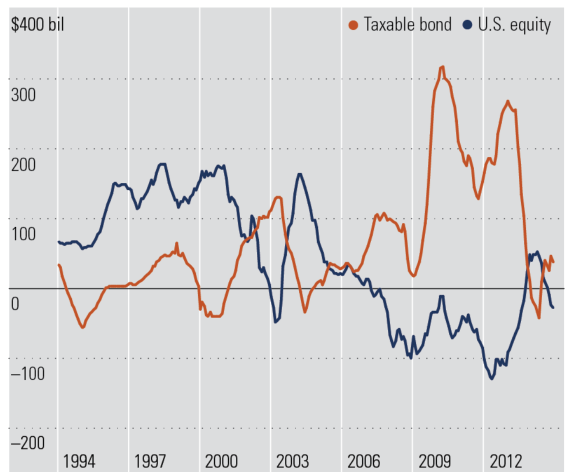
March 2015 | Vol. No. 36 | Newsletter

Bond Versus Equity Fund Flows

Fund-flow data can be a useful for analyzing where investor money is going and how fund-flow trends are correlated with asset-class performance. Between 1994 and 2001, equity flows were higher than bond flows, but all that changed after the dot-com crash when investors started losing confidence in stocks.

The 2007–2009 crisis on the graph illustrates how investor behavior is tied to market performance, even though the timing may not always be right. In 2009, as the stock market hit bottom, investors should have been buying cheap stocks, but instead bond flows increased. In 2012, stock inflows started to climb again. The upswing was short-lived, however, and stock flows have once again been on the decline since April 2014.

Rolling 12-Month Fund Flows

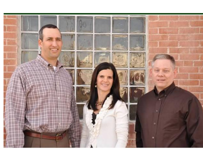


Source: Morningstar Direct. Funds analyzed include U.S. open-end mutual funds. Data as of December 31, 2014.

The investment return and principal value of mutual funds will fluctuate and shares, when sold, may be worth more or less than their original cost. *Mutual funds are sold by prospectus, which can be obtained from your financial professional or the company and which contains complete information, including investment objectives, risks, charges and expenses. Investors should be read the prospectus and consider this information carefully before investing or sending money.*

Returns and principal invested in stocks are not guaranteed, and stocks have been more volatile than bonds.

What's Happening at SWA



The SWA Team

Info@xpertadvice.com
480-998-1798
www.Xpertadvice.com

April 15th is arriving soon. Just a friendly reminder to submit all required tax documents (form 1099s, W-2s, etc.) to your tax accountant for your 2014 income tax returns. Please contact SWA if you need assistance.

Monthly Market Commentary

In recent international news, the eurozone and Greece agreed to extend Greece's aid program, which helped European and North American stock markets to dash to the upside along with higher interest rates.

Employment: The U.S. economy added a surprisingly strong 295,000 jobs in February, well ahead of the market's expectation that just 240,000 jobs would be added. The growth figure was also well above the 12-month average of 275,000 jobs added.

However, the trend over the past several years has been that, despite seasonal adjustments, job growth has looked remarkably strong in late winter and early spring, only to fall apart over the summer months. Based on this trend and other soft spots in the economy, Morningstar economists caution that this may be the best jobs report we see for some time.

The business and professional services sector added 51,000 jobs, which is great news because these jobs have long hours and great pay. This is also the sector that includes most of the office professionals who quickly come to mind when we think about quality jobs.

The unemployment rate dropped to 5.5%, the high end of the 5.0%–5.5% range considered to be the natural, or normal, rate of unemployment. This tends to support Morningstar economists' long-term thesis that we are approaching the point where labor market scarcities are going to become more prevalent.

This relatively low unemployment rate is also likely to make the Federal Reserve more prone to raise rates. The whole reason the Fed forced interest rates so abnormally low was to aid the employment market. That work now looks largely complete. However, with inflation rates (the other half of the Fed mandate) so low, they won't necessarily have to rush. Morningstar economists remain convinced that 2015 will be the year the Fed tightens, but the exact month this will occur remains frustratingly elusive.

Manufacturing: The ISM Purchasing Managers Index for manufacturing slipped modestly in February from 53.5 to 52.9. Year-over-year growth in industrial production (what ISM is meant to forecast) has remained relatively stable over the past several months. However, the move to 52 from 57 last summer suggests that manufacturing isn't accelerating any more. And the auto industry, while improving, is also beginning to slow.

After industrial production peaked at just over 5%, year over year, manufacturing growth is likely to drop back to a 3%–4% growth rate in 2015, but still above the long-term average of 2.6%. Nevertheless, this expected manufacturing growth reduction is one of the reasons that Morningstar economists are less bullish than others on the GDP outlook for 2015.

Housing: Home prices jumped by 1.1% between December and January, according to the latest CoreLogic report. Higher home prices at this point in the recovery are not necessarily a good thing for the economy. Higher prices have reduced affordability and certainly affected existing-home sales in 2014.

Gasoline prices were up almost 10% in February, after falling 17% in January. Furthermore, based on refinery issues, especially in California, and a relatively higher price of crude, the AAA is projecting that gasoline will be up at least another $0.20 in March, or about an additional 8%.

