

BEALL

Financial Planning • Wealth Management

Summer 2013

Important Dates!

Anniversaries:

August 10th: Holst & Vida 50th Anniversary!

August 18th: Jim & Ann.

September 9th: Betty & Don

Birthdays:

August 23rd - Evelyn (Evie) Giffin will be 2

August 31st - Joshua will be 6.

September 13th - Liam will be 6.

Visit us on our website

Beallfp.com

Email Us!

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You can also find us on [Facebook](https://www.facebook.com/BeallFinancialPlanning). Just search for *Beall Financial Planning* and become a fan!

Family News



Back Row: Mary Lin, Avery, Josh—Front Row: Logan, Holst, Riley, Vida, Joyce Evelyn

Holst and Vida spent a week at Folly Beach, SC celebrating their 50th Anniversary with their sons and their families. Everyone had a great time and we got to enjoy Tropical Storm Andrea as she passed by offshore one night.

Office News

We are very pleased to let you know the good news about **Betty**. She has achieved a higher status in her profession. In 2 years she completed all the requirements and passed all the exams of a 3 year program with the Institute of Professional Bookkeepers Association to become a **Professional Certified Bookkeeper!**

The American Institute of Professional Bookkeepers

We it know that

Betty G. Arnold

has passed all examinations and met all other requirements prescribed by the Institute and the rules of this Board of Certification and is entitled to append the letters CB after this registrant's name to evidence registration by this Board as a

Certified Bookkeeper

In witness whereof the said Board grants this certificate number


03795

May 15, 2013

this day of _____


Stanley I. Hartman
Executive Director


AMERICAN INSTITUTE OF PROFESSIONAL BOOKKEEPERS


Barry C. Broden, DBA, CPA
Board of Certification


Gordon S. May, MBA, Ph.D., CPA
Board of Certification

Endings and beginnings

A lot of changes have been going on behind the scenes at the office. We are making a transition from a computer server in our office to one that is more secure and requires less time and maintenance on our part. As part of this transition we have evaluated a lot of the software we use and are in the process up upgrading it as well. This will enable us to offer you several new benefits we hope to implement over the next year.



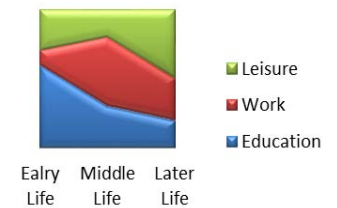
Holst with Riley and Josh at the beach.

One of the many function of our services is the continued education we receive to help us remain informed on the new studies, laws and trends that may affect all of our lives. During one of my recent classes we discussed the Aging in Society. It was titled the Myth of Misery. Apparently we think the more miserable you are the longer you live. As evidenced by our movie culture "Grumpy Old Men". However, studies conducted over several decades have found that the "old" are happier than the "young". While this may be a product of the greatest generation, it might also be a product of aging. The goals for the "young" are more long-term focused and therefore are more apt to delay gratification while the "old" are more ready to "live in the moment" and therefore be happy more of the time. I like to think the "old" have learned from their lives and I can too. The best news for the "young" is that while we have added on average 30 years to societies "lifespan" for the most part they are healthier years: now 65 feels more like 59. However, as a society we are not saving enough for these additional years. What to do? Look at a possible new model: instead of delaying the fun till retirement change the balance throughout the "three stages" of life: Education, Career & Leisure.

Current Model



Possible Model



“ We get comfortable and we resist change.”

Are your habits ruining your quality of life?

We all know we should eat right, exercise, and keep our brains stimulated in order to insure that our bodies function well longer. The bookstore is filled with self help books, TV shows and news stories provide conflicting information. One week a food is good for you and the next week it will kill you. In past newsletters I have referred to ways you can improve your diet and exercise habits this time I will focus on the part of the problem that is our environment. We get comfortable and we resist change. We have the TV on in the background all the time for the sounds because we are uncomfortable with silence. We buy the same cereal for breakfast even though it isn't the healthiest meal because it is what we are used to doing. We don't walk or exercise outside because we might get sweaty and the weather might not be perfect. We don't get out because we are tired and too busy. We all have excuses, reasons, and thoughts that keep us in our comfort zone.

Shake up your comfort zone. Change your environment. We got rid of our cable TV and aside from not seeing coverage of the Tour de France I really haven't missed it. We can still watch movies or download something from the internet but we've reclaimed hours of our lives. It has given us time to together, to exercise, to read and to talk. If you want to eat healthier just don't buy any processed foods and buy more vegetables instead. If you want to exercise just go for a walk to the end of the block and back after dinner or breakfast every day until it becomes a habit.

