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Thoughts and Comments

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I have had several ah-ha moments during the past year. One was biking across the US last summer. Of the 35 riders, 10 were older than me with the oldest checking in at age 74. Age does not have to be a limiting factor in what we do or want to do. Another was riding with Ryan to a meeting with a 401(k) client. I was talking about the first 401(k) plans I had implemented in the early 1980s shortly after they became a retirement planning option for employers. I could feel him looking at me wondering how old is he and how much farther to the meeting. Another took place early this year when Courtney received notification that she passed the Certified Financial Planner exam (see below) 20+ years after I had passed it.

Finally, I had one a few days ago coming back from a meeting while stopped at a national coffee chain. When I ordered I commented to the person helping me that the music reminded me of old time Western cowboys like Roy Rogers and Gene Autry. The barista stared blankly at me, which may have affected her tip. I then said you probably do not know who they are. She said she thought her grandparents may have mentioned them. Ouch. All of the above reminded me the many years I have been a financial advisor, and the experience and perspective it has brought me.

Experience and perspective does not predict the future, but it does provide a basis for making informed decisions. Many clients have heard me say during the past few months that in my estimation the investment world has changed. I believe the investment world will be increasingly global, diversified, and volatile. If not already, shortly you will be receiving information and forms related to our new discretionary asset allocation models. The models are designed to meet and take advantage of both the complexities and opportunities to what I perceive to be a new investment world.

In the early 1980s a retiree was concerned about inflation continually eroding buying power. In 1983, a retiree needed over $20,000 to buy what $10,000 bought in 1974. In 2008, we were legitimately concerned about deflation and its long term affects. At the end of the 1980s we talked about Japan's growth, now we talk about China in specific and emerging markets in general. At the end of the 1990s, many investors thought the stock market would go up forever. At the end of the most recent decade, many investors wondered if the stock market would ever fully recover.

Experience tells me that change is part of the world. It helps me put into perspective short term trends, both up and down. We cannot just be focused on reward (the 1990s) or risk (2008), but a balanced combination of both. Our models are designed to take into consideration both risk and reward. Though there are never guarantees for the future, we strive to differentiate from short term volatility, which is normal, and long term trends.

Experience also tells me that how one looked at the investment world in the 1980s does not make sense today. As a result, Alternative Strategies are a significant percentage of our discretionary models. Not long ago these types of investments were only available to large individual or institutional investors. Today many investors are still not familiar with them; however, we began using them as part of broad asset allocation funds as early as 2004 and they now are an important part of our mod-

els. Alternative Strategies are non-traditional asset classes with a historically low correlation to the stock market. They give us the opportunity for a competitive return with reduced risk.

Going forward, we will continue to strive to use our combined experience, perspective, and knowledge to provide you the best combination of financial planning and money management services.

Congratulations Courtney! Courtney took and passed the Certified Financial Planner (CFP) exam this past November. The pass rate on the test was about 60%. She also has an MBA from Willamette University where she attended law school for a year before transferring to the MBA program.

Credentials are very important to me. I passed the CFP exam in July 1990 and obtained a Masters of Financial Planning in June 1993. Ryan is a CFP and a CPA. He has also obtained a PFS designation. CFPs represent less than 50% of the total group of financial advisors. Passing the exam demonstrates to clients that the individual has studied several areas of financial planning including retirement planning, investments, taxes, and estate planning. Our clients can be assured that not only do we have experience, but we are also trained in the specific field of financial planning and have passed exams verifying our training.

Recently, I read an article which stated that the average financial advisor was a white male in his mid-50s. The majority are not CFPs. We have three CFPs in our firm and though I am the oldest, I am also the most fun. Ryan is 37 and Courtney is 30. Though I have no plans to retire, it would be difficult for me to tell a new client I will be doing this in 30 years. However, I have no problem telling a potential client that we as a firm will be here in 30 years with a professional and trained staff providing financial planning and money management services.

Preserving Wealth from Ryan

I was recently interviewed by a WDAY television reporter on the day of the big $640 million dollar lottery. The quote they ended up using was something to the effect "Single lump sums of money can be really dangerous for people to handle. Usually, they end up spending it, no matter the amount of money." I went on to say that almost half of first generation wealth that is passed on to heirs is spent in their lifetime.

After the interview I did a little research to see if what I said was actually true! I had researched this exact topic extensively in the past, but that was over 8 years ago. What I found out only confirmed what I said:

- Only 30% of affluent families survive into the second generation, and only 10% into the third. (Brett Anderson, 100 Year Plan Introduction: Making Meaning of Wealth across Generations, Worth, December 1, 2003, generousgiving.org.)

Another interesting fact I stumbled upon is that after his death in 1885, railroad tycoon William H. Vanderbilt, the wealthiest person on earth at that time, left his heirs $200 million. Succeeding generations lavishly spent their inheritance, and a century later none from his family is among America's most affluent. (Brett Anderson, 100 Year Plan Part III: Give, and We Shall Receive, Worth, February 2, 2004, generousgiving.org.)

