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left to right: Joe Bowie, Andrew Flinton, Brenda C. Bolander, Carol Ringrose Alexander, Randy Thurman, and Chad Rudy

Financial Briefs

OCTOBER 2015

Coming to Terms with Stocks

It can be difficult to determine how to devise an investment strategy to help reach your financial goals. To help determine a reasonable rate of return to expect on your stock investments, it might be instructive to review some facts about the stock market:

- **The stock market's historical return can change dramatically depending on the period considered.** For instance, from 1926 to 2014, the Standard & Poor's 500 (S&P 500) had an average annual return of 10.2%. From 1990 to 2014 (25 years), the average return was 9.6% and 7.7% from 2005 to 2014 (10 years).*
- **The market tends to revert to the mean.** There is a tendency for the stock market to revert back to the average return when it has an extended period of above- or below-average returns.
- **History may not be a good predictor of future returns.** The expected rate of return for your investment program is typically based on an analysis of past returns, since no one can predict future returns. However, realize that those returns may not be replicated in the future. During much of the stock market's history, the United States was in a substantial growth phase as it grew from a struggling nation to a superpower. Growth in the future may not approach those levels.
- **The pattern of actual returns affects your investment balance.** Even if you get the average rate of return exactly right, your portfolio's balance will depend on the pattern of actual returns during that period. Some years will experience higher-than-average returns, while other years will have lower or even negative returns. If you experience high returns in the early years, your portfolio's value will be lower than if those returns occurred in the later years. If you encounter negative returns in the early years, you will have a higher balance than if those negative returns came in the later years.
- **Historical returns do not include**

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Set Off on a New Journey on TheRetirementPath.com

We are very pleased to announce the launch of our new website:

www.TheRetirementPath.com

Our new site offers more educational tools than ever before, including retirement calculators, our weekly market commentary blog so you'll always be up-to-date on what's happening in the world of finance, and many frequently-asked-questions videos answered by all of your favorite advisors. If you're currently a Retirement Investment Advisors client, you can access your account through our site, too.

Our new website also features *The Retirement Path* booklet that can help you answer the seven questions you need to answer to build a comfortable income for life. Download your copy on our new site or call us today to receive a complimentary hard copy. *The Retirement Path* booklet is a condensed version of our co-President and CFO Randy Thurman's recent book, *The All Weather Retirement Portfolio: Your post-retirement investment guide to a worry-free income for life.*

Coming to Terms

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several items that investors must deal with. Two of the most significant items not accounted for in historical returns are inflation and taxes. Over the long term, from 1926 to 2014, inflation averaged 2.9%.* Short-term capital gains are taxed at ordinary income tax rates of up to 39.6%, while long-term capital gains and dividend income are taxed at rates ranging from 0% to 20%. An additional 3.8% net investment income surtax may also apply.

- **Investors have a difficult time earning historical returns.** Several studies have found that investors' returns tend to lag the overall market, since investors have a tendency to buy high and sell low.

When designing an investment program, use a conservative estimated rate of return, since it may be difficult to earn the historical returns of the past. It's easier to start out with a lower expected rate of return and find out later that your actual return is higher, which means you'll just need to save less.

Consider these strategies:

- **Take a fresh look at your financial goals.** Reevaluate your goals, how much you need to reach them, and how much you should be saving annually based on lower expected returns.
- **Save more of your income.** If you can't count on returns to provide growth in your portfolio, you should compensate by saving more of your income. That may mean you'll need to work overtime or take on a second job.
- **Invest in a tax-efficient manner.** Taxes are often a significant investment expense, so using strategies to defer the payment of taxes can make a substantial difference in your portfolio's ultimate size. Utilize tax-deferred investment vehicles, such as 401(k) plans and individual retirement accounts. Or emphasize investments generating capital gains or dividend income rather than ordinary income. Minimize turnover in your portfolio.
- **Adequately diversify your investment portfolio.** Typically, you do not know which asset class will perform best on a year-to-year basis. Diversification is a defensive strategy — it may help protect your portfolio during market downturns and help reduce your portfolio's volatility. Diversify your investment portfolio among a variety of investment categories, such as stocks, bonds, cash, and other alternatives. Also diversify within investment categories.
- **Evaluate your portfolio's performance annually.** That way, if returns are lower than you targeted, you can make adjustments to your strategy to compensate for these variations in return.

