them. No one can predict the future with complete accuracy, so we keep the lines of communication open with our clients. Our primary objective is to take the "emotions" out of investing for our clients. We can discuss your specific situation at your next review meeting or you can call to schedule an appointment. As always, we appreciate the opportunity to assist you in addressing your financial matters.

Help us grow in 2014!

This year, our goal is to offer services to a limited number of other clients just like you! We would be honored if you would:

- ✓ Add a name to our mailing list;
- ✓ Share this article with a friend or colleague;
- ✓ Bring someone to a workshop; or,
- ✓ Have them come in for a complimentary initial meeting.

Please call **Cubby Bice at 704-696-1030** and we would be happy to assist you.

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Sources: CNN Money 5/13/2014; Vanguard.com 2014; Wall Street Journal; Yale University; Yahoo! Finance; MorningStar.com