We have advised many clients with varying degrees of wealth who were in the situation of inheriting or receiving a large sum of money. We certainly have seen some of that wealth frivolously disappear, but we have also seen a great deal of success in helping to preserve money that is passed on to the next generation. Almost all of the success stories are due to good communication prior to the wealth being transferred. We are happy to help our clients in this area. If you ever believe it may be beneficial for us to meet with your children or grandchildren, please let us know. We would be happy to meet about any financial planning issue.

An Update on Our Investment Process from Morgan

This has been a whirlwind first quarter for all of us at RFPS as we transition over to the RIA structure, but I believe we are all energized by the opportunity to upgrade our capacity to serve our clients. These are truly exciting times at RFPS and I am honored to be a part of the process.

Within the investment realm of the business, you may have noticed that we are using some different funds than we have in the past. This is a reflection of our enhanced research capabilities both technologically as well as institutionally, as we have put a lot of time, effort, and thought into how we can construct better portfolios. For the first official Thoughts & Comments regarding our new discretionary models, I thought we would take the opportunity to briefly discuss how we are currently evaluating underlying managers and how that plays into our overall cyclical and secular investment theses. We will elaborate further on other segments of our models in later installations, but we decided to begin with our underlying equity exposure. Obviously, as you have heard us say countless times, there are no guarantees for the future; however, we can be diligent in initiating and sustaining a sound research process.

Within our equity-block of moderate growth and growth investments, the first question was whether to index via exchange traded funds (ETFs) or use active management. Given the current market environment, we decided that certain types of active managers may have the ability to outperform their ETF counterparts. Primarily, we were looking for the following conditions:

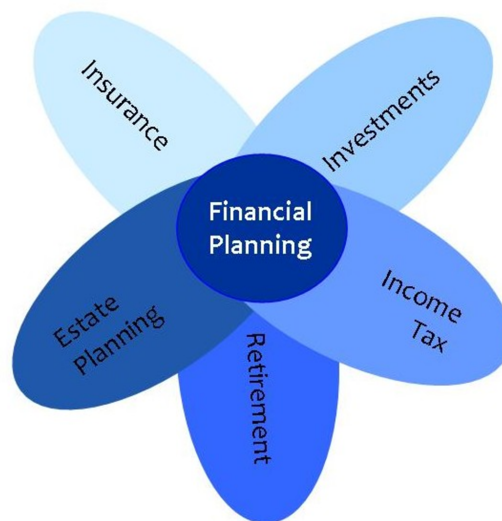
- **Value managers with strict discipline:** There is a wide set of research detailing how value stocks tend to outperform growth stocks over broad market cycles. There are many reasons posited for this; however, the basic idea is quite simple: Buy cheap stocks and avoid the expensive ones. We have traditionally favored value managers and we continue to do so.
- **Concentrated positions:** Many mutual funds have become closet-indexers. In other words, the fund manager clings tightly to the underlying index and ends up underperforming slightly due to management fees. However, research has shown that fund managers' "best ideas" (10-15 of their most favored stock positions) significantly outperform the benchmark (Cohen, Polk and Silli 2008). For this reason, we tend to favor managers who run smaller portfolios with a limited amount of holdings – generally 20-45 stocks.
- **An ability and willingness to go to cash:** Our reasoning here is simple – if there are no cheap stocks available, don't buy expensive ones. Currently, we believe we are in a sideways market of sorts that has been in action since the 1999 Tech Bubble pushed equity valuations to the extreme. Generally speaking, it is for this reason that the overall market performance over the past twelve years has been negligible in comparison to past periods while overall volatility has been high. In this type of environment, we believe managers who are willing and able to raise cash when stocks are expensive and use this liquidity to buy during market downturns have the chance to outperform.
- **Less Constrained Mandates:** We tend to favor managers who do not fit perfectly in an investment box or description, such as small-cap domestic or large-cap international. With a few exceptions, we want our managers to buy stocks where they find opportunity and cheap prices and to not be too constrained by capitalization or sovereignty in a globalized world.

Though there are certainly more inputs than the above that go into the final decision to use an underlying fund manager, these points help filter our view before analyzing other qualitative and quantitative factors.

Financial Synergy from Courtney

As my dad mentioned above, I recently passed the Certified Financial Planner exam. Once it sunk in that I had passed the exam, I began to reflect on everything I learned for the exam and how it would

help our clients. Prior to sitting for the exam, I was required to take six classes covering each part of the Financial Planning process – Estate Planning, Insurance, Investments, Income Taxes, and Retirement Planning. On their own, each topic area was interesting, but it wasn't until it all came together that I saw financial planning as a holistic process.



I often view my business partners – my dad, Ryan, and Morgan – in the same way. On our own, we are all intelligent, capable professionals. But together, we are even better. We each have our own skill sets that can benefit our clients, but it's our ability to work together that is our biggest asset.

While many of our clients only need to work with us on one part of the financial planning process, we are always available to assist in any area of concern. As your life changes, your overall financial plan may change as well. Our team can work with you each step of the way.