The biggest change you can make to make yourself happier is turn off the TV especially the news. Unconsciously, we are suffering from the stress of trying to look like TV stars and live the life depicted by the media. Every ad is tailored to get you to buy something you probably don't need or want. The news is stressful and makes most people anxious about the trivial. Set yourself free; turn it off.

“Now pray tell me, sir, your reason for raising this sea storm?”

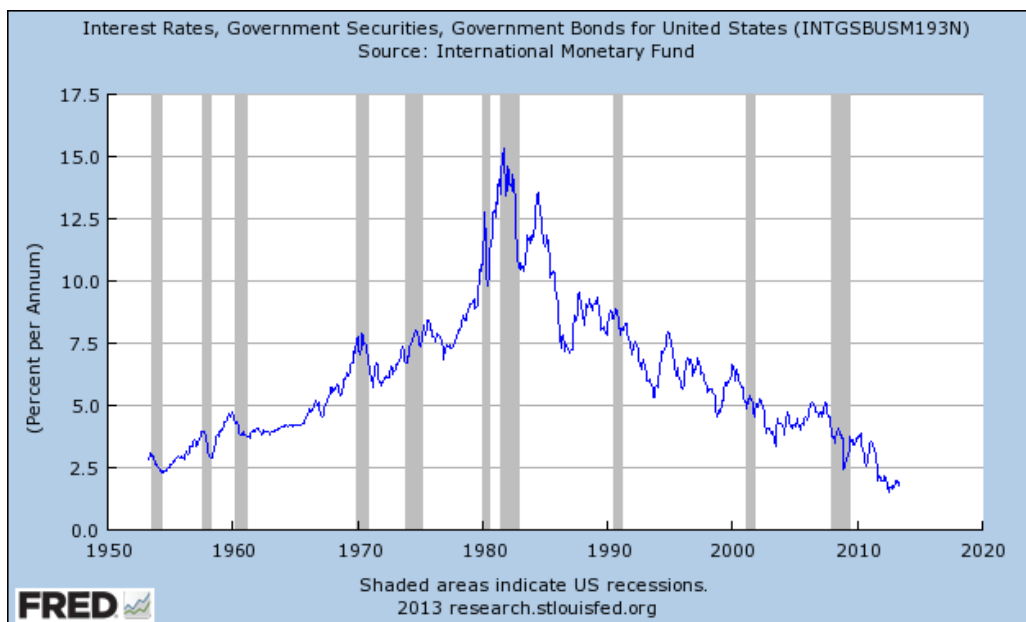
William Shakespeare’s The Tempest

We have seen some unusual weather this year with Macon receiving more rain in six months than all of last year combined. At the current rate we may surpass the past two years combined. With all the rain some crops in my garden are thriving and others have struggled with the amount of water. The same is happening in the investment marketplace as significant events seem to happen more frequently. This letter will be a bit longer but it is my intent to give you some insight into what I am seeing and what impacts this is going to have on your portfolios. The first few sections of this letter focus on the current situation some interesting quotes and the latter sections will focus on what is most probable and how to take advantage of it with your portfolio.

“There is an end to everything, to good things as well”

Geoffrey Chaucer ~1374

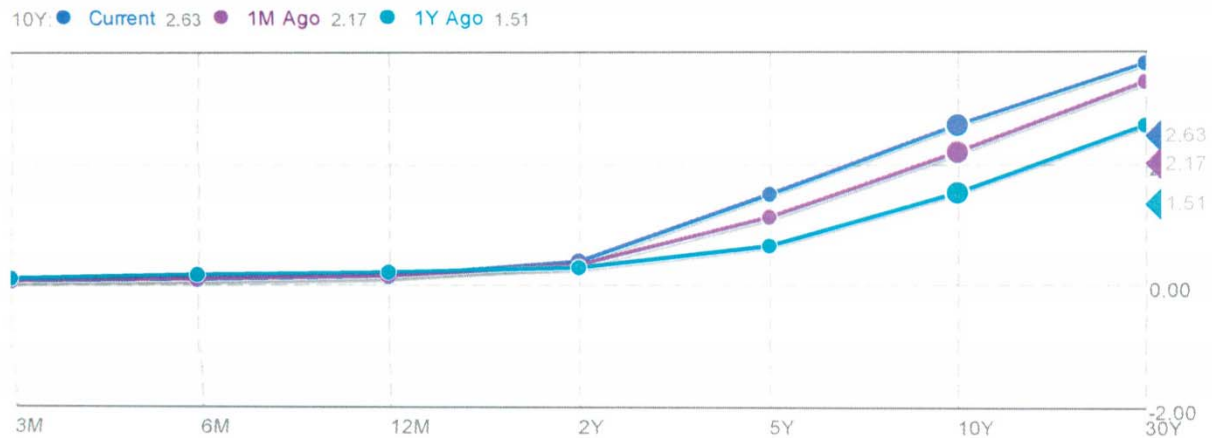
For over thirty years mortgages and fixed income investments have enjoyed a cycle of declining interest rates. The decline was not always smooth as those who were invested in fixed income in 1994 will remember. The cycle has now bottomed and is beginning to turn towards rising interest rates.



