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## Change and Transition: It's Easy If You're Not The One Doing The Changing!

*By Steve Van Houten, CFP®*

In mid February we relocated our office after fourteen years at our previous location. Our new office is spacious, efficient, and beautiful. Many thanks go to Leah and my wife Michele who invested countless hours planning and organizing to create our new home. I acknowledge our exceptional team for working hard together to make this move successful. I am proud of the space from which LFA will now serve you.

We at LFA assist our clients every day with the changing circumstances in their lives. Sometimes change is slow; accumulating for retirement over many decades or preparing for a child's college education. Sometimes change can be sudden; a job loss or the death of a loved one.

The familiar is more comfortable than the unknown. This is a fact. I must admit this office move was challenging for me in many ways. Letting go of old, comfortable habits, embracing new technology, and trusting my team with minimal managing on my part were things I needed to deal with. My recent journey has given me even more empathy for our clients and the many changes they face in their lives.

Our firm has grown over the years thanks to the many referrals from our loyal clients. Our challenge is to manage growth in order to attract and retain top talent while maintaining the firm's personal touch and small business culture. To accommodate our growth and to support and service our clients, we have added two members to our team. We welcome Ann Martin and Joe Stenovec to the LFA family. They both bring experience, integrity and a passion to serve our clients.

As part of our effort to serve you, I am pleased to share our first quarter 2014 newsletter. You will see this update each quarter. This issue will provide both the complex macroeconomic environment as well as our investment philosophy and strategy.

Best wishes to you and thank you for your partnership with us.

### Top Themes of the First Quarter

**Economic growth remained slow but steady for the United States and Europe.**

As new Federal Reserve Chair Janet Yellen assumed official leadership in February, she indicated she expects to continue to taper or reduce the Fed's purchases of bonds (Quantitative Easing, or "QE"). Of course, this could change with further deterioration in U.S. economic data.

**Slowing Chinese growth and falling prices of its major commodities—copper and coal—are a cause for concern and could adversely affect global markets.**

### Which Market Is Less Wrong?

Meteorologically, the first quarter of 2014 continued in much the same way as the last quarter of 2013—bitterly cold for much of the country, bone dry and hot for the southwest. The nation focused on the weather, unreliable and anything but average, but occasionally our attention was redirected by economic and geopolitical events at home and abroad. We observed small but positive changes in the unemployment picture but wages have barely kept pace with inflation, we saw slow but steady signs of recovery in much of Europe but worsening economic news from China as well as from some significant emerging economies such as Turkey, Brazil, and South Africa. We as a nation are feeling a bit more relaxed about near term inflation, but have ongoing concerns about Syria and Egypt, and new concerns about Ukraine and Russia.

Fourth quarter GDP in the US was only 2.6 percent and for all of 2013 was a dismal 1.9 percent. After a whopping 30% increase in the S&P 500 during 2013, the 1.3% increase during the first quarter of 2014 was downright pathetic. Even worse, the Dow Jones Industrial Average landed in negative territory for the first three months of the new year with a decline of 0.7%. Notably, the indexes in Portugal, Italy, Greece, and Spain, which struggled so mightily over the past several years, outperformed the US during the first quarter.

The markets appeared to follow the weather patterns—with a divergence of expectations. They did not appear to know which way to go. Valuation levels of most equity indices have been high, which suggests to some that prosperity is upon us. Bond yields, on the other hand, can't seem to find the front door of prosperity. This contradiction in the markets, this lack of conviction, should give investors pause.

While bond yields signal pessimism, the stock market appears to be artificially buoyed by these same low interest rates that were put into place during the "Great Recession" of 2008. Supposedly we have been out of the recession since the third quarter of 2009, yet we remain with a zero percent Federal Funds rate. Moreover, central banks around the world have injected massive amounts of liquidity into the global

### **Which Market Is Less Wrong?, Continued...**

economy to keep long rates low. The result of both of these policies has been a flow of funds into "risk assets" (stocks, lower-grade bonds, real estate) in pursuit of returns, which has distorted the value of those assets.

Some of that money is now being withdrawn from certain sectors (emerging market equity and debt last year, tech and biotech stocks this year) and reinvested in what are perceived to be safer sectors, such as dividend paying stocks. The focus going forward will be on profit reports although earnings projections have been downgraded so much that there could well be some positive surprises. Throw China into the mix with its shrinking economic growth forecasts and plummeting prices in certain commodities such as copper and coal, and we have added fuel to the fire of global wariness.

