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Thoughts and Comments Fall 2013

It has happened before and hopefully will happen again. It is always extremely rewarding when it does. A client sent me an email a short while back saying we gave her *peace of mind*.

We manage money and provide financial planning information and analysis to the best of our abilities and have been doing so for a long time. But, our objective is to give clients peace of mind as much as possible in any situation. For retirees, we strive to provide them with an ongoing plan so they will be able to maintain their lifestyle throughout retirement. For pre-retirees, it is the knowledge that based on current information and stated assumptions, they are on track to a comfortable retirement. Most important, we hope our clients are enjoying retirement or their working years knowing we are doing our best to make their objectives realities.

Peace of mind is difficult to come by in any situation, but especially in money management. All the disclaimers are correct, there are no guarantees for the future. We live in a fast changing global economy with a wide variety of both challenges and opportunities. Today, we have Syria and a government shutdown. Tomorrow, it will likely be something else. At the same time, there are many positive long-term trends and opportunities for the future. The challenge of balancing the objective of a competitive long-term return with the ongoing risk of short-term volatility is a task we take very seriously. Morgan spends every day collecting and reviewing information, looking at long-term economic and market trends trying to balance risk and reward. Going back to 2000, it has been a very difficult economic and market situation, and investors are understandably nervous. We cannot predict or guarantee what the future will bring, but we do our best to steer through it trying to help our clients achieve their long-term objectives.

Almost every day, one if not all three of us, Ryan, Courtney, and me, are in meetings, on the phone, or returning emails discussing a wide variety of financial planning concerns including cash flow, money management, estate planning, taxes, risk management, and both pre- and post-retirement planning. Again, we cannot predict or guarantee the future, but we strive to be the best possible source of information, analysis, and recommendations for a wide variety of situations with the ongoing objective of helping clients make the best possible decisions. Financial planning is a process, not an event. We have clients that when they started with us had minor children and were in the pre-retirement planning phase of their lives. Now their children are grown, often with children of their own, and the clients are retired. The financial situation changed, but our goal to assist them to the best of our abilities during a variety of situations did not.

"Learn from the past, plan for the future, live for today" is one of my life's mottos. It is on our website and the back of our business cards. We cannot guarantee peace of mind, no one can. But, to the extent we can help our clients enjoy today because they know we are doing our best to help them plan for the future, we are meeting our objective as a firm.

Investment Update from Morgan

As of the time of this writing, the government has decided to take a short break. However tantalizing a vacation sounds, we have decided to keep working. Indeed, I suspect many of you came to a similar conclusion given that bosses, colleagues, and clients generally do not take kindly to such drastic solutions to disagreement. Regardless, I won't bore you with my opinions on the federal impasse. The world is already inundated with such amateur political musings, and I am certainly no expert. However, some may be wondering how the government shutdown and upcoming debt ceiling debate may affect their investments. I would respond with a shrug.

To a certain extent, my indifference stems from the fact that historically government shutdowns have not been disastrous events while I am optimistic that the silliness over the debt ceiling will be resolved. The realist in me also acknowledges that there are a healthy number of wealthy individuals in Congress who would ultimately prefer not to see their investment holdings affected by such behavior. More importantly, I believe political analysis should hold very little sway in the creation of investment theses. Politics is inherently unpredictable, swaying with the wind of myopic political actors and fickle public opinion. Bringing politics into investment analysis also demands the analyst overcome political biases. Strikingly, many investors have missed the giant rally in stocks over the past few years due to various political concerns. Investment analysis can and should stand on firmer ground.

In the recent book *Antifragile*, Nassim Taleb discusses the vast amounts of information consumed on a daily basis through phones, computers, tablets, and televisions.[1] He proposes that it is becoming more and more difficult to decipher between "the signal," that is information pertinent to forming an informed decision, and "the noise," or "random information that is totally useless for any purpose."[2] Within our own research, though all are riddled with their own subsets of "signal" and "noise," we see monetary analysis, macro-economic analysis, corporate data, and security valuation as pertinent information. Unfortunately, we generally view politics, deafeningly loud as it is, as all noise.

