ABULS, BONE & ELLER GROUP OF RAYMOND JAMES®

JULY 2015

LOOKING INTO THE CRYSTAL BALL

We have spent the entirety of our careers working with individuals and families in developing and maintaining financial security. During the period of the past 30+ years, a lot of world events and personal circumstances of clients have conspired to make it an evolving and interesting 'real-life' coursework in financial planning and investment counseling. In the span of our careers there have been a number of trends that have defined the business world, financial markets and personal financial planning.

Notable among the trends have been the introduction of IRAs and 401Ks for personal savings and fewer defined benefit pensions. An overwhelming amount of financial products and access to them has created a plethora of choice and complexity.

The broad-scale use of the computer and its applications has radically changed the way both the individual and business manage their lives. Access to data and knowledge is immediate and seemingly limitless. The geography of the planet is much smaller in many ways and governments and ideologies have been toppled and started because of it.

From an investment perspective, the US stock market on the back of the telecom and tech revolution enjoyed one of its longest and most profitable runs in history. Additionally, but no less significant, interest rates based on the 10-year treasury yield peaked on September 30, 1982 at 15.84% and followed a downward trend for 30+ years bottoming at 1.43% on July 25, 2012.

Health and longevity factors in the US have changed significantly. Life expectancy at birth for both sexes in 1900 was 47.3 years! By 1950, it had increased to 68.20 years; 1983 74.6 years and in 2010 had increased to 78.7 years of age. In just over 100 years, we have added 31 years to the average life expectancy in the US. As a comparison, life expectancy at birth for Japan is in excess of 83 years of age in recent years! (Source: US Department of Health and Human Services)

There is a great awakening in the US today as it relates to financial planning, and specifically retirement planning. It is being driven by the fact that baby-boomers, the pig moving through the python of the socio-economics of the US, are now knocking on the door of retirement. More than ever before, individual responsibility for developing and maintaining your own financial independence is imperative. It is up to each person and household to determine their goals, save their money to provide the resources to make it possible and educate themselves on the products and strategies to implement in each phase of their financial life cycle to make it effective and efficient.

Retirement planning's importance is only exacerbated by increasing longevity. If one starts at age 22 in the work force and works to age 65, he/she will have 43 years to accumulate assets. If they live to be 95 years of age, they will require income for 30 years. From start to finish their investment/retirement life cycle will be 73 years!

Retirement planning is predicated upon how much you spend, how much you save, the investment return on your savings and the time frame involved (both the accumulation years and the income years). From a spending perspective, there are a few key items to be mindful of as you live your financial life. The key costs factors are housing, transportation, medical and 'your thing(s)' (e.g. second homes, boats, country clubs, travel, etc.). Keeping these costs to a reasonable percentage of your living expenses; i.e. 50%+/- will help assure your success. We will address this in more depth in a later newsletter.

Saving has become a necessity without defined benefit pensions. A good general rule of thumb is to start early and save 15 to 20% of your income. This is another topic to be explored in more detail in a near term newsletter.

We have been mindful of returns and time frames in recent work with clients. In reviews this year we have shared some data on asset class returns that are used to produce the investment returns in our financial planning projections. The data is provided to Raymond James by the Mercer Investing Consultant Group. We share them not to necessarily provide expectations of future returns. We introduce them more to explain the current economic and investment environment and the sometimes long-term nature of each. Following is a handful of the basic projected returns:

US Large Cap Blend Stocks	6.64%
US Small Cap Stocks	8.19%
International Developed Stocks	7.85%
Emerging Market Stocks	9.34%
Intermediate Investment Grade Bonds	3.57%
Multi-Sector Fixed Income Strategies	4.74%
Cash and Cash Alternatives	1.00%

**Since past performance in no indication of future results, there is no assurance that these percentages will be reached. This is provided for illustrative purposes only.*

Note that this data is based on an inflation rate of 2.2% and are 20 year +/- average projections. In general, these return projections are slightly lower than many investor's long-term memories or experiences. This is particularly true for fixed income investments. Cash returns of 1% are recent memories for most. But those investing since the early 1980's remember 5%+ rates on cash for a 20+ year period.

Though many investors may be waiting for double digit interest rates again, given the long-term nature of credit cycles it is not inconceivable that the average yield on investment grade intermediate bonds could average 3.57% over the next 15-20 years. Given that rates are in the 2.00% range today, trending over a longer term period to 7 or 8% would produce an average annual return of 3.50 to 4.00%.

Given a scenario of lower economic growth, lower inflation and lower interest rates, other asset returns will more than likely experience lower risk premiums and lower than average long-term returns. The goal will be to find those assets that are better values and/or provide better growth opportunities. But in reality the entire universe of investment opportunity will be competitively priced and total returns more difficult to achieve.

Given all that it does not negate continuing to be an investor. In fact with cash yields at lows, excess returns over cash of 2% to 8% will prove quite valuable in the compounding of investment capital over the long-term. We are often quoted as saying that earning 2% more over 25 years produces 60% more capital. This could be the difference between $2,000,000 of investment funds versus $3,200,000!

"Compound interest is the 8th wonder of the world. He who understands it, earns it. He who doesn't, pays it." *- Albert Einstein*

Going back to the longevity issue in planning also brings in to play the 8th wonder of the world, compound interest. Our previous example highlighted how a financial plan's lifetime can be 73 years; i.e. age 22 to age 95! In today's world there is a very high likelihood that one can live well into their 90's. If you retire at 60+ your 'golden years' can be three decades long!

