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April 17, 2015

Dear Client,

This letter contains news and views that I feel will be of interest to you. As always, please call me at your convenience to set up your quarterly meeting.

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Going, Sebastien, Fisher & Le Bouef, LLP (GSF&L) News:

- Craig and Darren attended the AICPA Advanced Personal Financial Planning Conference January 18-21, 2015 in Las Vegas, NV. Sessions attended included A Guide to the Markets, Generating Income in a Low Yield Environment, Tax-Efficient Investing, and Safe Withdrawal Rates and Using Annuities.

Investment Views:

- ***Morningstar Data - Through March 31, 2015 - Year-to-date returns -*** S&P 500 0.44%, Dow Jones Industrial Average -.031%, NASDAQ Composite (dollars) 3.68%, Russell 2000 7.55%, MSCI EAFE (dollars) 5.92%, and the Barclays U.S. Aggregate Bond Index 0.91%.

- ***The Northern Trust Company – Economic Update – April 2, 2015 –*** It was widely expected that U.S. households would spend the dollars saved from lower gasoline prices. But to date, consumers have been thrifty, and the personal saving rate has moved up to 5.8% in February from a low of 4.4% in November.

- ***Bureau of Economic Analysis – March 27, 2015 -*** Real Gross Domestic Product (GDP) – the output of goods and services produced by labor and property located in the U.S. - increased at an annual rate of 2.2% in the fourth quarter of 2014 as compared to 5.0% in the third quarter. Personal Income increased 0.4% in February as compared to 0.4% in January.

- ***Bureau of Labor Statistics –December 17, 2014 –*** On a seasonally adjusted basis, the Consumer Price Index for All Urban Consumers increased 0.2% in March and over the last 12 months, the all items index declined 0.1% before seasonal adjustment. Over the last 12 months, the index increased 1.3% before seasonal adjustment. In March, the unemployment rate held at 5.5% and over the year, the number of unemployed persons was down 1.1%.

Craig's Thoughts and Views:

Defending Against Inflation

Inflation can be costly to people. For example, when general prices are increasing dramatically, people tend to carry less money on them, and make more trips to their ATM or minimize spontaneous purchases because of a lack of pocket cash. An examination of Hungary after World War II provides an example. For almost a year, prices were increasing by a factor of over 100 every month and wages were being adjusted several times daily (Hungarian Statistical Review). Husbands spent their working day at the factory while their wives traveled back and forth between the factory and the bank to collect paychecks and deposit them as soon as possible before value was lost. The wives' energy could have been directed toward something more productive had it not been for this hyperinflation. Economists call this cost a "deadweight loss."

Some economist and investment advisers who remember the time period from 1962 to 1982 argue that the current economic environment is very similar to that which prevailed back then. During that time period investors had experienced mild annual price inflation of about 1.3% over the previous ten years, only to be surprised when inflation climbed to 5.8% over the next 20 years.

Inflation is usually unpredictable. Looking at the history of the purchasing power of the dollar from 1792 through recent, the dollar has depreciated substantially. When the dollar was backed by (redeemable to) commodities (gold and silver), U.S. citizens were relatively assured that the value of their bank accounts or bonds would not be eroded by a devaluing dollar. Fixed coupon payments and bond redemptions of government securities were well suited for net savers. Common stocks were the haven of speculators.

Today, investors with net savings face a world that is quite different. Since the early 1930s when the dollar's link to gold was first removed, the purchasing power of the dollar had declined sharply. This has caused people to react and adapt to this new risk, but at potentially more cost. Savers have been forced to rely more heavily on returns from riskier assets such as stocks, which have a positive real return over time but have also been more volatile.

Some do gain from inflation. If you buy a bond and inflation rises, you will receive fixed nominal interest payments that have lost purchasing power. The borrower (issuer) on the other hand will gain as he repays his debt obligation with a currency that has depreciated. Therefore, there are winners and losers in every trade that offset each other.

Consider the time period above 1962 to 1982. U.S. Treasury bonds (20-year) were yielding about 4.2% to maturity at the beginning. The previous 10 years annual price inflation had average about 1.3% based on the Consumer Price Index. Actual price inflation averaged 5.8% per year over the next 20 years and as a result investors who held the bonds to maturity realized a loss in real terms. During that time period there were three consecutive years inflation exceeded 8.5% (13.3% in 1979, 12.4% in 1980, and 8.9% in 1981). For the borrowers (in this case) because the bonds were paid off with depreciating dollars. The Fed subsequently put a stranglehold on the money supply and raised interest rates, even at the cost of a recession. But, over the next 20 years annual price inflation was reduced, and averaged 3.2%. For those investors who bought bonds yielding 12.4% in 1982 earned a real return of 8.9% per year when the bonds matured in 2002. However, the U.S. Treasury paid dearly by compensating owners of the bonds (lenders) for price inflation that never came to fruition.

What can an investor do to defend against inflation? There are not risk free solutions to the inflation problem. However the capital markets do offer asset classes that allow investors a trade-off of preserving purchasing power versus capital preservation. Investors can do this by constructing a portfolio that includes the right mix of these assets.

Cash and cash equivalent assets. This asset class includes cash, checking and savings accounts, money market mutual funds, credit union accounts, and high quality debt assets that mature in one year or less. These assets are ideal for those who want capital preservation, but investors will be subject to loss of purchasing power.

