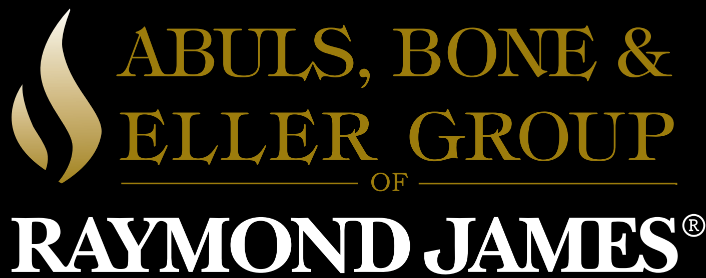

JULY 2015

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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

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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

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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:

Asset Class	Allocation
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:

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

HELP US HELP YOU – NEW FEATURE IN INVESTOR ACCESS

We are excited to announce a new feature in Raymond James Investor Access, ***Client Initiated Aggregation.*** This allows you to connect to outside financial institutions through the Raymond James Investor Access site. You can connect to banks, credit card companies and brokerage firms, among other institutions. You also can manually enter assets such as jewelry, collectibles, cars and real estate for a complete view of all your assets.

This allows your "external accounts" to be viewed in Raymond James Investor Access, providing you a holistic view of your financial life – all in one place. We will also be able to see this comprehensive view of your accounts, and this enables us to work together more effectively to manage your assets.

Please call us if you would like to be added to this new service or if you have questions and would like to discuss it further.

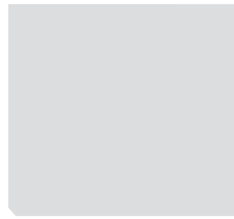
PLEASE WELCOME...

Please join us in welcoming our newest member to the Abuls, Bone & Eller team, Minerva (Minnie) Calvetti. Minnie has joined our team as a Senior Registered Client Service Associate and will be working alongside Karen in Client Services.

Minnie comes to Abuls, Bone & Eller from her position as a Registered Sales Associate with Oppenheimer where she worked for 4 years. Prior to that, she was with Morgan Stanley Smith Barney. She has been in the brokerage industry with a Series 7 and 63 licenses for 15 years.

Minnie is married and resides in Park Ridge with her two children, Zac and Matthew. Minnie has an undergraduate degree from DePaul University with a BS in Finance.

We are very excited to add Minnie's skills to the team and we are confident you will enjoy working with her.



HINDSIGHT IS 20/20

> "The greatest wealth is to live content with little." *- Plato*
>
> "This city is what it is because our citizens are what they are." *- Plato*

The last quarter was dominated by talks of interest rate hikes in the US, the introduction of the 487th republican nomination for president and the talks in the Eurozone regarding the problems in Greece. Greece continues to be the weakest link in Europe's common currency experiment of the Euro. It continues to be less clear how a currency union that operates with members who significantly differ in their fiscal policies; i.e. tax structures and most importantly tax enforcement, and the absence of an elegant monetary policy; i.e. centralized banking system, can effectively operate.

Greece and its implications to the world financial markets can at first appear complex and foreboding. But like most things in life the worries specific to Greece are overblown. Greece's economy produces approximately $248 billion of good and services annually. This is on a par with the state of Louisiana and approximately one-third the size of the state of Illinois. In 2014, the nominal GDP of Europe was $18.5 trillion. Greece represented less than 1.5% of Europe's economic output last year.

The issue with Greece is their debt. They owe approximately $540 billion to a variety of government and financial institutions throughout Europe. This represents approximately 200% of their annual GDP. We have mentioned in previous writings that when a country exceeds 80-90% debt to GDP it makes it very difficult to invest, grow capital and grow GDP in a country; thus making it difficult to pay back your debts.

Greece is in this position because of a large percentage of government workers and state-run enterprises. This evolution took place as elected parties promised jobs, benefits and pensions to the employees for votes. And as with most government run enterprises, the finances were poorly managed, debt was used to finance their mistakes and now citizens and lenders will be left to pay the price.

There are only three things an entity can do to correct the imbalances of over indebtedness. Generally, it requires the first two in tandem. And sometimes, help from the third. The first is to work harder, smarter and more industrious thus making more money. The second is to tighten your purse strings and spend less. The third is to seek relief or forgiveness of debt from your creditors.

Europe's lenders to Greece are requesting a fair share of the items one and two from above. This is referred to in the press as 'austerity measures'. As of this writing the Greeks voted a referendum that essentially told the rest of Europe we are not willing to make any more austerity concessions. The question simply remains do the other Euro members want Greece in their currency union and what price is everyone willing to pay?

Five years ago these issues would have been more sensitive to the world's markets. However, with an improving global economy, and in particular an improving Eurozone, the implications or contagion of a Greek exit from the Euro is less shocking. However, what it should be is a continued reminder that debt is the undoing of many a government, corporation and individual household. Debt is rarely the tool needed to fix a financial problem. If you can't pay your bills borrowing more money only increases your obligations and makes it that more difficult to pay them back.

The other lesson is that as a citizen of a city, state or country, you have an obligation to elect leaders who will make intelligent and sometimes difficult decisions to manage the finances of an entity. And as citizens, we sometimes need to become more industrious or more frugal and make sacrifices in the short-term to assure the long-term stability of the place we live.

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The city of Chicago, the state of Illinois and our country are part of a global stigma of poor financial management. Unions in government and state-run entities all around us have produced financial results that mirror the results in Greece.

> "One of the penalties for refusing to participate in politics is that you end up being governed by your inferiors." *- Plato*

Choose your debt and your leaders wisely!