Earlier we posed the question, "Which market is correct?" Perhaps a more appropriate question is: which market is less wrong?

### **2014 Retirement Plan Contribution Limits**

<b>Account Type</b>	<b>Traditional IRA</b>	<b>Roth IRA</b>	<b>SEP IRA</b>	<b>SIMPLE IRA</b>	<b>401(K)</b>	<b>Roth 401(K)</b>
<b>Regular Limit</b>	\$5,500	\$5,500	\$52,000	\$12,000	\$17,500	\$17,500
<b>Age 50+ Catch-up Limit</b>	\$6,500	\$6,500	\$52,000	\$14,500	\$23,000	\$23,000



Winter's done, and April's in  
the skies,  
Earth, look up with laughter  
in your eyes.

--Charles G.D. Roberts, *An  
April Adoration*

## LFA's Investment Philosophy and Strategy

Our view is that there are problems with both markets, but we have always taken a cautious approach, during times of euphoria, times of fear, and times of uncertainty. We believe that a prudent, long-term tactic will result in steady overall gains for our clients. One example of our methodology can be seen in our view of interest rates. Interest rates may indeed remain at historically low levels for another year, or even two or three years, but we don't believe they can or will stay low forever, and we have to realize that they are symptomatic of worldwide problems of too much debt, consumption, and economic imbalances, and these imbalances (risks) would suggest that higher interest rates are in order.

Although we expect to see periodic volatility and the beginning of rate hikes as the Fed continues its tapering program, the full effect on the stock and bond markets cannot be known. We do believe that the "quantitative easing" cannot simply be undone. It has caused many distortions in the marketplace, some known and discussed above, but others will only be revealed over time as we look back on these years through the clearer spectacles of history. There will be pain along the way; we cannot know when or how much. The depth and duration of the effects of this most unusual Fed program are just now beginning to be felt.

These approaching events reinforce our belief that the future is far from certain. Accepting this uncertainty is one of our core values and is the driving mechanism in managing your assets. We are rarely fully invested, rarely 100% in equities despite the impressive returns generated last year. It has been more than five years since the 2008 disintegration of the markets, and we continue to tread carefully. With valuations as high as they are, we see no sound purpose for investing at these levels. Better to hold onto some cash so that we will be prepared to capitalize on the inevitable maelstroms.

The course we chart ahead will depend on you and your goals, risk tolerance, and time frame. Personal financial planning is a synergistic ongoing process. We seek to assist you in accumulating, preserving, and properly distributing your assets, and recognize that open, honest two-way communication is of paramount importance. Think of your first visit to a new family doctor and the importance of communicating your medical history, questions, and concerns. We are financial doctors,

“Weep not that the world  
changes—did it keep  
A stable, changeless state,  
‘twere cause indeed to weep.”

Bryant, *Mutation*



### ***Investment Philosophy and Strategy, Continued...***

objective, systematic, unemotional, and unbiased. Based on frank discussions with you, we will help to clarify your current financial condition as well as to identify short term, intermediate and long term objectives.

Your portfolio will be monitored to ensure it is performing to our joint expectations. We must recognize we are in extraordinary times, and that it is difficult to be a successful investor over the long term. We must be honest with you, and realize we cannot give you something the financial markets do not provide. Similarly, some investors may have to moderate expectations and lengthen time frames. Given the current climate, we are focusing more on capital preservation and a bit less on capital appreciation. This is because most markets are overvalued, and on a risk-adjusted basis; there simply are not many good options currently available. Winning by not losing is paramount.

While LFA has grown this year, our investment process has not changed. Achieving your goals is still our mission, and we are always mindful of your goals as we search for opportunities. We maintain that “Caution is the order of the day.” Every investment choice risks being wrong; hence the need to hedge your choices. The price is high for mistakes these days; therefore we do not want to make big bets or bold decisions.

We feel so fortunate to have clients who understand our approach to investing. We also respect that even if we thought we were one in a million, there are still thousands more like us. With so many investment options available, we appreciate that you share our principles and have entrusted us with your capital.

