

Argus Financial Consultants

A. Christopher Engle, LUTCF,
CFP®, ChFC®, AEP®

Ryan P. Smith, ChFC®,
CASL™, CFP®

Brian C. Sandberg, ChFC®

Peter M. Smith

971 Spaulding SE, Suite B
Ada, MI 49301

616.949.8300

www.EyeOnArgus.com



Hello Everyone,

This quarter we are welcoming back Lisa Wilkie as our Marketing Associate. We look forward to having her back on the Argus Financial Consultants team!

As always, please do not hesitate to contact us if you or someone you know experiences a life changing event and needs guidance. We are always available to answer questions and be a resource for our clients and friends.

If you are inspired to read more financial information, visit our Learning Center at www.EyeOnArgus.com.

Please feel free to suggest topics by sending your suggestion to Joy at joy@EyeOnArgus.com.

Inside this issue:

- ◆ The Market's At An All-Time High, Unless It Isn't
- ◆ Avoiding Debt or Creating Debt
- ◆ Choosing Your Trustee
- ◆ Social Security Tip



Excellence is Defined by the Success of Our Clients

Spring 2013

The Market's At An All-Time High, Unless It Isn't

By about noon on March 5, as the Dow Jones Industrial Average convincingly breached its previous all-time high, the ever-vigilant financial journalists of CNBC.com rushed onto their website an article titled "Dow Hits All-Time High: What's Next for Lofty Stock Market?" And by five o'clock eastern time, they'd dropped the other shoe: "Dow Breaks Record, But Party Unlikely to Last."

The former piece was premised on the fiction that because the market had gone up a lot, it was—nay, it must be—somewhere between richly valued and wildly overvalued. The latter simply went around and interviewed every bear from whom it could get a quote on short notice—because, like most mainstream financial journalism, it was driven by a relentless, single-minded commitment to pessimism. And nothing ever seems to enrage financial journalism as much as does a rising market.

I mention this only because you may be so inured to financial journalism's negative bias that you don't realize it's being done to you. But that isn't at all the point of this little essay, which is to examine, as dispassionately as possible, the intellectually indefensible notion that because the equity market is nominally in new high ground it must, ipso facto, be "lofty" by any objective standard. (Ah, but then again, today's financial journalism doesn't seem to have objective standards. It has only its negative bias, and its commercial need to put up headlines that net surfers will stop and read.)

Let us then examine the three moments when the equity market has been at or near the level it reached when the Dow broke out on March 5. But permit me, if you will, to perform this analysis with reference to the Standard & Poor's 500-Stock Index, which—if for no other reason than that it encompasses about 80% of the publicly held common stock in America—offers in my opinion a more complete and accurate picture than do the thirty stocks in the Dow.

Just before doing so, let me ritually deny anything predictive in what I'm about to do. There is not a whisper of a forward-looking statement in this essay, and if you think you hear one, I assure you that it's in your own head. I simply propose to inquire into the relative valuation of the Index at this moment—in the neighborhood of S&P 1,540—compared to the valuations which prevailed the last (and only) two times the Index visited this neighborhood.

The first time the market reached these levels was in March 2000. That year, the earnings of the Index were \$56 and the dividend about \$16.25. At its peak just below 1,530, then, the Index was trading at just over 27 times its current-year earnings. At that time stocks were also competing with a current yield on the 10-year U.S. Treasury bond close to 5.8%.

The second event was the all-time high in October 2007 at 1,565. That year's earnings were \$82.54 and the dividend \$27.73. Thus, the Index was selling at about 19 times



Continued on next page

Continued from previous page

earnings. The yield on the 10-year Treasury was around 4.5%.

Can you see from these data that stocks were quite a bit cheaper in terms of earnings at the peak in 2007, and that they were also somewhat more attractively priced relative to competing bond yields, than they'd been at the top in 2000? Because if you can, you may have an inkling of what's coming next.

On March 5, 2013—the day the Dow made its new all-time high—the S&P 500 closed just a whisker below 1,540. (It may be a little higher or lower by the time you read this, but I hope by now you see that that isn't going to matter.) The earnings of the Standard & Poor's 500-Stock Index **last year**—forget about 2013's higher estimates for a moment—were over \$102, with the dividend at about \$30.44. Thus, the Index was selling at about 15 times the last year's earnings. *The 10-year Treasury was yielding 1.89%.*

I'm sure you've already grasped the point, but perhaps you'll indulge me while I spell it out: **At roughly the same price level it was thirteen years ago, the S&P 500 is selling for pretty nearly half the multiple of earnings it was then. The dividend yield is almost twice what it was then. And both the earnings and the dividend compare much more favorably to bond yields than they did then.**

Avoiding Debt or Creating Debt?

Because I have two children in high school, an article in the local Grand Rapids Press over the weekend caught my attention. It was reprinted from the Wall Street Journal. The author discussed how complicated it was for her and her husband to develop a plan for paying for college education. What really struck a chord with me was their discussion of the possibility of borrowing for education. Her husband was opposed to any debt at all. In fact, he would prefer to cash out retirement savings in order to eliminate any debt. Does this "avoid debt"?

