In This Issue...

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Horsetooth Financial Outlook

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Federal Reserve Policies and Their Economic Impact

The policies of the Federal Reserve directly impact our economy, though the extent of that impact varies. In order to understand the effects of the Federal Reserve's policies, it's important to discern between these policies and those of the legislative branch.

While Congress focuses on a wide range of issues, when it comes to money, their task is what's referred to as fiscal policy: government spending, borrowing, and taxation. To keep the economy balanced and growing, the Federal Reserve steps in to enact what is called monetary policy, primarily focusing on our country's money supply — specifically, currency and price stability. These policies most often involve adjusting interest rates or lending policies to help maintain or reestablish stability with a focus on unemployment and economic growth.

There are two main categories of monetary policy: expansionary, which focuses on increasing the economy's money supply; and contractionary, which focuses on either slowing or decreasing the money supply. Contractionary policy might involve raising interest rates or reserve requirements to discourage lending in an attempt to slow expansion that may lead to inflation. On the other hand, expansionary policy is typically carried out during recessions or times of slow economic growth, when the Fed will often set lower interest rates or reserve requirements to encourage borrowing — particularly by businesses — in hopes of fostering economic growth and addressing unemployment. Monetary policy enacted by

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Investing Before and During Retirement

There are two phases in the life cycle of a retirement portfolio: the time when you're contributing to it and the time when you're using it to cover your living expenses. During each phase, the basic challenge is deciding how to invest your nest egg; and for that, there are three common approaches:

- **Going with your comfort level.** Most people have some idea as to what investments appeal to them, either because of the rate of return they associate with them or how much safety they seem to offer. Whichever it is, people tend to pile their retirement funds in one place — which can cause problems if there is a significant decrease in that investment.
- **Using a one-size-fits-all formula.** There are at least several of these formulas floating around. On the theory that the closer you get to retiring the more conservative you should become, one says you should subtract your age from 100, treat the result as a percentage, and put that portion of your portfolio in stocks and the rest in bonds. Another follows the same method, but suggests you subtract your age from 120. The appeal of this approach is that it's simple and unambiguous. The downside is that the results don't take into account the details of your circumstances.
- **Using a financial plan.** A plan includes all the details that the other two methods leave out. It's by far your best bet for achieving your retirement goals, since it takes your circumstances and the state of the economy into account.

Before You Retire

The key factor is to determine

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Federal Reserve

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the Fed in the past decade has been largely of a more expansionary nature, although this policy has most recently begun to take a different turn.

The Fed's most notable changes in recent years have been setting unusually low interest rates. Beginning in 2008, they initiated what would become a seven-year period of record-low interest rates with the goal of revitalizing the economy and encouraging spending. Lowering interest to speed up the economy is nothing new — the idea stems from the theory that lowering these rates will encourage spending and borrowing via lower-interest credit cards, loans, and mortgages. The hope is that as more money becomes available to spend, consumer demand will increase and businesses will expand to meet that demand. As prices slowly increase, confidence in the dollar and, therefore, investing will follow. As predicted, this seven-year period of low interest rates did just that, though many financial commentators argue this growth has been mediocre at best.

This is because economic growth is *nearly always* measured by a country's gross domestic product (GDP), which is essentially its output of goods and services. Critics of the government's recent fiscal and monetary policies note the diminished average annual gross domestic product (GDP) growth percentage of 1% from 2008–2014, as opposed to nearly 3% between 1988 and 2007. This lower GDP rate, coupled with a national debt that has more than tripled since 2008, has left many people and economic experts jaded about both monetary and fiscal policy.

Still, forecasters with a more optimistic outlook point to a mostly gradual increase in the GDP growth rate each year (with the exception of 2013), asserting that the 2014 GDP growth percentage of 2.4% marked the highest annual rate in four years, more closely resembling pre-2007 rates. Furthermore, *The S&P Case-Shiller Home Price Index* has noted a stronger housing market since 2012, with an average housing price increase of over 6% per year in spite of month-to-month sales fluctuations. This is up from a reported 33% price fall between the 2006 housing peak and 2012.

In light of labor market indicators, which the Fed believes point to both decreasing unemployment and sustained job gains, monetary policy has most recently begun to take a different shape. In December, the Fed announced plans to gradually increase interest rates in increments of .25% and .50% over the next three years. In addition to increased confidence in economic growth, they expressed concern that prolonged record-low interest rates could be dangerous in the event of another economic lapse, since they'd either be unable to slash interest rates or face lowering these rates into the negative zone.

Interest rates changes aren't the only monetary policy tool implemented by the Fed. As our Central Bank, the Federal Reserve also controls reserve requirements and lends money to U.S. banks. In December, the Fed tightened these lending policies, announcing a .25% interest rate hike on emergency loans to banks. They also declared they would no longer lend any emergency funds to banks facing bankruptcy. Part of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the new policy will essentially shelter taxpayers from inheriting the potentially costly burden of banks' financial mistakes.