## **Firm Update – What Do All These People Do???**

### **Steve Van Houten, CFP® - President**

As President and owner, Steve's primary focus is working with business owners, senior executives and clients with complex financial planning issues. As a CERTIFIED FINANCIAL PLANNER™, Steve shares his 30 years of expertise in financial planning and portfolio construction and management. He spends a great deal of time researching and discussing investment strategies directly with portfolio managers. Steve is ultimately responsible for the firm's continued success in serving our clients well.

### **Harold Kalishman, CFP® - Chief Strategist**

Harold specializes in the construction and management of investment portfolios, processes he has refined over the past 26 years. He researches investments and investment managers and weighs their narratives against a macroeconomic backdrop he derives from a multitude of information sources. He is dogged in his pursuit of credible managements that he believes will deliver as competitive returns in the future as they have in the past.

### **Brian Field - Financial Advisor**

Brian works closely with clients regarding all aspects of financial planning including estate planning, tax planning, portfolio management, and retirement analysis. He also spends a considerable amount of time researching and analyzing the specific investment strategies used in portfolio construction.

### **Joe Stenovec - Sales Assistant**

Joe works closely with clients in discussing financial and investment planning. He also spends time reviewing portfolio managers to ensure they are appropriately managing assets based on their stated objectives.

### **Corey Solorzano - Para Planner**

Corey works closely with our clients in all aspects of the financial planning process. His acumen for retirement, tax, insurance, and investment planning is critical to the firms' functionality.

### **Leah Beltran - Branch Operations Manager**

Leah is responsible for the management of operations at LFA, including human resources, accounting, and ensuring compliance with our broker/dealer and regulatory agencies.

## Getting your Financial House in Order

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A few simple steps can make a dramatic difference in one's financial life, and there's no better time than now to get started. Instead of worrying about all the things we CANNOT control, why not put your energies into the things that you CAN control? A key step to financial success is setting and reviewing goals. In the meantime, small steps to getting better organized can reduce some stress. We recommend you first review the following topics:

1. **Revisit your savings and spending plan.** Track your spending. Pay yourself first. Utilize a retirement plan if you are still working.
2. **Reduce clutter— organize and consolidate old accounts.** Go paperless on your accounts. Sign up for LPL Account View.
3. **Review your Insurance program.** Do you have the right types of coverage? We can assist you in this complex area.
4. **Beneficiary Designation.** It is imperative to double-check who you have named as a beneficiary of your retirement accounts, life insurance policies, and annuities.
5. **Update your Estate Plan.** Review the beneficiaries you have selected. Are they still the right picks? If it has been a while since you have consulted with your estate planning attorney we recommend you do so. There have been some recent changes that may warrant you to update your Estate Plan.

## *Firm Update, Continued...*

### **Brock Allmaras - Operations Coordinator**

Brock works closely with the Financial Advisors, specializing in opening new accounts, processing transfers and facilitating IRA rollovers. Brock communicates with clients daily, and assists them with any operational and technology related questions.

### **Sarah Perez - Client Relations Associate**

Sarah is responsible for client account maintenance, performing various types of client requests, and client outreach. She works closely with the Financial Advisors to coordinate all aspects of ongoing account support. She also organizes client events and is the LPL Account View specialist.

### **Liz Cummins - Administrative Assistant to Steve Van Houten**

Liz assists Steve in scheduling client and wholesaler appointments, and keeping track of client requests and inquiries in order to ensure these are handled in a timely manner.

### **Stephanie Peters - Marketing Coordinator**

Stephanie assists with monthly portfolio summaries, monitors and tracks client RMD's, and is responsible for the distribution of marketing materials to our clients.

### **Ann Martin - Research Assistant**

Ann assists with monthly portfolio summaries, monitors financial markets and publications, and performs research functions. She also writes articles for our quarterly newsletters and periodic updates.

## The New Account View

Providing you with Account View is one way we are committed to helping you pursue your financial goals. Accessed from your computer, tablet, or smartphone, Account View provides you with secure, convenient, 24-hour online access to your investment accounts.

From our website, you have easy access to your account portfolio, quotes, market performance, news and the following additional highlights:

- Your total portfolio value and any changes in value that occurred during the day
- The ability to go green - mailing of statements and trade confirmations are eliminated
- Financial information you can export for further analysis or tracking
- A pie chart that displays how your investments are allocated
- A graph that presents the growth of your portfolio over a specified period of time (e.g., the current year-to-date, all available time frames, the last 12 months, previous year or custom time frame)



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