Newsletter

2nd Quarter 2013

Bernanke and the ten year treasury. By Sandy

Bond markets have been volatile since Ben Bernanke spoke two weeks ago about beginning to taper QE3. Quantitative easing, also known as QE, means the U.S. central bank increases cash in order to stimulate economic activity. Bernanke also calls quantitative easing credit easing. The Fed is buying 85 billion worth of bonds per month to keep rates low. When Bernanke seemed to indicate that the Fed would begin to cut back or taper the amount of bonds they were buying, markets reacted and bond prices fell, with yields surging. I believe the Fed will exit bond buying much slower than Bernanke seemed to indicate. One of the parameters to his tapering was a national unemployment rate under 7%. That is a very large move from where we currently sit. ***Continued on page 2***

The pessimist sees difficulty in every opportunity. The optimist sees the opportunity in every difficulty. Winston Churchill

Market Correction & Economic Forecast. By Carol

We have been saying that the market was due for a 5% pullback and that such a dip would not only be normal but actually healthy for the long term. The recent peak for the S&P 500 index was 1655 on May 22; the low was 1573 on June 24. This is a drop of 4.95%. There was some rebound at the end of the month leaving the S&P 500 index down 2.96% from the high. The fixed income market was hit especially hard. Preferred stocks, REITs, MLPs, bonds and dividend paying stocks lost about 5-8%. The only asset class to have positive growth was small cap growth. ***Continued on page 2***

Healthcare by Erin

This spring I attended the big 3 day fee-only financial planning conference put on by our NAPFA association. A major theme of the conference was healthcare. One of the education sessions I attended was given by Rick Mayes, a Public Policy Professor who is an expert in healthcare policy including the Affordable Care Act. His presentation wasn't to debate if the new legislation was good or bad but rather to get at what the future of Healthcare will look like because of the new law. The main take away was that we will be moving away from the current "volume-based" care to "value-based" care. In short, volume-based care is receiving unlimited intensive treatment regardless of cost or proof of the treatment's effectiveness. Value-based care was described as receiving care on a gradual scale. He said we will probably see more organizations that function like Kaiser where more care is done through primary physicians and moving some care out of the hospital setting where care is the most expensive. A good example ***continued on page 2***

Bernanke continued…

National unemployment by month

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2012	8.3	8.3	8.2	8.1	8.2	8.2	8.2	8.1	7.8	7.9	7.8	7.8
2013	7.9	7.7	7.6	7.5	7.6							

Interest rates surged on Bernanke's comments and investors panicked and sold nearly 80 billion out of bond mutual and ETF funds in June. That was a big overreaction in my opinion. We began the year with the ten year treasury at 1.82% yield. Last week, the yield surged to 2.60%- a very large move, especially when it hit a low of 1.60% in May. It settled today at 2.47%. I believe the rate will end the year, back where it began, near 1.8%. So what does all of this mean? If you saw your portfolio balance change on your May or June statement, it may have been by the whipsaw effect of the bond prices. As yields climb, prices drop. If the Fed eases off the bond purchases, that means the economy is improving and thus is market positive. But if they don't taper or ease back in an orderly manner, they cause panic and overselling, which creates more selling and more panic. I think that is exactly what happened. Long maturities, or long bonds reacted more than shorter term maturities.

Economic Forecast continued…

I attended Chapman University Economic & Business forecast last month. The forecast is for continued slow growth in 2013 and increased growth in 2014. The housing recovery is real – the supply is still low compared to demand and demand will stay high until mortgage rates are over 6%. The biggest risks to growth are significant changes to monetary policy, federal budget negotiations and political/economic problems internationally. Orange County looks strong with a 5.7% unemployment rate compared to California at 8.5% and the US at 7.6%. Overall, I left the conference with a more optimistic view about the economy.

Dancing & Dementia *by Carol*

The number one recommendation to reduce the onset of dementia and Alzheimer's is to dance several times a week. This was confirmed in a study of adults age 75+ at the Mayo Clinic and published in the New England Journal of Medicine. Dancing reduces the risk of dementia by 76%! This is because you are combining physical, mental and social abilities in one activity. Playing golf, swimming and biking had no effect; reading has a 35% reduced risk and doing crossword puzzles 4 times a week has a 47% reduced risk. Recommendation - Go DANCE!!!

healthcare continued…

of this type of value-based healthcare can be found in Grand Rapids, Colorado as much of the new legislation is modeled after a healthcare model called Primary Care Partners.

I also met a company specializing in Medicare insurance plan analysis, not sales, at the conference which I was very excited about as I know we have many clients that need help with Medicare & Medigap plan selection & enrollment. The company is called Allsup and the fees range from $100- $450. Please feel free to contact me if you want more information.

Vacations

Sandy~

I will be gone in August for a trip to Sweden and Norway. My grandparents came from Sweden so I am very excited to see the country of the language that I learned as a child. I will be in Stockholm, Oslo, Alesund, Bergen and in the fjords of Geiranger. I look forward to walking, hiking, biking and swimming my way across these beautiful countries. I will see clients after August 29th.

Erin~

I will be gone July 28th – August 5th to visit beautiful Lake Tahoe and attend a family wedding.

If you need immediate help while we are away please call the office.