Ranstrom Financial Planning Services

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Thoughts and Comments

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As you may know, I was able to accomplish a goal I have had for a number of years – that is bicycle across America. Our staff, the very talented group of people with whom I work, made this possible and I owe them thanks. It was an amazing experience in many different ways with many benefits. (By the way, for those who followed my blog at www.doylebikestheus.blogspot.com, thank you for your support. I did finally write a short epilogue.)

One of the benefits of the tour was for 50 days, I was able to tune out all the noise in our daily lives. It turns out that after biking an average of 85 miles per day, I cared about very little other than eating, icing, eating, stretching, eating some more, sleeping, and getting ready for the next day. Every day, we are bombarded with 24-hour cable stations, websites, and radio, not to mention print mediums. In my estimation, the vast majority of the output is not informative or even informed for that matter, but simply sensational. For 50 days I was able to tune this out. It was very therapeutic and something I recommend for all to do on a regular basis.

As an example, with the market volatility that has taken place since late July, many commentators talk about making or losing money with each market swing. To me, this does not make sense. In my estimation, the only time an investor makes or loses money on a specific investment is when the investment is sold. If an investor does not sell, the investor has not made or lost money. Investors who listen to the short-term noise can make poor decisions. For example, investors who sold stock funds during the market low in March 2009 turned a paper loss into a real loss and missed the recovery that has taken place since then. Investors who took advantage of the decline as a buying opportunity have done very well, even when accounting for the current market decline.

It is also important to consider the performance of a specific holding within the framework of the portfolio and its long-term outlook regardless of short-term volatility. We generally suggest a diversified portfolio spread out among five allocation groups. Three of the groups, Minimal Risk, Moderate, and Alternative Strategies, generally have either no or a low correlation to the stock market and are the largest holdings in most of our portfolios. Moderate Growth and Growth consist of stock funds.

Specifically, most clients have a significant allocation in Minimal Risk which consists of money market and short-term and intermediate-term bond funds. Minimal Risk has no stock market risk and minimal bond market risk. It is from this category that clients needing cash take withdrawals. There are two benefits of this:

1. For retired clients we normally maintain a minimum of 3-5 years income in Minimal Risk and for all clients these accounts can be used for lump sum cash withdrawals at anytime or buying opportunities as may be taking place now.
2. Since there is no stock market risk in Minimal Risk, withdrawals are not affected by a stock market decline. More important, we have time for Moderate Growth and Growth investments to hopefully recover and eventually post new gains. In Moderate Growth and Growth we are not concerned about short-term volatility, but the ability to achieve an above average return over the next 3-5 years.

This strategy has worked very well in the past and though there are no guarantees for the future, we expect it to continue to perform well. Interestingly as a side note, just a few months ago, when the stock market was reaching highs for the year, we had clients asking us why we had such a high allocation in Minimal Risk. We are not market timers. We are striving to develop and monitor an allocation strategy that balances risk (market volatility) and reward (gains) over an extended period of time.

If you have questions on your allocation, call or email Courtney, Ryan, or me at anytime.

An Update on the Markets from Morgan

Markets experienced almost desensitizing volatility over the past quarter; it sometimes seems as if 1% daily moves in the S&P 500 are perfectly normal, if not preferable to the 3-4% moves we have also experienced. The volatility seemed to kickoff with the debt ceiling debate the end of July. However, though that was most certainly a catalyst, we believe the downside volatility has been mostly in regard to a changing global economic environment. Here is what we see presently occurring – some of which markets have become increasingly aware of:

1. The European Crisis continues to deepen. Though it sometimes seems as if the EU has finally awakened to the severity of the crisis, we are concerned that European leaders largely continue to see the issue as a debt crisis of sorts. While Europe does indeed have debt problems (certain countries like Greece and Ireland more so than others), as a whole the EU has less public debt than the United States. The problem is that the European Union has a monetary union but not a fiscal union. In other words, this is a currency crisis of the euro, not one of debt and will not be resolved until the euro either dissolves or the EU moves toward greater fiscal union.
2. It has become increasingly clear to markets that the United States is not in a normal cyclic economic recovery, but rather a recovery in the aftermath of a consumer debt binge and subsequent banking crisis. Historically, recoveries after banking crises tend to be slower than normal, characterized by long-lasting high unemployment, marginal consumer spending, and a deleveraging private sector.
3. There are signs that emerging market economies, which have so far led the global recovery, are starting to slow as well. Though many economists believe growth will still be strong relative to the developed world, it will be at a more tepid pace. Think 3-5% GDP growth versus 7-8%.

For the above and other reasons, we have suggested our clients' portfolios be more conservatively allocated over the past year or so. Though markets in our opinion rallied on false hope toward the end of 2010 and the beginning of this year, we are relieved that we did not buy into the Wall Street spin. Looking forward, we will continue to do our best to view the present environment as it is, and not as we hope it will appear.

An Update from Ryan – Two Sides of the Same Coin

Financial planning and money management are two separate disciplines in the financial services arena. However, as you may have heard Doyle say over the years, it would be more accurate to describe them as two sides of the same coin. The vast majority of our clients take advantage of both the financial planning and money management services we offer. That is, in addition to managing client portfolios, we also meet with clients on a regular basis to discuss many more issues than just the performance of their assets (which, in turn, affects the management of those assets).

In our opinion, this only makes good sense. It is only in the minority of situations when the management of assets is not connected to a financial planning goal. Here are just a few examples of the various reasons a portfolio may be engineered differently:

- Retirement savings
- Retirement income distribution planning
- College savings
- Short-term savings goal (that cabin on the lake)

We also have a sizable minority of clients that only use us for one side of the coin. Just this week, I met with two clients that are not currently interested in our asset management services but need ongoing financial planning for specific financial issues. On the other side of the coin, we have some clients that are only interested in our money management services. Please feel free to use us and our services to the fullest of your wishes. Those clients for whom we manage the bulk of their net worth (which is the majority of our clients), the financial planning component of our services is not billed in addition to our asset management fee. As always, if you know of someone who you feel can take advantage of either or both of our financial planning or money management services, please let us know.

An Update from Courtney – Learning from the Past Helps Us Plan for the Future

In 1984 when I was three, my dad started Ranstrom Financial Planning. Little did I know that not only would I be working for him but would have the opportunity to work with many of our clients who have been with us since I was a child. Over the past 27 years, we have seen a lot of changes – notably in the technology we use. I have never worked in an office without a computer. However, my dad (often fondly) remembers those days.

Ultimately, the technology we use at the office has helped us keep a record of our work with each client. We went paperless several years ago, long before it was used as a marketing strategy by large corporations. For us, being paperless means that wherever we are we can pull up our historical records for each client – I can view statements that were created when I was a youngster to answer a question a client has today. Having historical data also helps us take a long-term view of each client's performance and helps us analyze clients' portfolios in relation to current and past economic cycles.

I suspect that we will continue to see many changes in our world – with the markets, technology, how we work, and how we live. Our goal has been and always will be to serve our clients as we maneuver through our changing times. Perhaps the next generation of Ranstroms and Bergs will be amazed that we used something as 'unsophisticated' as iPhones, Blackberries, and laptops to do business and will be writing to you about enhancements that we haven't even begun to fathom yet.