Andrew Brief Retirement Strategies, Inc.
"Dynamic Planning for Lifelong Relationships"

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The Changing Bond Environment

What are the future prospects for bonds given the current environment? Will rates continue to rise and what does that mean for our bond and bond fund portfolio allocation? After a 20 year rally it is reasonable to assume that historical returns achieved over this period may not continue, but should this asset class be avoided?

The Future for Bonds

Although the future returns for bonds may not look as favorable as what we have experienced over our history together, we believe bonds still have a place in your portfolio. Of course the degree to which will depend on a number of factors: risk tolerance, income and liquidity needs and, if you're not retired, your age just to name a few of these factors. But the most common question being asked is, "Won't bonds lose value if/when interest rates rise?" The simple answer is yes; however, for those of you who have known me for some time, the simple answer is not always accurate! The more complex answer is, "It depends..."

Just as is the case with stocks, bonds come in many "varieties" and can offer investment characteristics that differ greatly from one bond (or bond fund) to the next over extended periods of time. Bond and bond fund asset classes that we try and take advantage of in your portfolio may include: short-term bonds (greater protection against rising

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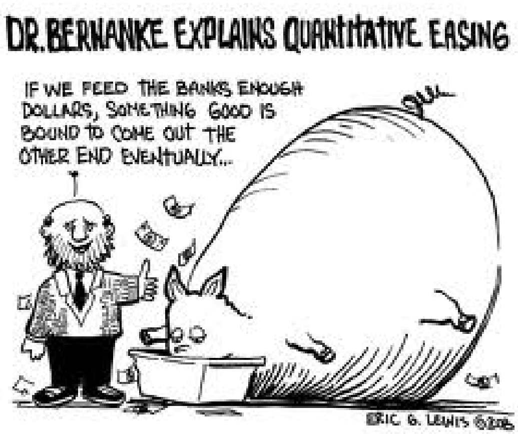
interest rates than longer term bonds), international bonds (affected by currency exchange rates as well as interest rates), high yield bonds (affected by the economy's prospects more so than interest rates) and floating rate bonds (generally provide positive returns when short term rates rise in a stable economic environment). Certainly, long term U.S. government and municipal bonds are most affected by interest rates and generally decline in value as interest rates rise, but these bonds comprise a relatively small percentage of your overall portfolio.

Nobody Has a Crystal Ball, But.....

As with stocks, it is also a mistake with bonds to assume that short term volatility will necessarily translate into long term trends.

There is no question that the initial bond market reaction to the Federal Reserve's warnings about ending "quantitative easing" (the U.S. Treasury's purchase of $85 billion of treasury bonds per month) have pulled bond prices down this year. It is also true that many types of bonds (as previously described) have been affected. However, in our opinion, markets should begin to stabilize once the actions from the Federal Reserve become clearer. It may also be accurate to assume that much of the effects from the prospect of ending quantitative easing have already been priced into the market. If this is the case and the economy falters, it is unlikely that the current or future Fed Chairmen being considered would fundamentally change the government's current strategy of bond purchasing and low bank



lending rates. This might improve the prospects for higher bond prices. If the economy continues to improve to the point where quantitative easing is viewed as no longer necessary, it is likely the increase in stock prices could more than compensate for the lower bonds prices that may be reflected in your portfolio.

Diversified Defensive Strategies

As you know, bonds and bond funds comprise an important part of the "defensive" portion of our client portfolios. When the economy falters and borrowing rates decline during equity bear markets, bonds can be our "safe haven" or "insurance policy" in some respect. In the event that bonds falter, there are other diversifying tools we can consider to round out the defensive side of our portfolios. Fixed annuities (either immediate or deferred income payouts) can provide a fixed source of guaranteed income unaffected by interest rates or market volatility. This can reduce the income demand from other parts of the portfolio to allow more time for declining markets affecting more aggressive areas of the portfolio to recover. Variable annuities with guaranteed income benefit riders can also provide defensive characteristics during more difficult periods for other asset classes.

No Magic Bullet

Clearly, the most effective strategy we can implement centers around diversification. However, diversification is not a magic bullet protecting us from any portfolio decline. We must accept a certain level of portfolio volatility if our goal is to

achieve returns greater than that from market risk-free vehicles in bank CDs or treasury bills. Diversification does however reduce portfolio volatility, and provides greater options when portfolio income and liquidity are required.

Regardless of what the future may hold for bond prices, our goal is to continue to align your specific portfolio strategy with current and projected liquidity and retirement income demands. The greater the demand on your portfolio (now or in the future), the greater the volatility risk you should be willing to accept given the greater need for long term growth and future income. As part of this strategy, bonds should continue to play an important role - even if long term returns are significantly less than what recent history has provided.