Regarding the current environment, our analysis leads us to believe that the U.S. economy is seeing a substantial re-acceleration in activity. As monetary policy is still too loose given underlying economic fundamentals, we have become more concerned about inflation and are positioning our portfolios accordingly. Internationally, European equities are reflecting many of the positives we have been discussing since late 2012 while emerging markets continue to be volatile and have drastically underperformed year-to-date as we suspected. We still view bonds of all stripes with a wary eye and believe interest rates will continue to increase (bond prices fall when interest rates rise). Overall, we favor developed market equities over bonds and emerging market securities.

Though Congress may have resolved its differences by the time Thoughts & Comments goes to press, we imagine there will be any number of political 'crises' in the coming months and years. We intend to stand by our thoughts above. Although voting according to one's political sentiments seems prudent, we advise against letting such leanings bleed into investment decision making. In other words, we plan to cut out the noise in pursuit of the signal.

An Update on Financial Scams from Ryan

Unfortunately, financial scams are on the rise and anyone could potentially become a victim of such schemes. The main scams continue to be fake checks, identity theft via phishing (email messages tricking people into giving sensitive information), Nigerian advance fee emails, and the "grandparent" scam, among many others. The grandparent scam typically feeds off a potential victim answering the phone and being persuaded by the caller he is a close relative who is in trouble and needs money. The story may be a grandchild was in an accident traveling overseas and needs money fast.

It can be tough to spot a scam, even for savvy people. However, we can all take precautions to potentially avoid being scammed:

- Don't respond to emails or phone calls that ask for personal information, no matter how ur-

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[1] Nassim Taleb, *Antifragile: Things That Gain from Disorder* (Random House, 2012).

[2] Ibid.

gent the request seems to be.
- Take the time to contact the other party yourself to verify the request before doing anything.
- If something seems too good to be true, it probably is.
- Read everything carefully before you click or sign it.

With regard to scams perpetrated by financial advisors, some of the most sophisticated people in the world fell prey to Bernie Madoff's monumental Ponzi scheme, bilking investors of around $20 billion. In just the last five years, North Dakota has had three significant cases of financial advisors blatantly taking money from their clients. We have many clients who have asked us how this could happen, and others who have asked us what safeguards we take to ensure it doesn't happen at Ranstrom Financial Planning.

While there are many common sense things an investor can do to reduce the chance he is working with a fraudulent advisor, there is one very simple way to prevent almost all of this type of fraud. In the overwhelming majority of these cases, including the Bernie Madoff scam, the financial advisor takes custody of the clients' assets.

What does 'custody' mean? An advisor takes custody over client funds (among other criteria) when he can control the withdrawals from the account without client consent. If he wishes to commit fraud, his conscience is the only thing in between him and his clients' money. Specifically, in this type of arrangement, when a client adds funds to their account, they will make their check payable directly to the advisor's firm. The advisor then turns around and deposits the money into an account that he can effectively control. In this type of arrangement, advisors who wish to be subject to greater regulation can choose to custody client money themselves.

Therefore, the almost foolproof way to avoid being scammed by a financial advisor is to work with one who uses a reputable, independent, third-party custodian. We use one of the largest independent custodians in the world — Pershing, LLC. We do not have access to withdraw money from your account unless you sign off, period.

These words are from Bernie Madoff himself when he was interviewed for a June 5, 2013, *MarketWatch* article asking about the one thing that would reduce advisor fraud:

> Brokerages and advisers should have independent custodians and the government should have forced me to have an independent custodian. Client funds should be held by independent custodians. If they had, I would have been caught long ago. If I had had an inspection by the SEC, they would have looked at the custodian accounts and seen the funds on my books did not match the funds in the accounts, and I would have been caught. Brokerages and investment firms should hold money with depository trustees. Depository trusts verify to auditors the funds are being held. Auditors do spot checks and verify with brokerage firms or accountants. That wasn't done in my case. If that was done, I would have been caught much sooner.[3]

Thoughts on Debt from Courtney

I frequently have the pleasure of chatting with people my own age about financial planning. In most cases, the first topic that comes up is debt. Most Americans, at one time or another, have carried debt – be it a car loan, mortgage, student loan, and/or credit cards. Many pundits make a lot of money telling people how to get rid of debt. However, each time I have this conversation, one point continues to be hammered home. Debt is an emotional topic for most people. There can be feelings of guilt, inadequacy, helplessness, and desperation when discussing debt and how it impacts people's lives.

