Andrew Brief Retirement Strategies, Inc.

"Dynamic Planning for Lifelong Relationships"

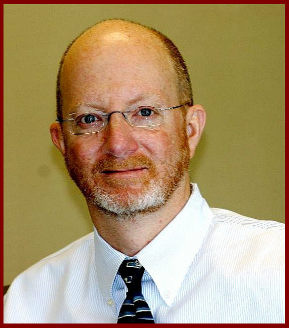
Brief Notes December 18, 2013

Stock Market High

As the stock market has been hitting new highs recently some are concerned that precipitous declines are around the corner. It is funny how the same also seems to be true when the stock market hits bear market lows! Although we never know if the market is at a peak or a trough until well after it occurs, investor concerns about market volatility and potential losses seem to accelerate the longer market cycles extend - especially when so much seems to be going wrong with the economy, government deficits and world events. As far as this cycle is concerned, the stock market has expanded significantly since March of 2009 (with a few "corrections" along the way); so, should we be concerned and what should we do about it?

Why Are Stocks Doing So Well?

To preface, new highs are preferable to market cycle lows - at least psychologically. However, concerns about when this bull market will end are understandable. This market cycle has illustrated very effectively that equity/financial markets do not necessarily move in lockstep with the economy, government function or other issues that may take considerable time for their effects to impact our portfolio values. The main drivers of today's markets in my opinion appear to be liquidity created by low interest rates, quantitative easing (federal reserve purchasing of US treasury bonds) and increasing corporate profits (although the economy isn't growing quickly, companies are innovating through improving technology and increasing productivity).



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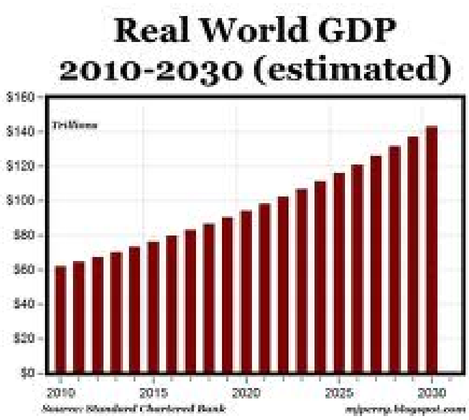
Competing Forces

The media continues to be very effective in stirring up investor emotion and the reasons for negative sentiments regarding financial markets are not difficult to find: lack of government leadership and trust, uncertainty created by far reaching laws and regulations, a dysfunctional House and Senate, uncontrolled fiscal deficits and increasing

geopolitical risk in the Middle East seem to just scratch the surface of our problems. However, long term positive influences are also coming to the forefront and could play a role for many years to come. Technological innovation has greatly accelerated economic expansion in many industries in the U.S. and the world. New technologies have helped create an exploding U.S. energy economy which should have significant effects across many industries. Biotechnology and consumer electronics are also benefiting greatly from continued advances in computer technology and manufacturing. Emerging market economies continue to grow and create demand at accelerated rates as a huge part of the world strives to "catch-up" to more established

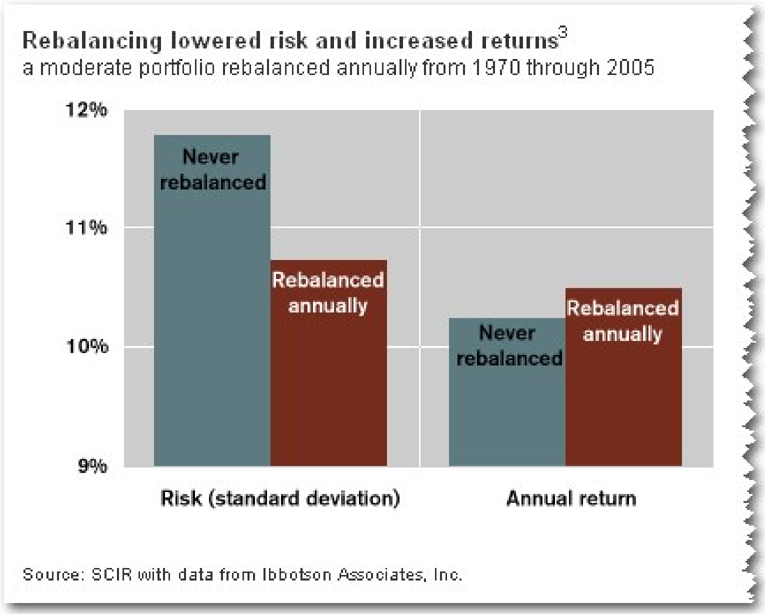


economies in the US and Europe. In my opinion population growth alone will continue to be one of the most significant drivers for greater and greater demand for products and services and global economic growth. These and other competing forces that affect our financial markets both in the short and long term have and will always exist, and the uncertainty this creates should continue to affect our investments over time.