Critics of these new policies, particularly the Fed's decision to raise interest rates, argue that historically, interest rates have only been raised during times of increasing inflation; they assert that with inflation still low by historic standards, the rate hike decision could discourage buying and investing, further stalling the economy from stronger growth.

Please call if you would like to discuss the impact of recent economic trends on your finances. ❍❍❍

Straightening Out Your Financial Accounts

It's not uncommon to accumulate things over the years without taking time to straighten them out periodically. That applies to our finances as well as to our possessions. How many credit cards do you carry? How many financial accounts do you own? Often, these assets are acquired without a clear-cut strategy, so you may own assets with similar investment objectives or that are not compatible with your financial goals. If you feel it's time to straighten out your finances, consider these steps:

- ❍ Make a list of all your assets and debts. List each one individually, so you have a sense of how many different accounts you're dealing with.
- ❍ Go through each one of your investments. Make sure you understand why you own each one. Are you really adding diversification to your portfolio, or do you have overlapping investments? Assess the prospects of each investment and decide whether you should continue to own it.
- ❍ Look for ways to consolidate accounts. Try to get down to one bank account, one brokerage account, and one IRA. This can significantly reduce the time needed to review and reconcile accounts.
- ❍ Assess your outstanding debts. Do you really need all those credit cards? Consider keeping only one or two cards, so it'll be easier to monitor balances. Look for ways to reduce the cost of your borrowing. Is it time to take another look at refinancing your mortgage? ❍❍❍

Investing Before

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what rate of growth you need to achieve in your portfolio to retire with a nest egg capable of supporting you for the rest of your life. It's a balancing act between how much you can afford to put aside every year, how much growth will maximize your nest egg, and how much risk you feel comfortable taking.

By analyzing these factors, a good financial plan produces a recommended asset allocation strategy that specifies how much of your portfolio should be invested in stocks, bonds, cash, commodities, and real estate. The mix in which you invest aims at a target rate of return and risk level that both meet your goals.

In general, the younger you are, the more risk you can afford to take since you will have many market and economic cycles to smooth out your returns. It's generally true that the closer you are to retiring, the more conservative your portfolio should be. But this doesn't suggest the precise proportions to place into each asset class.

After You Retire

Before you retire, your asset allocation strategy is driven largely by the goal of creating the largest possible retirement portfolio within the limits of your tolerance for risk. After you retire, the goal shifts to keeping your retirement portfolio large enough to continue generating the supplemental income you'll need.

While this shift means your strategy aims for less growth and risk than in the accumulation stage, it's usually a mistake to revert to the most conservative strategy possible. That's because your portfolio gets eroded over time by:

❍ Inflation, which means the real value of your portfolio gets smaller every year.

❍ Taxes on income and capital gains in taxable accounts and withdrawals from nonRoth IRAs.

❍ Withdrawals you make to support your lifestyle.

Because of this constant shrinkage, some portion of your portfolio needs to be invested in stocks, which is a riskier asset class but the one that typically stays ahead of inflation, taxes, and reasonable rates of withdrawals.

Please call if you'd like to discuss your situation. ❍❍❍

Recent Employment Trends

During the recession of December 2007 to June 2009, unemployment rates rose from 5% to 9.5%, peaking at 10% in October 2009. Since that period, unemployment has gradually dropped each year, with an average of 5.3% in 2015, a seven-year low more closely resembling prerecession unemployment figures. Economists generally agree that a healthy unemployment rate is 4–6%, arguing that a 0% unemployment rate is impossible because of the inevitability of frictional employment, a term used to account for people in between jobs; and structural employment, which accounts for workers without the skills necessary to fill current open positions.

Traditionally, low unemployment correlates to higher wages. When unemployment rates are high, wages are low and vice versa.

In the spring of 2014, a report by the United States Conference of Mayors showed that in spite of unemployment rates rebounding, wages were down an average of 23% when compared to wages prior to the 2008–2009 recession. This is nearly double the wage gap following the 2001–2002 recession. Some economists are concerned that because these stagnant wages are inconsistent with increased productivity, many workers have been asked to do more for less pay.

Another figure to consider when looking at employment rates in the U.S. is the underemployment rate, which you can think of as a measure of how well American workers' skill sets are being utilized. The underemployed are people working in positions that fall below their actual skill or salary capacity, such as an accountant working as a waiter, along with the number of workers employed part-time but seeking full-time positions. The underemployment rate reported by the Bureau of Labor Statistics includes unemployed people as well. In 2015, the U.S. underemployment rate was at nearly 15%.

