March - April 2014

Money Moxie®

Escape Velocity
What will fuel our economic breakout?

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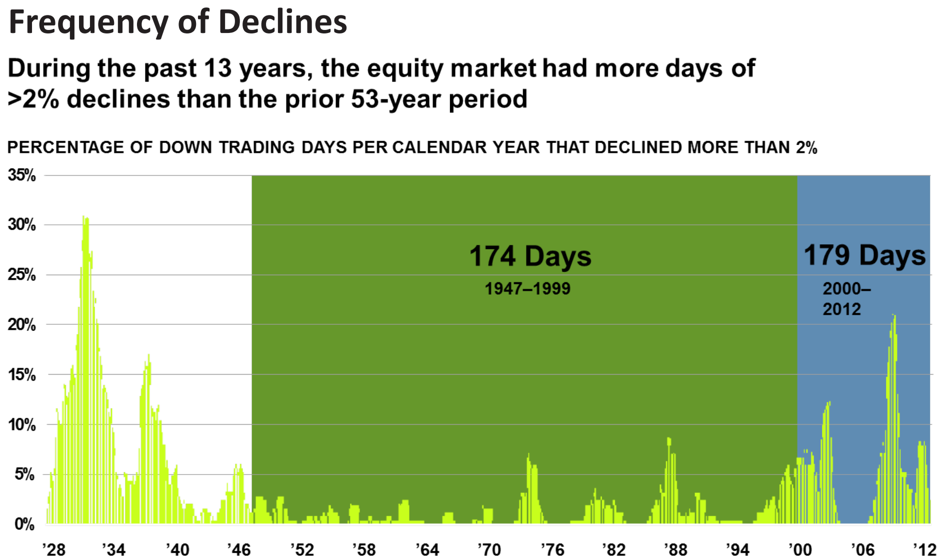
Stock Market Volatility - Friend or Foe?

Dear Valued Clients and Friends,

Is stock market volatility your friend or your foe? We believe understanding market declines is crucial, not only to your sanity, but to your investment portfolio as well. By recognizing how volatility plays into long-term stock market returns, you should be able to better manage your emotional response to volatility.

If you were to react to every two percent decline in the market, you might self-sabotage your long-term investment plans. During the past 13 years the equity market had more days of greater than two percent declines than the prior 53 year period. This can likely be explained by the ready access we have to current data through technology.

Most importantly, over time, the market has continued to grow. The real test is staying invested to reap the long-term rewards. Dr. Jeremy J. Siegel, in his book Stocks for the Long Run 5/E; The Definitive Guide to Financial Market Returns and Long-Term Investment Strategies, points out, *"History convincingly demonstrates that stocks have been and will remain the best investment for all those seeking long-term gains."*



Source: "Is Loss Aversion Causing Investors to Shun Equities" Fidelity Investments, Feb 1, 2013. Please see stock market disclosure at the bottom of page three.

Bullish Best Wishes,

Roger

Roger M. Smedley, CFP®
President

2014 Qualified Charitable Distributions in Question

By Nashaela Lyons

As we end the first quarter of 2014, many of you who are charitably inclined have asked us about the status of Qualified Charitable Distributions (QCD). Current laws do not allow for QCDs in 2014 or beyond.

Also known as charitable IRA rollovers, QCDs are a way of donating your traditional IRA money tax-free to a charity. In the past, many people have chosen to use their Required Minimum Distribution (RMD) as a Qualified Charitable Distribution.