People my age tend to feel as though things are more difficult for our generation. And certainly, we have had our fair share of challenges. The stock market has been in turmoil for most of our adult lives. When

[3] Sital S. Patel, "Madoff: Don't let Wall Street scam you, like I did," *Market Watch*, June 9, 2013.

adjusted for inflation, wages peaked 40 years ago and have declined since.[4] College tuition and healthcare costs have both increased at rates higher than inflation, though healthcare costs are experiencing a slow-down.[5, 6] Finally, even after the recession, home prices are still higher than the mean home price over the last 100+ years.[7] It's easy to look back on our parents' generation and compare ourselves to them – of course, they had it all together when they were in their late 20s or early 30s! But then, I take off the rose colored glasses. When my dad was 32 (my current age) and my mom was 28, they had a two year old – me. While adorable, I was not the productive member of society I am today and was a drain on the limited resources they had. Their economic situation was difficult as well – the economy was in a recession and interest rates, inflation, and unemployment were high.

It's also easy to look at our parents' situation now and think they have it so good! Of course they have it good – they have been working, saving, and sacrificing for at least 25 to 30 years. It is time for them to reap the benefits of years of hard work.

When I talk about debt with people, I try to steer the conversation toward the positive and the things that we can do to pay off debt in a timely fashion while still meeting our financial goals. The first step in moving past some of the emotional ties to debt is to stop comparing yourself to others – parents, friends, family, or otherwise. Everyone's financial situation is different. While we can learn best practices from others, ultimately, I tell clients they need to do what is right for them and their financial situation.

Second, we need to look at ways to pay off debt in a fast, efficient manner. I suggest making a list of all debt, the amount outstanding, the monthly payment, and the interest rate on it. Generally, paying off as much as possible each month on the highest interest rate debt such as credit cards is the best tactic while paying the minimum on the other debt. As you pay off the high interest debt, you can shift payments to the lower interest debt. As you determine your debt pay-off plan, make sure there is still enough in your monthly budget to cover your living expenses. Especially when paying off high interest debt such as credit cards, it's not a time to live extravagantly. However, make sure your needs are being met.

Third, while retirement and savings accounts can be used to pay off debt, I look at those on a case-by-case basis to see what is most efficient in the long run. This usually is not my first suggestion.

Once you have a plan, stick to it and relax! Expending emotional energy on it does not make debt go away any faster, and it makes the process of paying it off more painful. When I meet my financial goals, I set rewards for myself – a nice dinner out, a new outfit, or something that costs very little like taking a day off. My rewards aren't extravagant, just a reminder that I'm working hard and making progress on my goals.

For our clients who are my parents' age and have kids my age, we realize that talking to your adult children about money and financial planning may not be your go-to conversation. That is where we are happy to help. Even if your kids live across the country, Skype conferences, phone calls, and email are great tools to help not just you but your family meet their financial goals. If they would like to chat with us, please let us know.

[4] Paul Vigna, "The Best Indicator Of US Health is Wage Growth (or Lack Thereof)," *Wall Street Journal*, April 16, 2013.
[5] "Tuition Inflation," FinAid, accessed October 4, 2013, http://www.finaid.org/savings/tuition-inflation.phtml.
[6] "Medical-Price Inflation is at Slowest Pace in 50 Years," *Wall Street Journal*, September 17, 2013.
[7] "Case Shiller Home Price Index," accessed October 4, 2013, http://www.multpl.com/.