Beyond lower wages, both unemployment and underemployment can negatively impact the economy in several ways. Reduced wages means reduced disposable income, translating to less overall spending and slower growth for businesses. Additionally, more people collecting unemployment benefits — typically funded from federal and state imposed employer taxes — can hamper economical growth. Employers pick up much of the tab for these benefits in the form of increased tax rates, a financial burden that can ultimately affect their expansion and ability to hire more workers. Furthermore, some economists assert that prolonged unemployment can lead to decreased incentive to find new employment. ❍❍❍

Financial Data

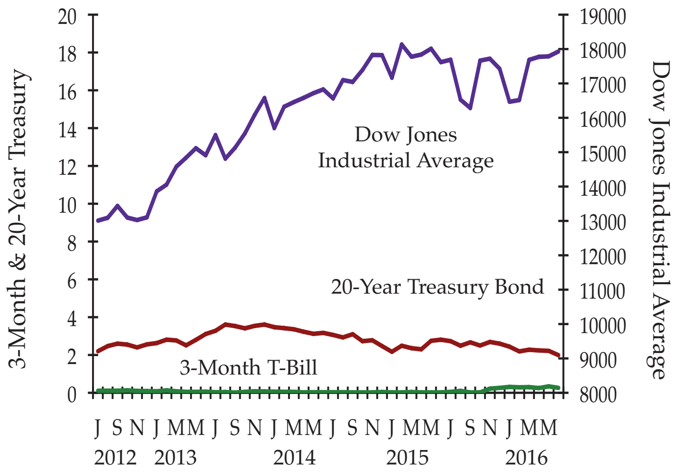
Indicator	Apr-16	May-16	Jun-16	Dec-15	Jun-15
	Month-end				
Prime rate	3.50	3.50	3.50	3.50	3.25
Money market rate	0.25	0.25	0.27	0.27	0.34
3-month T-bill yield	0.25	0.34	0.26	0.26	0.02
20-year T-bond yield	2.24	2.22	1.99	2.60	2.81
Dow Jones Corp.	2.80	2.89	2.78	3.43	3.25
30-year fixed mortgage	3.16	3.17	2.97	3.58	3.69
GDP (adj. annual rate)#	+2.00	+1.40	+0.80	+1.40	+0.60

Indicator	Apr-16	May-16	Jun-16	YTD	12 Mon.
	Month-end			% Change	
Dow Jones Industrials	17773.64	17787.20	17929.99	2.9%	1.8%
Standard & Poor's 500	2065.30	2096.96	2098.86	2.7%	1.7%
Nasdaq Composite	4775.36	4948.05	4842.67	-3.3%	-2.9%
Gold	1285.65	1212.10	1320.75	24.3%	12.8%
Consumer price index@	238.10	239.30	240.20	1.2%	1.0%
Unemployment rate@	5.00	5.00	4.70	-6.0%	-14.5%
Index of leading ind.@	123.10	123.90	123.70	-0.7%	0.7%

— 3rd, 4th, 1st quarter @ — Feb, Mar, Apr Sources: *Barron's*, *Wall Street Journal*

4-Year Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield

July 2012 to June 2016



Past performance is not a guarantee of future results.

Summertime…Blues and Rules

At a national sales conference I attended recently in San Diego, I reminisced over how the investment banking business has rocked and rolled over the past 30 years or so. The philosophy of how I manage my practice and serve my clients' interests has never changed.

I have always made it a priority to:

a) Assist clients in defining and accomplishing their financial goals.
b) Be a positive and productive asset in their life.
c) Help educate clients and their extended family via estate planning to help protect and preserve all their assets.
d) Be proactive and not reactive with financial management advice.
e) Constantly help clients assess their risk and potential reward profile.
f) Help clients navigate life's relentless obstacles, many of which have nothing to do with money.
g) Reinforce the importance of trust, friendship, positive family interaction, and being involved in community and charitable giving.
h) Be a giver, not a taker.

The perception of the investment advisory business terminology has transitioned from stock broker, advisor, and financial planner to wealth manager. It doesn't seem like there is just one word that ever effectively defines what I do, which is probably why every five to 10 years, someone comes up with another title. Since I ventured into this industry, I have consistently been relied on by clients to carry those hats. I could easily add divorce psychologist, estate planner, legal interpreter, political analyst, will advisor, and more.

I can never overemphasize how privileged I am to help my clients, as they become friends and my extended family, to a place that provides goals and reason to our financial decisions; and in the process, leave a positive footprint for the coming generations.

In a recent letter sent to clients, I outlined recent actions taken by the U.S. government to extend an interpretation of fiduciary standards by the DOL into an area that should be regulated by the securities industry. I consider this to be an overreach of authority by government that can eventually lead to negative results for clients and the future of the investment advisory industry. Let's call it misguided politics. We all are still waiting to see how some of these initial rulings will be finalized and enforced.

It is more than ironic that the current government administration is more than willing to impose unreasonable burdens on industries that are the most productive at producing profit and capital formation; yet when it comes to applying "fiduciary standards" to their own actions, they are clearly ignored.

We need government which is held to a fiduciary standard that we, as citizens and taxpayers, live by every day; spending our hard-earned tax dollars as good stewards, judiciously, and supporting the goals and financial interests of us all. Our future generations need to be able to look back on our personal and public lives and use that as a map for success, not failure.

For me, the government's recent actions regarding the DOL fiduciary rule is an example of "calling the kettle black." Hopefully, we will see some refined legal action that improves rather than diminishes the quality of future investment advice.

Thank you for your trust and confidence!

I look forward to speaking with you in the near future.