Our Fundamental Approach

Of course this current cycle will not last forever. However, as time progresses, we will continue to take steps to maintain a balanced portfolio approach. We are "locking in" increasing equity gains by selling stock funds when liquidity is required and by reducing equity exposure in favor of more defensive

positions to maintain a consistent portfolio allocation strategy. This type of "rebalancing" allows us to systematically sell positions that have more recently over performed and repurchase positions that have temporarily underperformed. Selling high and buying low is usually a more effective strategy than buying high and selling low!



Ongoing portfolio reviews help ensure your portfolio allocation is appropriate given your time horizon and income/growth goals. However, we must always remember, to participate in the long term growth potential that equity markets provide (to address our goal of outpacing inflation), we must accept market volatility and temporarily declining markets as normal and expected occurrences. Without these declines, new highs cannot be reached as poor markets weed out weaker companies to allow well run companies room to grow and prosper (source: Barrons). Timing when the market will fall or rise and acting on these suppositions have never been part of our strategy and, after 25 years, I assume it will not be in the future. Although the strategic asset allocation approach we maintain can cause some pain now and then (and certainly is no guarantee against loss), it has succeeded over the long term through many difficult markets over the years we have been together.

Another Year Gone By

My procrastination with this edition of Brief notes has brought us to the end of another year together and, to state the obvious, cooperative markets and a financially prosperous year are always preferable to the inevitable "bumps in the road" we know will occur from time to time. However, as I age and watch my kids grow before my eyes, we all know that this year's financial results are just a small part of what is truly important. For many of you who have been with us prior to my wedding day with Kelly, it is hard to believe my oldest, Megan, will be going to college this coming fall. Many of you who didn't have children or grandchildren when we met are seeing yours graduate with great careers ahead of them! It's hard to believe that time can slip by so quickly. With this in mind, Christina, Rick, Kelly and I would like to express our sincere thanks for the trust and confidence you have so generously offered. Time is fleeting; however, if we make our time together as meaningful as possible, that is all we can ask. We would like to wish you and your families a healthy and happy New Year and we look forward to our time together next year.....

By the Numbers

START EARLY- To accumulate $500,000 in a pre-tax account by age 60, a 25-year old would need to invest $133 twice a month for 35 years. For an individual who begins investing at age 40, the required twice-monthly deposit increases to $451 for 20 years. All calculations assume a 6% rate of return and a 2.5% annual increase to the deposits. The numbers ignore the ultimate impact of taxes on the account and are for illustrative purposes only and are not intended to reflect any specific investment alternative (source: BTN Research).

BUYING POWER - Inflation has increased the level of prices in the USA +61.5% over the last 20 years, an annual increase of +2.43%. Thus, an individual retiring on 8/31/93 on a fixed-income (i.e., with no cost-of-living adjustment) would have 62% of the purchasing power as of 8/31/13 that he/she originally had (source: Department of Labor).

BIG INCREASE - Individual income taxes would have to increase by +52% for all American taxpayers in order to eliminate our $680 billion deficit from fiscal year 2013. Total individual income taxes collected were $1.316 trillion (out of $2.774 trillion of total tax receipts) for the latest fiscal year (source: Treasury Department).

GOING UP - The average interest rate paid by the US government on the country's interest-bearing debt has been cut in half over the last 6 years, dropping from 5.034% on 12/31/06 to 2.534% as of 11/30/12 (source: Treasury Department).

MORE COMING OUT THAN GOING IN - An average high income American couple that retired in 2010 will pay $156,000 of lifetime Medicare taxes but receive $387,000 of Medicare benefits, i.e., for every $1 paid in taxes, the couple will receive $2.48 in benefits (source: Urban Institute).

ANOTHER YEAR - 7 of the last 10 bull markets for the S&P 500 stock index have reached at least 3 years in length and 5 of the 10 lasted at least 5 years. The current bull market is the 11th bull for the S&P 500 since 1950 and it will reach 4 years in length as of Saturday 3/09/13. The S&P 500 consists of 500 stocks chosen for market size, liquidity and industry group representation. It is a market value weighted index with each stock's weight in the index proportionate to its market value (source: BTN Research).

WHAT KEEPS YOU UP AT NIGHT? - More than 3 out of every 5 Americans surveyed (61%) between the ages of 44-75 fear running out of money during their retirement years more than they fear death (source: Allianz).