Please call if you'd like to review your investment program.

* Source: *Stocks, Bonds, Bills, and Inflation 2015 Yearbook*. The S&P 500 is an unmanaged index generally considered representative of the U.S. stock market. Investors cannot invest directly in an index. Past performance is not a guarantee of future returns.

Why Invest in Stocks?

Ask some people why they invest in stocks, and the answer is simple: Why not? After all, stocks can help you build wealth, provided you make smart investing decisions.

Here are four reasons to consider investing in stocks:

Stocks can come with a higher risk than other investments, but you can devise strategies to help deal with that risk — Some people stay out of the stock market because they think it's too risky. They're worried about a big market crash and losing all they've invested. It's true that investing in stocks does come with risk (as does any investment). But if you have a well-crafted, diversified portfolio and long-term investment strategy, you should be adequately prepared to weather the ups and downs of the market.

Stocks tend to outperform other investments over the long term — Based on historical data, $1 invested in large company stocks in 1926 would have grown to $4,667 in 2013. In comparison, the same investment in corporate or government bonds would have grown far less — to $62 and $109, respectively. Keep in mind that stocks and bonds have different investment characteristics. Stocks can have fluctuating principal and returns based on changing market conditions, while government bonds have fixed principal value and yield if held to maturity and are guaranteed as to the timely payment of principal and interest.

Stocks can help you fight inflation — If you put your hard-earned cash in a savings account earning 1% interest, you'll end up losing money in the end (in terms of purchasing power), if inflation exceeds 1%. On the other hand, stocks tend to have average returns above inflation.

Stocks can help build your retirement nest egg — Especially if you are young, a heavy tilt toward stocks in your portfolio can help you capture market gains now and benefit from the power of compounding. As you get closer to your actual retirement date, you may want to consider shifting your asset allocation to include more conservative investments.

Keep in mind that stocks are primarily subject to nonmarket risk, or the risk that events specific to a company or its industry will adversely affect a stock's price; and market risk, or the risk that a particular stock will be affected by overall stock market movements. Please call if you'd like to discuss stock investing in more detail.

Retirement Investment Advisors Holiday Hours

Thanksgiving

Our office will be closed Thursday and Friday, November 26–27

Christmas

Our office will be open Thursday, December 24 from 8:00 AM to Noon

Our office will be closed Friday, December 25

New Year's

Our office will be open Thursday, December 31 from 8:00 AM to Noon

Our office will be closed Friday, January 1, 2016

Investment Strategies for Conservative Investors

Is there such a thing as a safe stock market investment? The answer is not a simple yes or no. There is no way to ensure that an investment will be a safe one, because no company — and thus no stock — is impervious to market volatility, economic fundamentals, or the whims of investors. That said, there are strategies that can help mitigate the risk inherent in stock investing.

Strategic Investing for Conservative Investors

Evaluate — Assess where the line is *for you* between risk (loss) and reward (gain); this is known as your risk tolerance. Many people go into stock investing automatically assuming that they are conservative investors. Yet in many cases, once they evaluate their comfort level with risk and reward, they realize they are not as cautious as they originally had believed. Your investment advisor can help you determine where you fall on the conservative/aggressive investor spectrum. Once you have a firm sense of where you fall, you'll know which stock investments are worth considering and which are definitely not right for you.

Strategize — First, determine where you are on your investment path right now; that's your starting point. Then determine your investment goal(s); that's your end point. Are you investing for the long term? If so, for how long? Are you looking for high returns or stable income generation? Are you looking to grow your investments or preserve them? Your strategy will guide you from where you are today to your financial goals.

Diversify — Diversification is one of the most important principles for investors at all levels of risk comfort, but especially for conservative investors. If you invest too conservatively, your money may not grow as much as you need to meet your goals. If you invest too aggressively, you put yourself at greater risk of loss.