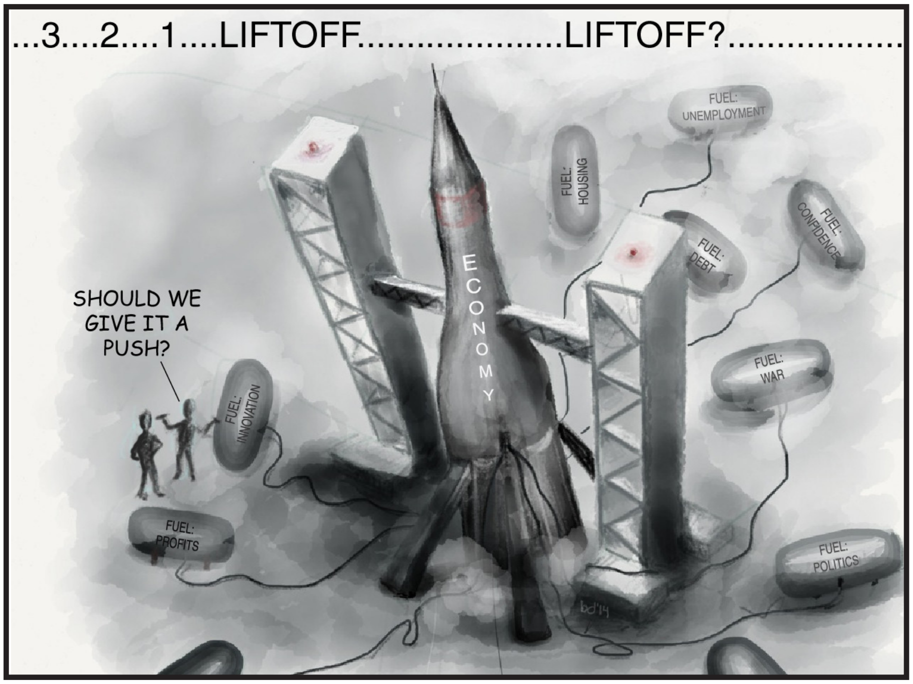
Qualified Charitable Distributions were first created by the Pension Protection Act of 2006. Originally effective from August 17, 2006 through the end of 2007, Congress has extended QCDs several times. In January 2013, the American Taxpayer Relief Act of 2012 (ATRA) was passed, allowing QCDs retroactively for 2012 and extended them through 2013.

QCDs offered a great tax benefit to those who wanted to donate to qualified charities. We hope its popularity will persuade Congress to bring it back. Watch our future publications for possible updates.

Escape Velocity: What Will Fuel Our Economic Breakout?

By James R. Derrick Jr., CFA®

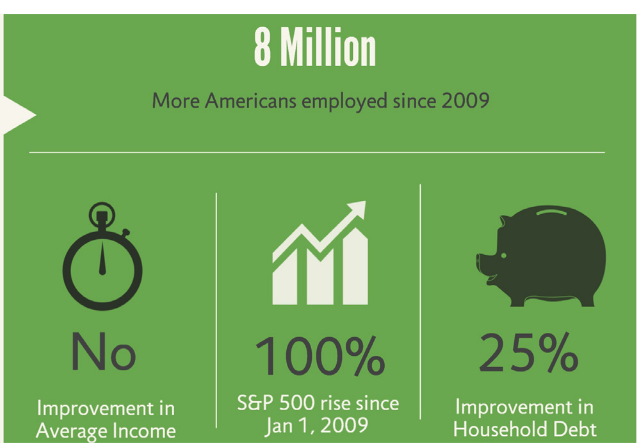
Escape Velocity is simply the speed required to escape gravity's pull. An object on earth's surface would need an initial speed of 6.96 miles per second (Mach 34) to get out of the gravitational range of the planet.



As we continue to recover from the 2008 recession the question looms; "What will it take to escape the unseen gravitational pull of what is called the new normal economy?"

Slow economic growth has given Americans a feeling that the economy is destined to grow at 1 to 2 percent. The decades-long average prior to the 2008 recession was 3 to 4 percent.

Let us be clear. This article focuses on the economy, not the stock market. The market as measured by the S&P 500 formed a bottom 5 years ago. That index has reached around 50 all-time highs in the last 12 months. From January 1, 2009 to January 1, 2014 the S&P 500 went up over 100 percent.