I say no, it does not. We build our retirement savings in order to pay for future anticipated expenses when we no longer work. We either have enough saved or we do not. If we do not, then that is debt that we owe our future selves. If we borrow from our future selves, we either pay it back through additional savings or we will cut back on expenses in

This is "lofty"? Forgive me, but you'd have to be operating with no objective valuation standard whatsoever in order to conclude that equities are expensive—on their own earnings, and especially relative to bonds—compared to where they were the last two times the market peaked in the 1,500s.

Does this mean they have to go up from here? Of course not: nothing means stocks have to go up, and I've already forsworn any prediction, real or implied. Moreover, valuation is never a timing tool. I'm simply (if somewhat laboriously) making a suggestion that I'm highly confident your financial advisor will warmly endorse. To wit: **please don't let financial journalism do your thinking for you.** Given their biases, long-term historical perspective isn't something those folks are ever going to be particularly good at—especially when compared to you and your advisor, reasoning quietly together.

© April 2013 Nick Murray. All rights reserved. Reprinted by permission.

The opinions by Nick Murray voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested into directly. Stock investing involves risk including loss of capital.



This article was taken from our blog.
You can read our blog at
www.EyeOnArgus.BlogSpot.com

Choosing Your Trustee

As the nation's leading independent broker/dealer*, LPL Financial serves the independent financial advisor with the highest quality support services available. Through the Private Trust Company, N.A., a wholly owned subsidiary of LPL Holdings, LPL Financial has the ability to deliver fully integrated administrative trust services to you in a seamless manner, while maintaining your relationship with your trusted advisor.

The Trustee – A CEO for Your Estate

A trustee's role is to administer and distribute the assets in the trust according to your wishes, as expressed in the trust document. There are three primary elements to the trustee's role:

- Custody – The trustee oversees the preparation of appropriate tax returns and all the trust accounting in compliance with complex state and federal laws.
- Asset Management – The trustee is ultimately responsible for the preservation and investment of assets in the trust, ensuring that invested assets are productive and managed appropriately given the trust's objectives.
- Administration – The administrative role is central to carrying out your wishes regarding the use of assets in the trust. The trustee carries out your directions and follows your guidelines in handling the specific circumstances of each request for funds from trust beneficiaries. Experienced and unbiased trust administration and record keeping are vital components to implementing your plan.

Why Use a Professional Trustee?

Trustees may have to make tough decisions that might not be popular with all your beneficiaries. After all, the trustee is carrying out your instructions, not your beneficiaries' wishes. This can be a difficult role to fulfill for a family member, who may not be unbiased, or may wish to act in a manner that avoids hard feelings within the family, rather than carrying out your instructions.

- The benefits of naming a professional trustee include:
- Unbiased loyalty and independence to carry out your wishes
- Knowledgeable management, protection and defense of trust assets
- Consistent annual reviews



- Experienced oversight of the investment process to be carried out by your financial advisor
- Timely and accurate statements on the account to keep you and all current beneficiaries informed
- Accountable collection and prudent distribution of income and assets
- Tax reporting, filing and comprehensive regulatory compliance on behalf of the trust



Why Use The Private Trust Company?

The Private Trust Company is an independent trust company dedicated to the administration of trusts and other family wealth arrangements such as family offices, businesses and foundations. The advantages of choosing the Private Trust Company include:

- Experienced and knowledgeable trust officers with backgrounds in law, accounting, banking, investment management, tax and business
- Trust officers who are sophisticated professionals with objective family sensitivities
- Chartered as a national bank devoted solely to trust services for families
- Regulated and examined by the Comptroller of the Currency, audited by independent auditors and bonded to protect your assets
- Able to provide trust services in all 50 states
- Designed to work with your financial advisor as a team player, providing timely and accurate statements to you and your other advisors
- Helps you develop a written investment policy statement to provide a clear understanding of your goals, objectives and guidelines for the trust
- Accounts are reviewed annually and investment policies are revised as appropriate to reflect changes to the portfolio, client circumstances and markets
- Wholly owned by LPL Holdings

By creating a trust, you are taking an important step in managing your wealth and maximizing the value of your estate. Selecting a trustee or successor trustee is a decision that will determine how well the trust functions for you and your beneficiaries over the years.

*As reported by Financial Planning Magazine, June 1996-2012, based on total revenue.

Securities offered through LPL Financial, Member FINRA/SIPC.



Like us



Network with us



Follow our blog



Social Security Tip

There are special rules that make it possible for people receiving Social Security disability benefits or SSI to work and still receive monthly payments. There are a number of work incentives such as continued cash benefits while working, continued Medicare or Medicaid while working, and assistance with education, training, and rehabilitation. Visit www.socialsecurity.gov/work for more information.



The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and may not be invested into directly.

Argus Newsletter Spring 2013



Argus Financial Consultants
971 Spaulding SE Suite B
Ada, MI 49301