Rebalance — Rebalancing is how you stay diversified. As the market moves, some of your investments will increase in value and some will decrease. When that happens, your portfolio's balance changes. So annual rebalancing is about selling shares in investments that are overweighted in your portfolio and buying shares in investments that are underweighted.

In addition, once a year, you need to sit down and reevaluate your risk tolerance and goals to see if your portfolio is still in alignment with the risk you're willing to take on and the goals you're looking to achieve. You may realize that your money is not growing enough to achieve your goals. Or perhaps your circumstances changed — a new job, relocation, loss of a spouse, etc. — and your new circumstances demand a new investment strategy.

Please call if you'd like to discuss this in more detail.

News and Announcements

From the Alexander Household

We spent an evening at the 19th annual Oklahoma International Bluegrass Festival in Guthrie. Our plan was to stay for a couple of hours, but it was one of those magical experiences at a concert, and we stayed until it ended at 11.

The first set was the Byron Berline Band. I grew up listening to my uncle play when he came back to Oklahoma, since he lived in Los Angeles from 1969 until 1995. He is an amazing musician and performs all over the world. In 1995, they moved to Guthrie and then founded the Bluegrass Festival.

While we were at the Festival, the music ranged from Byron's band performing the classic, "Orange Blossom Special" to the Cleverly Brothers playing Lady Gaga, AC/DC, and Jimmy Buffett songs in Bluegrass style. The evening concluded with Suzy Bogguss. By the end of the evening, our younger sons were curled up under blankets, asleep in our arms. The weather was perfect as we sat under the stars in Guthrie's Cottonwood Flats. I'm grateful for another magical night in Oklahoma.

Carol Ringrose Alexander,
CFP®, AIF®, CDFA™

From the Flinton Household

"You may not realize it when it happens, but a kick in the teeth may be the best thing in the world for you."

~ Walt Disney

It's funny how you may steer clear of things in your life, only to see them rematerialize due to children. One such example was taking our daughters, Samantha and Emerson, to The Great State Fair of Oklahoma last month. I haven't been to the fair in over a decade, and I was happy to see that nothing has changed. Well, almost nothing. What changed was that I had two children in tow, dressed in full regalia with matching crowns and hair braids, ready to attend Disney's *Frozen on Ice*! The evening was a test for dad, as I am not one for waiting in lines or paying a king's ransom for bottled water and stale popcorn; and I tend toward claustrophobia in large crowds. After the initial fanfare (pun intended), we settled in for what was a very enjoyable show. The most memorable moment came as the Disney characters first took the ice, although I didn't see it. I was watching my daughters. They both looked mesmerized and lit up like the 4th of July as they watched the opening act. I was entranced at the sight of my two beautiful girls. Although I am not one for the fair, I will take these girls back as long as they like, just so I can witness that moment again. As usual, I didn't take a picture on my phone, but my memory bank of moments is vast and deep. Here's to adding more to the collection.

Have a wonderful month,

Andrew Flinton, CFP®

From the Rudy Household

After a busy summer, we are settling into the somewhat more structured routine of the school year. Our daughter, Kayla, is starting eighth grade, her final year of middle school. Three of her classes will be included in her official high school GPA. She still enjoys piano and has started helping out the family by baking. She has been baking so much that she is not satisfied with the hand-held mixer that Amy and I received as a wedding gift. She has been researching stand-alone mixers to take her baking to a new level.

Our daughter, Megan, is now in sixth grade and has joined Kayla in middle school. They seem to like walking to the bus stop together in the mornings. Megan still loves playing basketball. She is very excited to have made her first 3-pointer and has learned to shoot free throws without jumping. One of her electives is band, and she chose to play the trombone. She now fills the house with a new sound that sends the dogs into hiding.

Our daughter, Tatum, a third grader, is our last in elementary school. She is thrilled to have the school to herself. She stays busy with basketball and soccer. She just started an after-school drama program, which should be right up her alley with all the plays she creates and performs with her friends.

All three are doing well in school and still have plenty of time for play and FaceTime with their friends. We are thankful that the school year has started off so well.

Chad Rudy, CFP®