Should it bother investors that the market has been making new highs? No, making new highs is normal for American stocks. Should we worry that five years is too long for a bull market? No, it is a healthy sign to have long periods of growth interrupted by smaller drops.

The question is "How long can the bull market in stocks last if the new normal continues?" Furthermore, what kind of rocket fuel will propel this economy beyond its current trajectory?

As the Federal Reserve stimulus winds down, something else will have to take its place. The U.S. economy needs to transition from a government-induced to a consumer-driven expansion.

Can consumers afford to spend any more? It has taken a long time, but unemployment levels are getting closer to pre-recession levels (currently 6.7 percent). Household debt payments are at an all time low as a percent of income, which is also really good. Unfortunately, the average income of American households is one economic measure showing no improvement over the last 5 years.

Household income may be the most important ingredient to current growth. It may improve soon. As unemployment numbers get stronger, the labor market will tighten. Employers will raise pay for their workers. When that begins to happen in the U.S. workforce, consumers will finally have more spending power to propel the economy.

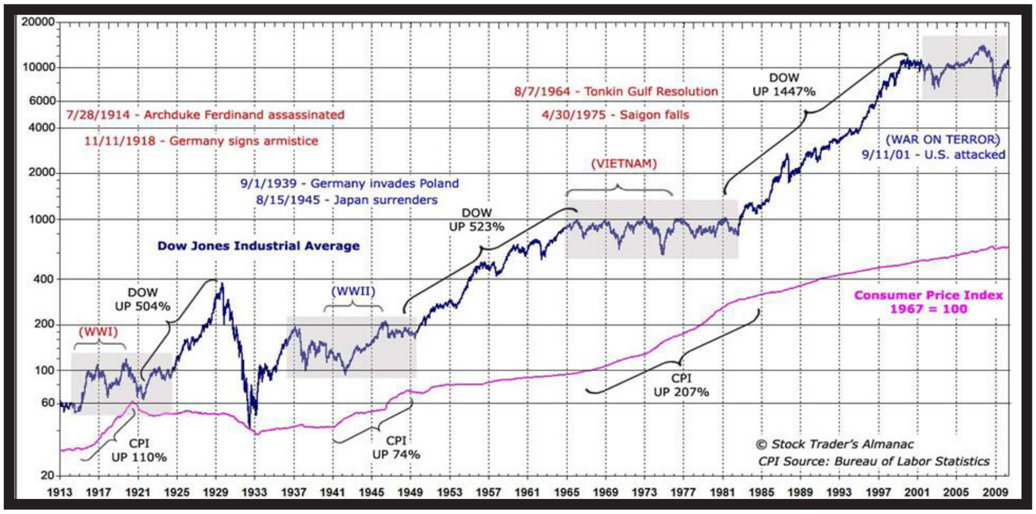
While stock returns have been great in recent years, they cannot rise forever without better economic growth. The gravitational pull of the new normal is just too strong. Keep an eye on improving income in the United States. It may fuel the next breakout. SFS

*Research by SFS. Data is from the Federal Reserve Bank of St. Louis. Investing involves risk, including potential loss of principal. The S&P 500 index is often considered to represent the U.S. market. One cannot invest directly in an index Past performance does not guarantee future results. The opinions and forecasts expressed are those of the author and may not actually come to pass. This information is subject to change at any time, based on market and other conditions, and should not be construed as a recommendation of any specific security or investment plan.

Impact of War

on Stock Markets

By Mikal B. Aune, CFP®



As the Sochi Olympics ended, many eyes turned to the other side of the Black Sea and the threat of war in Ukraine. With each successive turn of good or bad events, our U.S. stock markets[1] seem to react in like manner. That begs the question, what impact do wars have on stock markets, and how should an individual react?

