



## The "Market" & Our Globally Diversified Strategy and Technology Enhancements for 2015

As we start the New Year, I'd like to take the opportunity to thank you and all of our clients for allowing us the opportunity to play such an important role in your lives. I know it's only money, and there are many things that we may value to a much greater degree. However, the trust and confidence you have placed in us over the years is humbling, and valued more than you will ever know.

With 2014 now behind us there are a few things I'd like to address. Last year was a good year for the S & P 500 Index (as well as for the DOW Industrial Average) and large company U.S. stocks, but a very modest year overall for globally diversified portfolios. Putting investment returns in perspective relative to "the market" will be helpful in outlining the importance of maintaining a consistent strategy. Looking forward to 2015, we will be begin implementing some real "value added" technology initiatives (for those of you who elect to take advantage) that will provide online encrypted access to your total financial picture (including assets and debts held separate from our Firm). We will also be able to establish your own "personal vault" that can contain all of your important documents and information (wills, health care directives, legal agreements, tax returns, etc.) and can be accessed from anywhere at any time by you or your loved ones.

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Andrew Brief, ChFC

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your thoughts and  
are looking forward  
to your next review...

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## Is the S & P 500 Really Diversified?

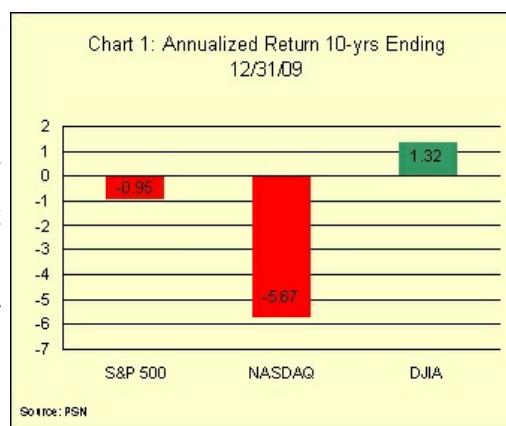
Diversification<sup>1</sup> is defined in the dictionary as "To distribute (investments) among different companies or securities in order to limit losses in the event of a fall in a particular market or industry." Although the S & P 500 Index contains 500 stocks, it is not diversified based on our definition and to the extent that is necessary to satisfy a prudent portfolio strategy. The



index contains only large company U.S. stocks, and due to how the index return is calculated (capitalization-weighted), only a dozen or so of its largest holdings influence a significant majority of its returns (source: Morningstar). The last few years has been very good for large company US stocks in particular (S & P up over 13% and the Dow up over 8% in 2014 - source: Morningstar);

however, most other "asset classes" like international, emerging market and small company stocks, as well as various fixed income/bond and commodities have not fared as well during this period.

There have certainly been recent market cycles where U.S. large company stocks (and the S & P 500 Index) have under performed other asset classes. Over the entire decade ending in 2009, the S & P 500 Index was down over 9% (source: Morningstar). I imagine if our portfolio strategy concentrated too much of your money in large company U.S. stocks over this time frame, many of you who were retired would have been forced to go back to work! By design, other asset classes that were included in our globally diversified strategy provided the positive returns



necessary so the total portfolio returns were sufficient to meet your income and growth goals. But logic

dictates that if our goal is to limit losses during certain market conditions, then aren't we also limiting gains? The answer is inevitably yes. So why are diversification and consistency of performance more important than trying to always maximize returns regarding the management of your portfolio? Of course our supposition and investment philosophy outlined assumes that nobody has a crystal ball and can predict the timing and change of market prices accurately on a consistent basis.

## Volatility & Expectations

From our perspective, volatility is synonymous with market risk. The greater the volatility a portfolio exhibits over time, the greater the desire may be to abandon a well thought out long term strategy at the most inopportune time - when market prices are low. For those that were over-exposed to the S & P 500 index from 2000 to 2009, it is hard to imagine that those investors were patient enough to withstand 10 years of overall negative performance to actually maintain that exposure as the S & P 500 reversed its under performance for the past 5 years. Additionally, how would they have fared if they also required income from their portfolio throughout that decade? On the

other side of the coin, most of you remember the tech bubble and the significant losses many investors incurred by concentrating more and more



money into the tech sector as prices peaked, followed by the panic selling that ensued as prices plummeted. Buying high and selling low with a significant portion of one's portfolio is never a good recipe, and making that mistake only once during retirement or, when accumulating funds for retirement, can significantly and permanently affect long term financial security. So although we may be reducing some growth potential

during certain market environments by enhancing portfolio diversification<sup>1</sup>, the reduced volatility potential during uncertain markets is an important ingredient in maintaining a productive long term investment strategy and a consistent and sustainable income stream from your portfolio in retirement.

