Summer 2014

LegacyPress

Waller Financial Planning Group

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Fact

84%...Percentage of U.S. small-business owners say they would still become a small-business owner if they had it to do over again.

- Wells Fargo/ Gallup Small Business Index

Quote

"Summer afternoon – summer afternoon; to me those have always been the two most beautiful words in the English language"

- Henry James

Inside

Q&A with Jason Eliason

Last month Jason Eliason attended the Morningstar® Investment Conference. This forum is annually held in Chicago, Illinois, and is one of the investment industry's most respected annual events. Upon his return we had Jason answer a few questions for us.

What exactly is the Morningstar® Investment Conference?

The Morningstar Conference is an annual gathering of advisors and investment companies focused on providing knowledge, insight, and resources designed to address key financial topics, investment strategies, and perspectives on the global economic issues.

Why is it significant for you to attend the event?

As the Chief Investment Officer of the firm, it is essential to keep abreast of global economic trends, learn from industry experts, collaborate with other advisors, and meet with investment companies in which we invest. The conference is unique in that it creates an environment for sharing of ideas and provides opportunity to interact directly with professional money managers on a personal level. Additionally, there are top notch educational sessions lead by some of the brightest investment minds of today. The sessions are hands on and interactive.

What were you hoping to achieve at the conference?

There were three major themes I wanted to cover during the conference. These included collaborating with other advisors, hearing the industry thoughts on economic issues and investing opportunities, and to interview a number of investment companies.

The idea of collaboration is very important because I want to learn as much as possible from others. We share investment ideas, policies and procedures, and research methods. I have always thought what was good enough today will not be sufficient for tomorrow. A conference like this allows us to stay on the forefront of the industry.

A major part of the conference is hearing from investment managers and economists about global investment markets and economies. I find it quite important to get a sense of what the industry is feeling, and more importantly, the outlook from the companies in which we invest.

Finally, the conference is set up so that advisors are able to complete due diligence on investment companies. We are able to meet with staff and money managers from the various investment companies and discuss their respective strategies. In many ways, these conversations are like an employment interview. We're trying to find out are they as good as they appear on paper?

What did you find most interesting during your attendance?

The conversations with some money managers were what I found most interesting. At the top of my list was my time with Chuck de Lardemelle, CFA, co-portfolio manager of IVA Worldwide (formerly from First Eagle). They have been a staple of most client portfolios for more than 15 years, and have done very well for our clients. Our conversation ranged from thoughts on the Abenomics (the nickname given to the economic policies advocated by Japan's Prime Minister, Abe Shinzo) to the growth of the middle class in emerging markets.

Another highlight was a presentation made by Michael Hasenstab, PhD, the money manager of Templeton Global Bond, which is another staple in client portfolios. Michael talked about emerging market investing, concerns about central bank policies, and the challenges in finding good investment opportunities in fixed income offerings throughout a world in which we are faced with incredibly low yields. One particular point on which Michael elaborated extensively was the policies of the Federal Reserve and the Bank of Japan.

The final item I'd mention that was of particular interest was a presentation by Cliff Asness, PhD. Cliff is one of the founders of AQR Capital Management and a well respected quantitative financial theorist. Cliff's presentation was on investment market efficiency and the on-going debate of the Efficient Market Hypothesis. Cliff can get quite technical, so he is not necessarily an easy person to follow, but I found his presentation enthralling. I have followed his writings for some time, so it was a pleasure to meet him.

Conversation continued on Page 3...

[Investment Management]

Protecting Against Complacency

We are pleased to report the second quarter was quite prosperous. In fact, it was the second best quarter for stock returns since 2009. The S&P 500 Index, a measure of large cap US stocks, was up 5.23% for the quarter.[1] This also marks the sixth straight quarter for positive returns.