To see the impact of war, let's first examine the most recent war that started on American soil. The impression that many people have is that the recession of the early 2000s started with the terror attacks on September 11, 2001. The reality is that stocks were already on a downward trend when September 11th happened. Yes stocks dropped sharply in the 10 days following that awful event, but once America grasped the reality of the situation, stocks rebounded, recovering the losses directly related to the shock of that event.[2]

There is a similar pattern for each conflict involving the United States. "*In 14 shocks dating (back) to the attack on Pearl Harbor in December 1941, the median one-day decline has been 2.4%. The shocks, which also include the September 11th terror attacks and the 1962 Cuban missile crisis, lasted eight days, with total losses of 7.4%...The market recouped its losses 14 days later.*"[3]

Similar patterns of decline occurred during several Middle Eastern conflicts such as Desert Storm in 1991, the Iraq War in 2003, and the Syrian Conflict in 2011. Leading up to each of these events, the market dropped, but recovery happened shortly thereafter.[4]

Mark Luschini, the Chief Investment Strategist for Janney Montgomery, put it this way, "*It's not that it's welcome, but once it gets underway, you can quantify what the situation might look like. When you're left in the dark about when it will start, what will be the result, it gives investors trepidation.*"[5]

Short-term shocks to the system cause short-term consequences for the stock market and the economy. On the other hand, major periods of conflict can have more lasting effects on the economy and the stock market.

One of the most harmful economic effects of war is a supply shock. A major shock in the supply of goods or labor can severely impact economic productivity. Sources of these setbacks include economic sanctions, manufacturing destruction, infrastructure damage, etc. This has not been a factor of major concern within the United States as it has been a long time since there has been a war fought on American soil.

Public opinion supports the belief that war and its associated spending creates positive economic outcomes for the U.S. economy. This is mostly due to the higher GDP growth that was exhibited during conflict periods like World War II, the Korean War, the Vietnam War, and the Cold War. The only outliers have been the Iraq and the Afghanistan wars.[6]

While war tends to generate some positive economic benefits, it is more of a mixed bag for stock markets.

Continued on next page

"*During WWII stock markets did initially fall but recovered before its end, during the Korean War there were no major corrections while during the Vietnam War and afterwards stock markets remained flat from the end of 1964 until 1982.*"[7]

Another typical impact of major conflicts is inflation. This is due to the increase in government spending through various financing methods. "*While inflation may be good for reducing debt burdens, high inflation has many harmful effects, such as wealth redistribution and erosion of international competitiveness.*"[8]

Short-term conflicts typically have a short-lived impact on the stock market. As such they shouldn't change an individual's investment philosophy or cause one to "abandon ship."

A more prolonged conflict may cause an individual to take a more judicious approach by reevaluating his or her goals and making adjustments based on the current market environment. As always, it is prudent to seek advice from an experienced investment professional that can help you plan for and navigate your own voyage through our uncertain world. SFS

1. Research by SFS. Please see stock market disclosure at the bottom of page three.
2. Adam Shell, "What Wall Street is Watching in Ukraine Crisis," *USA Today*, 3/3/2014
3. Adam Shell, "What Wall Street is Watching in Ukraine Crisis," *USA Today*, 3/3/2014
4. Chris Isidore, "Impact of War On Stocks and Oil," *CNN Money*, 9/3/2013
5. Chris Isidore, "Impact of War On Stocks and Oil," *CNN Money*, 9/3/2013
6. Michael Shank, "Economic Consequences of War on the U.S. Economy," Institute for Economics & Peace, 2011
7. Michael Shank, "Economic Consequences of War on the U.S. Economy," Institute for Economics & Peace, 2011
8. Michael Shank, "Economic Consequences of War on the U.S. Economy," Institute for Economics & Peace, 2011

What Is a myRA?

By Lynette S. Watts

The myRA was introduced on January 28, 2014 by President Obama during his State of the Union address. MyRA stands for "My Retirement Account."

The purpose of a myRA is to give low- and middle-class income Americans access to an account that will help encourage them to save for retirement. It is expected that the myRA will be similar to the Roth IRA. While still in the design stages, the myRA may be available to investors by the end of this year.