Bonds and bond mutual funds. This asset class includes those fixed income securities with a maturity of five years or less. They are riskier than cash equivalents regarding capital preservation, but they provide better protection against potential purchasing power loss. As compared to longer term bonds, short to intermediate term obligations may be better suited for reducing volatility when one's portfolio has a substantial makeup of equities.

Common stocks. This asset class has historically provided real returns that have outpaced inflation over time. However, investors must be willing to sacrifice capital preservation over short-term periods because equity returns have been volatile. Decades of returns data generated in both U.S. and foreign stock markets will show this.

Gold. This asset class has served as a form of money throughout history and has proven to be a store of value relative to world currencies. Gold can also act as a form of portfolio insurance during periods of hyperinflation and other financial crises, when other asset classes have decreased in value. The price of gold is extremely volatile and has served as a poor hedge against price inflation when inflation has been mild.

Throughout history, all world currencies have depreciated over time and caused costs to net savers. The good news is, the capital markets have advanced over the past decades and investors have access to various liquid asset classes to help them tailor a portfolio that meets their trade-off between capital preservation and preserving purchasing power.

Retirement Planning

Retirees and financial planners have used a 4% withdrawal rate rule for 30-year time periods that was based on research done in the 1990s. The research was based on stock and bond returns that occurred during the 1920s through 1960s. When considering your retirement planning horizon is 30 years the right time period. There are various factors that affect your planning horizon, and they are discussed below.

Age. When planning for retirement you should ask yourself at what age do you plan to retire. Social Security has a full retirement age that is increasing from age 65 to age 67. Some if not many retirees may find it necessary to wait for age 70 to maximize the benefit while others may be able to collect at age 62. Therefore, the earlier you plan to retire, the longer your time horizon may be.

Married, Single, and Gender. Are you married or single, male or female? According to Actuarial Life Tables an average male that is 65 today has a 5% chance of living to age 95. The average female has a 5% chance of living to age 98. Married couples at age 65 today have a 5% chance of at least one spouse living another 34 years. If you have a family history of long living or if you are risk averse to running out of money, the 30-year retirement planning horizon may need to be lengthened.

Couple's Ages. How many years in age difference are there between your spouse and you? Research has shown that the average age difference between husbands and wives is about two years. There are many marriages where the age difference is much larger. Couples that retire at the same time with large age differences may need to plan based on the younger spouse's age.

Health. How healthy are you? If you have good genes or you maintain an active lifestyle, there is a good chance you will live longer than the average person. One indicator to look to is your parents and grandparents regarding your potential longevity. If it is common for your ancestors to live into their 90s then it may be important to plan for a longer retirement.

Risk Tolerance. Determining your risk tolerance is important. Are you looking for a plan that will give you a time horizon "on average," or do you need more piece of mind. If so, you may want to consider a planning horizon based on a number of years where less than say 5% or less of retirees will outlive the time period.

The above factors (although not all inclusive) should be considered when assessing an appropriate retirement planning time horizon to be used with a withdrawal rate of 4% or some other rate. How your money is invested is of course important and having the right asset allocation should also be considered in the retirement planning process.

GSF&L, LLP Registered Investment Advisors:

We can never know what the future holds, but we can make informed decisions regarding investment strategies and portfolio allocations. We (GSF&L) make changes based on our perception of opportunities in the capital markets. We assimilate fundamental, technical, and economic information to make informed decisions. Of course it is important to have long-term focus on portfolio management, but with a critical analysis of intermediate strategies.

Managing risks and opportunities are important to portfolios and reaching one's financial needs and goals. Having a complimentary understanding of investment horizon and attitude toward risk are equally important. Markets and economies do not always behave as we expect them to. That is the problem with investing! There is no luck to professional investing. You can no more have a successful, disciplined approach by luck or accident than you can win a chess tournament by luck or accident.

If you know of someone who may fit our financial and investment planning philosophy, please mention our name. We are a small organization and intend to remain so. A solid organization makes it possible for us to spend our time managing our business rather than each other. Because everyone has so much to do, much gets done. We will forego any growth opportunity that may detract from our ability to serve our clients as they have become accustomed to. We never expect to be among the biggest, but our attention to be among the best is not subject to compromise.

Regards,

Craig

Craig C. Le Bouef, MBA, CPA/PFS, CFP®

NASDAQ composite measures the performance of all issues listed in the NASDAQ Stock Market, except for rights, warrants, units, and convertible debentures. The S&P 500 is made up of 500 common stocks representing major U.S. industry sectors. The Dow Jones Industrial Average contains 30 stocks that trade on the New York Stock Exchange (NYSE) which reflect the performance of 30 large American companies. The Morgan Stanley Capital International Europe, Australia, and Far East Index (MSCI EAFE) is a market-weighted aggregate of 20 individual country indexes that collectively represent many of the major markets of the world, excluding Canada and the U.S. The Lehman Brothers U.S. Aggregate Bond Index tracks performance of debt instruments issued by corporations and the U.S. Government and its agencies. The returns for this index are total returns, which includes reinvestment of dividends. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 index, which represents approximately 8% of the total market capitalization of the Russell 3000 index.

All indices are unmanaged. It is not possible to invest in an index.

Past performance is no guarantee of future results.

Diversification does not assure against market loss.

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