Across the board, all of our asset classes posted positive returns for the quarter. Leading the way was real estate, which was up 7.15%. Large capitalization domestic stocks, which were up 5.23%, bested their smaller counter parts. Foreign stocks also performed well during the second quarter, posting returns of 4.09%. We were mildly surprised to see very strong performance out of emerging market stocks, which posted returns of 6.60%. Although not quite as strong as stock performance, fixed income, or bonds, performed better than anticipated. Leading the way was municipal bonds, which were up 2.59%. Overall, all fixed income asset classes posted returns of more than 2.00%.[2]

Of particular interest this past quarter was the continued reduction in volatility. The VIX Volatility Index®,[3] which is a closely followed measure of the current riskiness of the market, is considerably lower from the start of the year. In fact, it is at its lowest point since early 2007. By itself, you cannot read too much into this, but coupled with other measures, we interpret it to mean the market is healthy and not expecting a significant selloff in the near future. Generally, we become concerned when the VIX goes higher, as it is a signal of fear in the market. However, if it continues to slide lower, our concerns will be multiplied. We would interpret that to mean no one is fearful, which is another way of saying investors are becoming greedy. As the great Warren Buffet famously remarked, "Be fearful when others are greedy."

The US economy is squarely in the middle of this current economic cycle, which started in June 2009. Economic cycles are important to identify and understand, as they impact our ability to manage risk and return. Given where we are in this economic cycle, there is very little probably of a recession anytime in the near future. That is not to say we will not see selloffs. The S&P 500 Index has historically averaged four 5% or more selloffs every year. With being in the middle, or mature, stage of the economic cycle, the strength of the economy should help the market recover from these inevitable selloffs. The expected economic strength over the next couple of years will come from consumer and business spending. We believe a continued improvement in the housing market will also be a factor.

It is in our nature to be concerned, and our biggest concern for the next few years is central bank policy. We have seen unprecedented stimulus from our central bank, the Federal Reserve (Fed). Now they are slowly unwinding their positions. In this global world though, we cannot just be concerned with the Fed, but also other countries' central banks as well. For instance, as the Fed is reducing stimulus domestically, the Bank of Japan (BOJ), is drastically increasing their monetary involvement in Japan's economy. Economies are very closely linked today, and what one major economy does can significantly affect others.

If we couple the Fed's current policy stance with where we are in the economic cycle, we conclude inflation and interest rates will increase over the next three to five quarters. Our investment philosophy is predicated on preserving and increasing the real wealth of clients, which can be challenging if inflation were to increase substantially. This will also be an environment that will be quite challenging for fixed income investing. We are going to have to be very cautious with our investments in the various fixed income asset classes. We have already taken numerous steps to hopefully better insulate our bond positions from rising interest rates.

Our near term expectations are for continued growth, although it will be muted compared to the last two and a half years. We anticipate continued modest GDP growth, average stock returns, lower fixed income returns, and an increase in volatility. Most importantly, we have placed an emphasis on knowing when we need to create cash in portfolios. If your personal financial situation has changed, please let us know, as we may need to alter your investment allocation.

[1] Morningstar Office 2014
[2] Morningstar Office 2014; Large capitalization domestic stocks as measured by the S&P 500 Index and the smaller counterparts by the Russell 2000 Index. Foreign stocks as measured by the MSCI EAFE ND Index and the emerging market stocks measured by the MSCI EM ND Index. Fixed Income/ Bonds as measured by the Barclays US Aggregate Bond Index, Barclays Municipal Index, and the Citi World Government Bond Index. Real Estate as measured by the DJ Select REIT Index.
[3] Chicago Board of Option Exchange

[Financial Planning]

“What do you do with sudden wealth?”

Your life has changed. In the blink of an eye you have suddenly come into a substantial amount of money. What are you to do next?

The sudden arrival of wealth will undoubtedly complicate your financial affairs. There will be a number of new decisions to be made. Properly identifying the issues and implementing a deliberate plan will enable you to preserve and grow your sudden wealth.

Unexpected Windfall

Often there is little warning when wealth arrives through an inheritance or life insurance proceeds. While the sale of a business is often completed through meticulous planning, at times deals materialize more swiftly than anticipated. When a substantial amount of liquidity is introduced to one’s wealth there are a number of challenges and opportunities.

Your financial plan will need to be updated. You will have new goals and objectives to address. There will also be income tax and estate planning issues that will need to be evaluated. And yes, you will need to review your investment strategy on how to best deploy these new monies. Without a well developed structure in place these financial considerations may feel daunting.