Highlights of opening a myRA

Investors will be allowed to open an account for as little as $25. They will also have the opportunity to add to their accounts with as little as $5 through automatic payroll deduction. Contributions are made after-tax and the earnings grow tax-free.

There will be no fees to open a myRA making it a very cost effective investment. The minimums and fees are much lower than most Roth IRAs.

The myRA annual contribution limit will match the Roth IRA at $5,500 per year.

Flexibility will offer myRA owners the ability to roll their account to a Roth IRA at any time. However, after reaching a maximum myRA account balance of $15,000 or a maximum limit of 30 years, myRA owners will be forced to roll accounts to Roth IRAs.

Like a Roth IRA, the myRA contributions may be withdrawn at any time without penalty. However, the earning can only be withdrawn penalty-free after age 59 1/2.

Here is the catch

MyRAs will be invested in government bonds offering principal guarantees that are backed by the U.S. government much like traditional savings bonds.

While many investors will love the fact that their investment will not lose money, that guarantee may come at an unforeseen cost, the opportunity cost of long-term potential market growth.

MyRA accounts may be a great stepping stone. They'll allow those who are just starting out or those with limited incomes the opportunity to begin saving for the future.

Building a Business

Part One: The Plan

By Rodney A. Walker, CFP®

Bloomberg published a statistic indicating that only 20 percent of new businesses make it past the first 18 months, leaving 80 percent of business dreams lost. Building a business is not for the faint of heart. It takes time, energy, and capital. It also means taking additional financial risk. Yet for many the dream of becoming their own boss, having a flexible schedule, and obtaining financial freedom are incentive enough. These are some of the driving reasons entrepreneurs strive to build the job of their dreams.

This article is the first of a four-part series and will cover some of the major challenges faced when launching a new venture.

The Plan

Building a viable business starts by taking the time necessary to create a business plan. Without a plan, the dream of building a successful business may never come to pass. A plan is needed to give your dream direction and take it from a dream stage to reality.

Entrepreneurs are never at a loss for business ideas. Some great and some not so great. Unfortunately, many great ideas are not attained simply because no one mapped out the details. Putting a business idea on paper allows one to discover if the idea has room to grow and become successful.

What makes a great business plan? Below are three essential steps to creating a good working plan.

1. The Executive Summary: Business plans need to have a summary in which you will emphasize the company's strengths and why the company will succeed. Communicate where you envision the company to be in the short and long term. Make the summary brief and to the point. The summary can change over time based on feedback; don't be surprised if what you start with is not what you end with.

2. The Company Description: This section should describe what it is that is driving you to start this company. Explore deeper into your idea and include how your business will operate. List the qualities your company will bring to the market. Explain your strengths and weaknesses. Consider what competitive advantages you have and how sustainable they are.

3. Market Analysis: Do the groundwork by researching your primary and secondary markets. List any threats and obstacles you might face. Create a strategy to overcome them. Describe your marketing strategy and what areas of marketing you are going to use to market the company. List what the profit margins need to be in order for you to be successful. Determine what regulations, either local, state or federal, will need to be followed. Also list any licenses that need to be obtained.

Opening a business can be difficult. Start with step one and create your business plan. It is a priceless document and worth the time and effort you will spend. It will become a compass that will help guide your company to success. It can also serve as a looking glass for others to see your vision and help sell your dream.

Watch for the next installment in our Building a Business series for more valuable information.