U.S exports didn't look good either, declining 2.9%, although labor issues at West Coast ports may be part of the problem. Weekly shopping center growth rates also continued to slow. Consumer incomes were one of the bright spots, with a month-to-month increase of 0.9%. However, consumers refused to spend their newfound wealth, at least for now, as the savings rate has moved up from 4.5% to 5.5% over the past two months. That could provide some fire power for additional consumer spending in the months ahead.

Success Factors for Retirement, Part 1

OK, folks, here's what we're asking you to do. First, save as much money as you can while you're working, despite ongoing expenses. Next, figure out how to invest the money and, once you've gained critical mass on your savings, determine if it's going to be enough. Is it any wonder so many pre-retirees are overwhelmed by retirement planning?

However, there is good news, as well. Some of the key success factors that have the power to make or break a retirement plan can be simple if understood correctly. While investors don't need to hit the mark on every last one of them, handling the majority of them correctly increases the chances of a successful retirement plan.

Success Factor 1: A Flexible Retirement Date. For investors who analyzed the numbers on their retirement plans and found that their nest egg could come up short, one option to consider is working longer. Doing so can be advantageous on a few different levels. Investors will have more years to save and fewer years to draw from their portfolios. They may also be able to defer Social Security, which can be profitable, especially for people with a longer-than-average life expectancy. Another option to consider is a hybrid strategy, shifting into a lower-paid, but more rewarding and/or less stressful, career. Alternatively, investors could stay put in their current positions but spend (rather than bank) additional retirement-plan contributions. Such a strategy could allow some people to pay for retirement dreams, such as exotic travel, while still working. Additional retirement-plan contributions in your 60s benefit less from tax-deferred compounding than do contributions made earlier on. Of course, working longer isn't always a possibility: Health considerations (for oneself, a spouse, or a parent) may interfere, or aging employees may not be able to hang on to their jobs. That's why working longer can't be the only fallback plan; investors need to make sure they have other success factors working in their favor, too.

Success Factor 2: A Well-Considered Social Security Strategy. Deciding when to file for Social Security is one of the most consequential financial decisions most Americans will make about their retirement. The 1980s and 1990s were all about maximizing portfolio returns. But the specter of twin bear markets in the 2000s, as well as ultra-low interest rates, shone a light on more mundane matters, including trying to get the most out of Social Security. Even casual students of Social Security planning have heard the admonition to not take Social Security at age 62, when they're first eligible, as doing so will result in a permanent cut to benefits. And for people who have longevity on their side, it may be better to delay benefits for as long as possible, because benefits increase for every year from full retirement age until age 70. Keeping those rules of thumb in mind is a great first step toward getting a Social Security plan moving in the right direction, but retirement planners can also take advantage of more sophisticated strategies, especially if they're part of a married couple. More and more financial planners are focusing on Social Security maximization, and there are also a number of online tools that can help craft a prudent Social Security plan.

Success Factor 3: A Large Enough Stock Allocation. The traditional lifetime glide path calls for accumulators to hold very high weightings in stocks, and then gradually peel back equity exposure as the years go by. But make no mistake: Pre-retirees and retirees may need plenty of stocks, too. The key reason is purchasing-power preservation. If inflation runs at 3%, it's hard to see how a portfolio of nominal bonds and cash yielding 2% to 3% is going to be able to hold up. Of course, there are other ways to hedge inflation risk, but stocks are the asset class with the highest probability of out-earning inflation over time. That argues for most retirees holding at least half of their assets in stocks coming into retirement.

Retirement Distribution Pitfalls: Tax Consequences

Accumulation is a key facet of reaching your retirement goals. However, we tend to see far less about portfolio drawdown, or decumulation—the logistics of managing a portfolio from which you're simultaneously extracting living expenses during retirement, which can be even more complicated.

Pitfall: One of the big mistakes of retirement distribution can be neglecting to consider tax consequences of some distributions. Distributions from traditional IRAs and 401(k)s are fully taxable at your ordinary income tax rate, so if you're not paying taxes at the time you're pulling money out, remember that the distribution is smaller than it looks because you'll be paying taxes on it at a later time.

Workaround: It may be a good idea for retirees to pay quarterly estimated taxes to avoid a penalty from the Internal Revenue Service. Also, retirees should consider the tax effects associated with IRA and 401(k) distributions when assessing their portfolio's long-term viability. Spreading assets among various account types can help lessen the tax shock, as can carefully sequencing withdrawals to lessen the drag of taxes and preserve the tax-saving features of IRAs and 401(k)s for as long as possible.

401(k) plans and IRAs are long-term retirement savings vehicles. Withdrawal of pre-tax contributions and/or earnings will be subject to ordinary income tax and, if taken prior to age 59 1/2, may be subject to a 10% federal tax penalty. Funds in a traditional IRA grow tax-deferred and are taxed at ordinary income tax rates when withdrawn. This is for informational purposes only and should not be considered tax or financial planning advice. Please consult with a financial or tax professional for advice specific to your situation. This article contributed by Christine Benz, Director of Personal Finance with Morningstar.

The SWA Team
8426 E. Shea Blvd.
Scottsdale, Arizona 85260
Info@xpertadvice.com
www.Xpertadvice.com
Tel:480-998-1798