YOUNG ADULTS NEEDED - The White House has estimated that 2.7 million young people between the ages of 18-35 need to sign up for their insurance on the new health insurance marketplaces (to subsidize the higher expense of insuring older Americans), an average of 14,835 a day during the 6 month enrollment period that began 10/01/13 (source: ObamaCare).

NOT FOR ME - 52% of 1,000 "middle class" Americans (defined as having household income less than $100,000) surveyed in August 2013 have no money invested in the stock market, citing the volatility of equities as the main reason they avoid this asset class (source: Wells Fargo).

WHAT WE SPEND - Outlays by the US government during the 4 fiscal years of 1998-2001 averaged 18.5% of GDP, the last years that have produced a surplus in the United States (i.e., tax receipts in excess of outlays). Outlays by the government during the last 5 fiscal years (2009-13) averaged 23.8% of GDP. The 75-year average (1939-2013) for outlays is 20.5% of GDP (source: Office of Management and Budget).

BEN AND THE GANG - The 8th and final meeting of 2013 for the Federal Open Market Committee (FOMC) is scheduled for December 17-18. It was at the Fed's December 2008 meeting (held on 12/16/08) that the FOMC voted unanimously to cut short-term interest rates to near zero from its then current level of 1%. Since then, the FOMC has met 39 times and voted on each occasion to leave rates unchanged (source: FOMC).

BENDING THE CURVE - When a Social Security committee (chaired by Alan Greenspan) implemented changes in 1983 that gradually increased the age at which a retiree would receive full social security benefits from age 65 to age 67, only Americans that were 20 or more years from turning 65 were impacted. Through 2012, the savings of the 1983 changes were $100 billion. However, over the next 75 years, the 1983 reforms will save Social Security $4.6 trillion (source: Social Security).

FED ACTION - The ¼ of 1% that the Fed currently pays US banks on the $2.5 trillion of excess reserves they hold at the 12 regional Fed banks is equal to $17.1 million in daily interest. The Fed is considering reducing that rate to encourage banks to make new loans to make up for the lost interest income (source: Federal Reserve).

BACK IN TIME - Home prices across the United States at the end of the 3rd quarter 2013 are at the same level that they first reached at the end of the 2nd quarter 2005 or more than 8 years ago (source: Office of Federal Housing Enterprise Oversight).
OIL USAGE - Although the world's daily consumption of oil has increased +32% in the last 20 years, China's daily consumption of oil has increased +243% over the same 2 decades (source: Energy Information Administration).

PENSION BACKSTOP - The Pension Benefit Guaranty Corporation (PBGC) was forced to take over an average of 11 failed pension plans per month over the last 10 fiscal years, a total of 1,336 over the entire decade. The PBGC protects pension plans in the private (non-government) sector (source: PBGC).

WHAT SHUTDOWN? - The government will pay $2.5 billion to the federal employees that were furloughed for 16 days in early October 2013 in the form of back-pay and benefits (source: Office of Management and Budget).

BANK FAILURES - During the 5 years from 1987-91, a total of 1,901 US banks and savings & loan institutions either failed or required financial assistance from the government or more than 1 per day for 5 consecutive years. YTD through 11/21/13, 23 banks have failed in the United States or 1 every 14 days (source: FDIC).

COLLEGE DEBT - The total outstanding balance of student loans reached $1.027 trillion as of 9/30/13 and the delinquency rate (defined as at least 90 days delinquent as weighted by dollar) is 11.8%. The delinquency rate was just 6% in 2003 (source: Federal Reserve Bank of New York).

BEARS AND LIONS - The unfunded liability of Chicago's 6 pension plans for city workers is $26.8 billion, a total nearly 8 times the size of the unfunded liability of Detroit's pension plans for its city workers. Detroit filed for Chapter 9 bankruptcy protection on 7/18/13 (source: CNBC).

ONE STROKE DIFFERENCE - Golfer Steve Stricker averaged 68.95 strokes per round during the 2013 season (lowest for the PGA tour), earning

$4.44 million in prize money. Kevin Chappell averaged 70.93 strokes per round during the 2013 PGA season (i.e., 1 stroke per 9 holes greater than Stricker), earning $1.59 million in prize money or just 36% of the money made by Stricker. Chappell played in 24 events, 11 more than Stricker (source: PGA).

CHECKMATE - Magnus Carlsen of Norway (he turned 23 years old on 11/30/13) won the world chess championship on 11/22/13, defeating the defending champ Viswanathan Anand of India. The last American world chess champion was Bobby Fischer (1972-75). Fischer died in 2008 (source: BTN Research).

Best Wishes for a Healthy and Happy New Year!,

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