A recent report brought to life and illustrated the value of a long-term perspective and the power of compound interest. It provided an example of an investment that began in the 1950's and has produced an annualized return of 11.84%.

Following is a table summarizing the value of a $10,000 investment made on its inception date and subsequent values during its points along the way.

Value	Date
$10,000	1953
$20,000	1957
$40,000	1963
$100,000	1976
$200,000	1982
$400,000	1986
$1,000,000	1991
$2,000,000	1996
$4,000,000	2000
$8,000,000	2013
$11,178,549	04/30/2015

An initial investment of $10,000 compounded at 11+% over 62 years has the potential to grow to $11,000,000! Imagine investing $10,000 for a new born in 1952 that who just turned 62, retired and has a nest egg of $11,000,000 to enjoy life!

Note that this example does include the reinvestment of dividends and does not take taxes into consideration. But there was no additional out of pocket investments made during the period.

This is a hypothetical example for illustrative purposes only. It is not intended to reflect the actual performance of any security. Investments involve risk and you may incur a profit or a loss. These results are hypothetical in nature, do not reflect actual investment results and are not guarantees of future results.

Whether it be earning 2% more over a 25 year period or compounding money at 11% over 62 years, examples are plentiful that highlight the real benefits of compound interest. The key to achieving them is to have a long-term strategy and sticking to it. There are plenty of periods during the life of the investor or a particular investment where one's resolve to stick with the plan is tested. The keys are to understand what you own, why you own it and how characteristics of compound interest, compounding of unrealized gains and the emotional difficulty of riding through market cycles prove to be so valuable in a long-term investment strategy.

There is a scarcity mentality that often is associated with new retirees. It tends to make one think more short-term, limited in choice and a feeling of insecurity. When earning an income people believe they can add to their financial resources and don't require the resources to live. At retirement they are faced with the finite nature of their pile of money and their sudden need to draw on it for income.

Whether you are just beginning the accumulation phase of your plan or the distribution phase, your time frame is still long-term. Thirty years on either side of the retirement date is long-term in anyone's play book. The value of a disciplined plan and the benefit of compound interest are still very relevant and essential to achieving your goals.

There is little doubt in most circles that it is getting difficult to find extraordinary investment value or opportunity across asset classes. The continued increase in asset prices without a corresponding increase in the factors that drive value has created the current place in this cycle. Low interest rates and low economic growth rates have been the chief contributors to this scenario.

We continue to be focused on quality parts of the equity and fixed income markets. It is where we believe you are not over-paying for risk. Or at least paying less proportionately for the risk we are taking. Our allocations in our equity and fixed income models remain consistent with last quarter. We continue to monitor the portfolios for profit taking with an increase in prices. And should a decline in prices occur we will stand ready to rebalance and take advantage of better investment opportunities.

The Abuls, Bone & Eller Equity Allocation
As of June 30, 2015:

Large Cap Value	22%
Large Cap Growth	22%
Small Cap Value	1.5%
Small Cap Growth	0%
International Large Cap	25.5%
International Small Cap	4%
Emerging Markets	6.50%
Natural Resources	4.5%
Allocation Funds	10%
Cash	4%
Total	100%

The Abuls, Bone & Eller Income Allocation
As of March 31, 2015:

Core Bonds	65%
Global Bonds	15%
Multi-Sector Income	10%
Allocation Funds	10%
Total	100%

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REQUIRED DISCLOSURES

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Diversification and strategic asset allocation do not ensure a profit or protect against a loss. Investments are subject to market risk, including possible loss of principal. Gross Domestic Product (GDP) is the annual market value of all goods and services produced domestically by the US. Alternative investment strategies involve greater risks and are only appropriate for the most sophisticated, knowledgeable and wealthiest of investors. High-yield bonds are not suitable for all investors. When appropriate, these bonds should only comprise a modest portion of your portfolio.

The S&P 500 is an unmanaged index of 500 widely held stocks. The MSCI Emerging Markets Index is designed to measure equity market performance in global emerging markets. The Russell 2000 index is an unmanaged index of small cap securities which generally involve greater risks. Barclays Capital U.S. Aggregate Bond Index is made up of the Barclays Capital U.S. Government / Corporate Bond Index, Mortgage-Backed Securities Index, and Asset-Based Securities Index, including securities that are of investment grade quality or better, have at least one year to maturity, and have an outstanding par value of at least $100 million. The MSCI EAFE (Europe, Australia, and Far East) index is an unmanaged index that is generally considered representative of the international stock market. These international securities involve additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. The Dow Jones-UBS Commodity Index aims to provide broadly diversified representation of commodity markets as an asset class. It is not possible to invest directly in an index. The Vanguard REIT Index is a real estate investment trust fund that offers investors wide exposure in the real estate sector at a low price. The fund holds each of its stocks in approximately the same proportion as the weighting in the MSCI US REIT Index. It is not possible to invest directly in an index.

The NASDAQ Composite Index is an unmanaged index of all stocks traded on the NASDAQ over-the-counter market. The Dow Jones Industrial Average is an unmanaged index of 30 widely held securities.

The value of fixed income securities fluctuates and investors may receive more or less than their original investments if sold prior to maturity. Bonds are subject to price change and availability.

This analysis does not include transaction costs and tax considerations. If included these costs would reduce an investor's return. As federal and state tax rules are subject to frequent changes, you should consult with a qualified tax advisor prior to making any investment decision. Raymond James does not provide legal or tax advice on these or any other transactions.

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