Source: Bloomberg

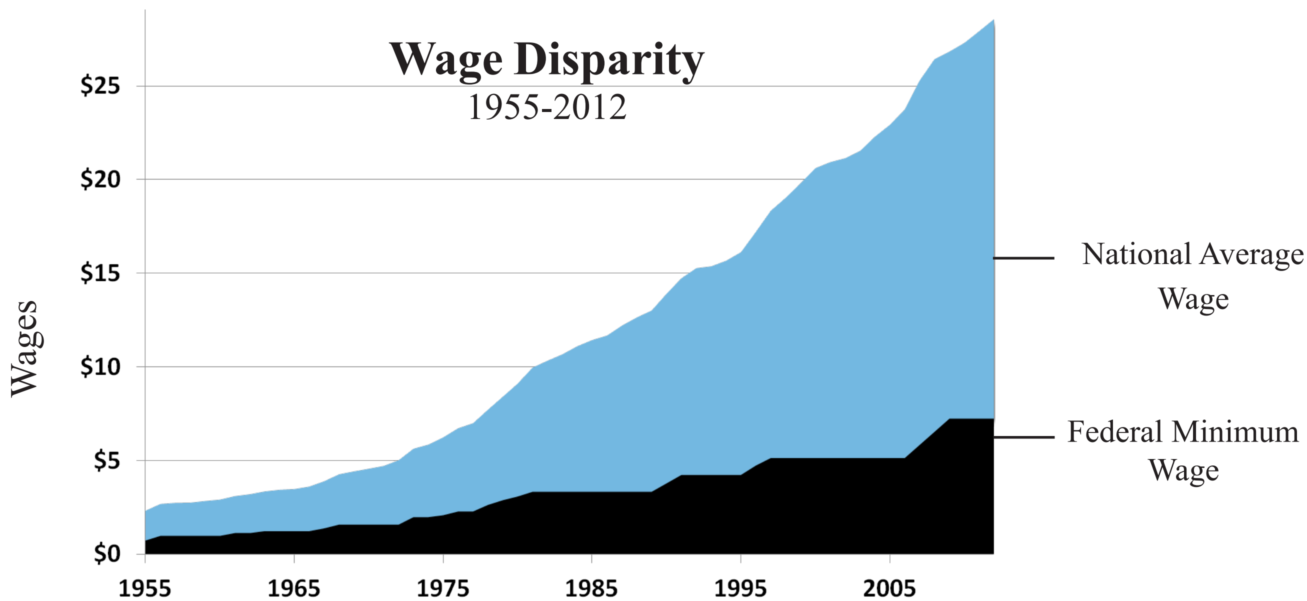
Does Everyone Deserve an Opportunity to Earn a "Living Wage"?

By Sharla J. Jessop, CFP®

The federal government is discussing several changes intended to provide low-income earners with the opportunity to work for a "living wage." This includes a higher minimum wage and new rules on who qualifies for overtime pay.

$15,080

This is the annual income of a full-time worker earning the current federal minimum wage of $7.25 per hour.



President Obama

The President believes employment laws should have kept pace with inflation.

The President has proposed raising the federal minimum wage from $7.25 to $10.10 per hour. For an individual working 40 hours a week, that's equivalent to $21,008.

The President has signed an executive order directing the Department of Labor to create new overtime protections. Currently, salaried workers making more than $23,660 may not be eligible for overtime.

Your SFS Team

Smedley Financial Services, Inc.® is an independent registered investment advisory firm. We work for our clients. Our wealth managers have the flexibility to implement our financial plans, retirement plans, and income distribution plans using the strategies that work towards each client's needs and goals. We work with individuals, businesses, and family estates. We provide financial solutions for your life.

Wealth Accumulation
- Managed Accounts
- Indexed Investing
- Mutual Funds
- Exchange Traded Funds (ETFs)
- Stocks and Bonds
- Alternative Investments

Family Protection
- Term Insurance
- Whole Life Insurance
- Universal Life Insurance
- Variable Universal Life Insurance

Retirement
- Social Security Maximization Strategies
- Medicare Supplement
- Guaranteed Income (Annuities)
- Lifetime Income Planning

Disability (Injury)
- Short-Term Disability Insurance
- Long-Term Disability Insurance

Elder Care
- Long-Term Care Insurance
- Hybrid LTC

Self Employed
- Health Insurance
- 401(k) Plans

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