"By the Numbers"

1. ***USUALLY UP*** - The **trailing 10-year total return** for the S&P 500 was negative as of 12/31/08, breaking a streak of **68 consecutive year-ends** where the 10-year performance of the index had been positive. The trailing 10-year performance for the index was **negative again** as of 12/31/09, but since then **has been positive** as of year-end 2010, 2011 and 2012 (source: BTN Research).
2. ***WHICH AVERAGE?*** - The **S&P 500** was up +20.6% for the **12 months** ending 6/30/13. The index was up +7.3% per year for the **10-years** ending on the same date. The index was up +4.2% per year for the **15-years** ending on the same date. The index was up +8.7% per year for the **20-years** ending on the same date. All numbers are total return performance results including the impact of reinvested dividends (source: BTN Research).
3. ***GOOD AND BAD*** - For a single trading day of the S&P 500 to rank in the **"top 50" percentage-gain days** over the 50 years ending 6/30/13 (i.e., 7/01/63 to 6/30/13), the 1-day performance must have been up at least

+3.9% (i.e., change in value of the raw index on consecutive trading days not counting the impact of reinvested dividends). To fall into the **"bottom 50" of trading days** required a 1-day loss of least 3.7%. **36** of those "top 50" trading days were **preceded or followed** by a "bottom 50" trading day within a 1-month period of time (source: BTN Research).

4. ***BOUNCING BACK*** - There have been **11 bear markets** for the S&P 500 since 1946, i.e., at least a 20% drop from a previous closing high. In each of the 11 bear markets since 1946, the S&P 500 eventually **recovered 100%** of the loss sustained, i.e., going above the previous bull market closing high. The **average time** the stock market (as measured by the S&P 500) took to recover back to a **new closing high** from the low point in the downturn following the 11 bear markets was **24 months** (source: BTN Research).
5. ***WORKER COST*** - The average employer in the private sector pays **42 cents in benefits** (e.g., Social Security, Medicare, unemployment insurance, workers' compensation, life and health insurance, paid leave, retirement plans) for every **$1 paid in salary** (source: Department of Labor)
6. ***SEVEN TO ONE INCREASE*** - The US government's annual budget deficit has experienced a **nearly 7 times increase** in just the **last 5 fiscal years**. Our actual budget deficit was $161 billion in **fiscal year 2007**. Our actual budget deficit for **fiscal year 2012** was $1.087 trillion (source: White House).
7. ***COST TO MOVE*** - The cost of moving oil **from Canada across the USA** to refineries on the Gulf of Mexico costs $5 per barrel if the oil is moved **via pipeline** but costs $20 per barrel if **moved by rail** (source: Financial Times).
8. ***SCARY THOUGHT*** - 45% of US households headed by individuals of "working age" **have not set aside** any funds for their **future retirement** (source: National Institute on Retirement Security).
9. ***MORE AND MORE*** -Federal spending on

Social Security, Medicare and Medicaid has risen from 16% of total government spending in 1967 to 43% of spending in 2013 (source: Office of Management and Budget).

10. ***EXCLUSIONS, DEDUCTIONS AND CREDITS*** **-** Since the **last major reform** to the US tax code was passed in 1986 (i.e., 27 years ago), Congress has implemented **more than 15,000 changes to tax rules** (source: IRS).
11. ***MOST PAY ON TIME*** - 9 out of every 10 mortgages in the USA (90.2%) are "**current and performing**" as of 3/31/13, i.e., the borrower is current with his/her **monthly mortgage payment** (source: Office of the Comptroller of the Currency).
12. ***START NOW*** - A **30-year old** saving $100 at the beginning of the month and earning 7% in a tax-deferred account **until age 60** will accumulate **twice as much money** as that of a **38 ½ year old** also saving $100 per month and earning 7% **until age 60**. This mathematical calculation ignores the ultimate impact of taxes on the account which are due upon withdrawal, is for illustrative purposes only and is not intended to reflect any specific investment or performance. Actual results will fluctuate with market conditions and will vary (source: BTN Research).
13. ***TWINS*** - A child **born in 2011** will cost a **higher-income family** (defined as those making at least $102,870 of before-tax income) **$389,670 in 2011 dollars** (i.e., a present value amount) and **$490,830 in inflation adjusted dollars** over the **first 17 years of the child's life**, i.e., not including college (source: Department of Agriculture).

Best Wishes,

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Past performance is not indicative of future results.

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