The financial crisis brought to light the debt issues in the developed markets. This has resulted in a slow and long run improvement in global finances. Nothing on the horizon appears probable to add any speed or intensity to this recovery. We are not economist and only offer this as intuition from a grassroots perspective.

This long recovery has resulted in a long and slow melt up in asset prices across the global landscape. This quarter's results reflect that as asset class returns were negative to modestly positive for the quarter. One bright spot continues to be foreign equity returns. In spite of Greek issues in Europe, foreign stocks led broader US markets during the quarter.

Speculation of US interest rate increases weakened bond markets during the 2nd quarter. Broadly speaking, fixed income and yield investment had a tough quarter. The benchmark Barclay's Aggregate Bond Index was down 1.68% during the quarter. The FTSE NAREIT Index (real estate investment trusts) was down -9.06%. Yield chasing today may be analogous and as dangerous as dogs chasing cars down Lakeshore Drive at 4:30 in the afternoon.

Index	Bond Description	2Q15	YTD
Russell 2000	Small US Stocks	0.42	4.75
S&P 500	Large US Stocks	0.28	1.23
MSCI EAFE	International Stocks	0.62	5.52
Diversified EM	Emerging Markets Stocks	0.65	1.79
Global High Yield	Global Low Quality	1.28	1.94
Mortgage Backed Sec	Mortgage Backed	-0.55	0.75
Global Corporate	Global Corporate	-1.06	-1.92
Barclays Aggregate	A Market Weighted Blend	-1.68	-0.10
Municipal	Intermediate-Term Municipals	-1.00	0.01
Treasury	US Treasuries	-1.58	0.03
TIPS	Treasury Inflation Protected	-1.06	0.19
EM Debt	Emerging Market Debt	-0.10	-0.53
Global Sovereign	Global Government Debt	-1.61	-3.44

Source: Morningstar Advisor Workstation

> "He is a wise man who invented beer." *- Plato*

REQUIRED DISCLOSURES

Views expressed in this newsletter are the current opinion of the author, but not necessarily those of Raymond James & Associates. The author's opinions are subject to change without notice. Information contained in this report was received from sources believed to be reliable, but accuracy is not guaranteed. Past performance is not indicative of future results. This is not a recommendation or a solicitation to buy or sell any security. Investments and strategies mentioned may not be suitable for all investors. Investing always involves risk and you may incur a profit or loss. No investment strategy can guarantee success. International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets. There is an inverse relationship between interest rate movements and bond prices. Generally, when interest rates rise, bond prices fall and when interest rates fall, bond prices rise. Since past performance is no indication of future results, there are no guarantees as to future performance. Past performance is provided for illustrative purposes only.

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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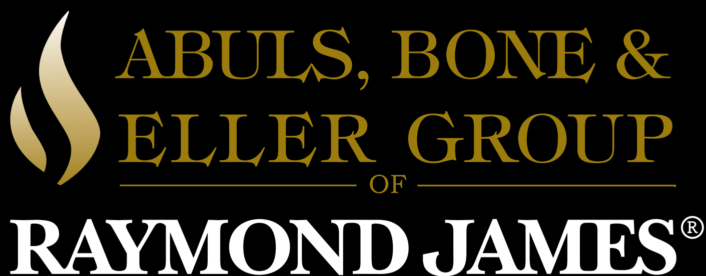

A LOOK AT THE NUMBERS AS OF 6-30-2015

	Current Yield	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years	Last 10 Years
Major Indexes						
DJIA	2.36	-0.29	7.21	13.77	15.41	8.32
S&P 500	2.04	0.28	7.42	17.31	17.34	7.89
NASDAQ	1.21	2.03	14.44	20.86	20.18	10.35
RUSSELL 2000	1.43	0.42	6.49	17.81	17.08	8.40
EAFE	3.17	0.62	-4.22	11.97	9.54	5.12
Bloomberg Commodity Index	-	4.66	-23.71	-8.76	-3.91	-2.62
FTSE NAREIT REIT Index	3.93	-9.06	4.14	9.06	14.36	7.05
Equity Asset Classes						
U.S. Large Cap Value	-	-0.11	3.15	15.80	15.03	6.59
U.S. Large Cap Growth	-	0.50	9.39	17.48	16.96	8.26
Mid Cap Value	-	-0.94	2.94	17.84	16.08	8.03
Mid Cap Growth	-	0.44	8.92	17.53	16.81	8.89
Small Cap Value	-	-0.53	0.51	16.06	14.76	7.58
Small Cap Growth	-	1.83	9.60	17.99	17.65	9.00
Foreign Large Cap Value	-	1.33	-6.08	10.66	8.58	4.20
Foreign Large Cap Growth	-	1.46	-0.61	11.34	9.85	5.97
Emerging Markets	-	0.65	-6.70	3.79	3.45	7.30
Fixed Income Asset Classes						
CD – 1 Year	0.60	-	-	-	-	-
CD – 3 Year	1.40	-	-	-	-	-
CD – 5 Year	2.35	-	-	-	-	-
Treasury 5 Year	1.65	-	-	-	-	-
Treasury 10 Year	2.35	-	-	-	-	-
6 Month T-Bill	0.07	-	-	-	-	-
S&P Municipal Index	2.23	-1.00	3.00	3.18	4.64	4.41
Barclays U.S Agg Bond Index	2.83	-1.68	1.86	1.83	3.35	4.44
Barclays VLI High Yield Bond	6.59	-0.36	-1.13	6.34	8.65	7.83
CPI	-	-0.23	-0.02	0.99	1.64	2.02
Prime Rate	3.25	-	-	-	-	-
Broker Call	2.00	-	-	-	-	-

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