Emotional Issues

The very nature of how sudden wealth occurs can be very emotional. Inheritance and life insurance proceeds are the result of a lost loved one. A grief stricken beneficiary may feel overwhelmed to make any decisions while mourning. Adjusting to a new life without your loved one will be challenging enough without the looming financial considerations.

Even in the sale of business one will face challenges. Business owners tend to be driven individuals who have committed their life’s work to building a thriving enterprise. Their business provided them a purpose each morning upon wakening. They may now feel lost searching for a role in their new life after selling their business.

Sudden wealth will commonly be accompanied with emotional challenges. Decisions will need to be made. But what are the necessary decisions and when do they need to be made? And what decisions are best made at a later date?

Unite Your Team

Understandably there is great deal of anxiety due to sudden wealth and your emotions could influence your decisions. Therefore, your first step is to coordinate your team of trusted advisors. In addition to providing expertise in the areas of investments, income taxation and estate planning, your team will provide the structure to ensure you are emotionally ready to make any major financial decisions.

When you are ready to make decisions your team of trusted advisors will work with you to develop a unified plan of action. This plan will organize the decisions you will need to consider, manner in which they need to be made and a timeline outlining important dates. The importance of a well constructed unified plan is not that decisions are made, but prudent decisions are made at the appropriate time.

Waller Financial Planning Group is privileged to serve and support our clients in their most difficult times. Through our deliberate processes and dedicated team of professionals we can provide the necessary structure to make sound financial decisions. If you or a loved one is confronting the question, “what do you do with sudden wealth,” please feel free to contact us.

Q&A with Jason Eliason, continued

Can you share a few general takeaways for our clients?

Maybe a bit surprising, but there were not any real takeaways that would cause us to make any policy shifts with regard to our current investment stance. However, I found it quite interesting that many people agreed on three themes: the US stock market is pretty fairly valued right now, investing in emerging markets will be core to future successful investing, and central bank policy is really what is influencing the capital markets extensively right now. As an aside, the crowd was fairly well divided as to whether the Federal Reserve was doing a good job right now.

Did your experience at the conference cause you re-examine the firm’s investment philosophy?

As I previously mentioned, there was really nothing that caused me to pause and question our philosophy. However, there was a great deal of reinforcement that we are doing the right things.

Our investment philosophy is to preserve and increase the real wealth of clients through a disciplined process that focuses on client goals, risk aversions and cash flow needs. I am always trying to find a research technique or investment product that would better help us achieve investment objectives. Conferences like this are truly designed to help us interact with other advisors, with the hope of learning something new, or finding a new research technique or investment product.

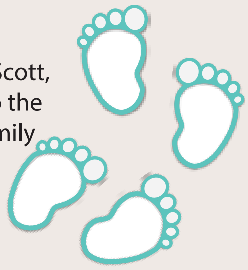
This year, I spent a great deal of time talking with other advisors about research techniques and processes. I take solace that our processes are very good. There were a couple points about Active Share and Smart Beta that I plan on looking into more. There were also a number of the educational sessions about fixed income investing and central bank policies, specifically the low levels of interest rates around the world, which were very beneficial.

One item that was reinforced at the conference is the significant concern about fiscal and monetary policies and the potential to cause high levels of inflation. High inflation is a very serious threat to our ability to preserve and increase the real wealth of clients. Another point were the challenges associated with bond investing over the next decade. Those are two areas we have been focused on the past couple years, and I plan on continuing to allocate our research team’s energy on these two concerns.

[News & Notes]

New Addition!!!

Congratulations Scott and Rachel Rendle! Scott, Rachel and Nicholas have a new addition to the family. Matthew Scott Rendle joined his family on July, 2, 2014 at 7:44 in the morning.



Save the Date

Waller Financial Planning Group will hold their annual Odysseus Awards on the evening of Tuesday, September 23rd. Each year we gather to celebrate and reflect on the impact we have on those around us. This year's event will be held at the Franklin Park Conservatory and Botanical Gardens and we will be recognizing Bob and Shirley Carpenter. Invitations and details for the event will be communicated in the near future.

Keep in Touch

Stay connected with Waller Financial Planning Group on Facebook! In addition to investment news and updates, we will be certain to keep you up-to-date on the activities within our office, our community involvement and the accomplishments of our staff!
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