Retirement income adds another dimension to the diversification<sup>1</sup> story. If our objective is to reduce the need to produce income from segments of your portfolio that are temporarily under performing (to avoid "selling low"), then the more diversified your portfolio, the greater the options will be to produce income from areas of the portfolio that have had good relative performance ("selling high"). Of course maintaining the proper portfolio allocation to meet your specific income goals and your comfort level regarding volatility are also factors in determining the appropriate distribution strategy as time progresses.

Below is a link to a video produced from one of our investment partners who also utilizes diversified fund strategies (specifically with DFA Funds) for their clients. It may help to clearly summarize our discussion:

**Watch This Video:**

<https://www.youtube.com/watch?v=8FHFkNWxph4>

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## Continuing to Add Value

As you know, a crucial component of our relationship and your financial success is our comprehensive annual review. Although there are likely more frequent contacts throughout the year to discuss specific needs as they arise, it is the annual review that helps ensure that you are "on track" regarding your financial goals or allows us to identify issues that may be important to get you back on track, if necessary. It is also a time when we gather all of your financial data (including any accounts held "outside" of our firm) to provide a comprehensive

look at your asset allocation and complete a Retirement Income Analysis for many of you who are retired or soon retiring. To get a complete picture of your standard of living need, we may analyze the changes in bank account and debt balances throughout the year as well as identify the "movement" of cash that may not be associated with your future spending needs. As you know, sometimes this data gathering process can be time consuming and cumbersome; however, the value of the comprehensive review can be greatly diminished if the data we are gathering does not provide a complete and accurate appraisal of your situation.

Additionally, many

times a more

frequent

comprehensive

review may be warranted, or you may simply want to be able to view your entire financial picture in

one place at any time from any computer or mobile device. Although we are always willing to present a comprehensive review at any time, gathering all of the up to date information necessary to provide such a complete picture on a frequent basis was not feasible - until now!



Our solution to this issue is *HDR 360*. For those of you who are comfortable providing electronic links to your "outside" accounts (you may already have these links set up with your home computer), we will be able to provide you (and us) with a comprehensive financial picture at any time for all of your accounts - updated daily. There will be multiple reports available through this service including budgeting and cash flow analysis. As either a separate or combined feature, we are also introducing the *HDR Personal Vault*. This will allow you to store any and all of your personal data (wills, trusts, healthcare proxies, insurance policies, deeds, insurance appraisals - anything) that can be accessed at any time by you or your loved ones. From an estate planning perspective, the process of transitioning assets to the next generation will be greatly facilitated.

From our perspective, having an up to date and immediately accessible source to easily compile all of your financial data will only enhance our ability to

quickly provide accurate and useable advice at any time. It will reduce the time necessary to prepare for comprehensive reviews (save you time as well) and allow us to increase the frequency of those reviews as necessary. It will also help us be more pro-active in identifying and addressing issues that may be important to your financial success.

Of course this service is optional, and for those of you who do not want to participate, we will continue to provide the same level of service and attention that you have become accustom. For those of you who are considering *HDR 360*, *HDR Personal Vault* or both, please be aware that the electronic connections are fully encrypted and secure and although there may be a bit of time and effort involved in getting things set up, I have little doubt you will find the process well worth it. Either way, I invite you to view a short video on these important relationship enhancements. Please click the link below. As we are able to roll out *HDR 360* and *HDR Personal Vault* in the coming months, we will be in touch with you to address any questions and to get things underway.

### **Watch This Video:**

<http://mediahub.financialpicture.com/view/6756/469>

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**Best Wishes,**

Andrew Brief, ChFC  
Rick Nacius, CFP®  
Christina Dziadzio

### **Hudson Dynamic Retirement**

<sup>1</sup>Using asset allocation and diversification as part of your investment strategy neither assures nor guarantees better performance and cannot protect against loss of principal due to changing market conditions

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