End of 30+ year bull market in interest rates.

If you were to draw a number line ranging from zero to thirty (each number representing a year) and along this line you plotted the interest rates for each year you would have what is known as the yield curve. What we have seen along this yield curve since May is that there has been little change in the short term rates, a dramatic rise in intermediate term rates and slight rise in the longer term rate. To illustrate here is a recent snapshot of the US Treasury Yield Curve from Bloomberg.com.

US Treasury Yields



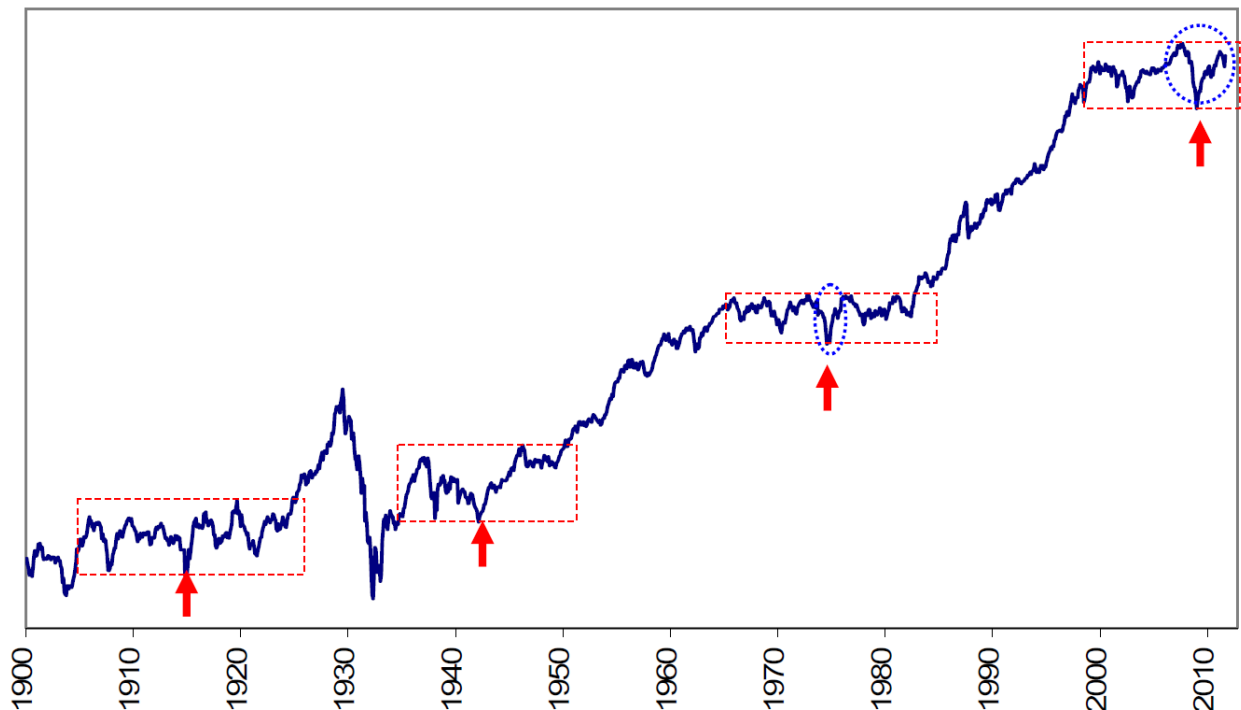
Source Bloomberg.com 7/9/2013

There are a number of benefits and drawbacks to this development. The benefit is that after five years of trying to grow the economy and get it generating jobs and steady economic growth the Federal Reserve (FED) has communicated that the economic numbers they are seeing is finally showing that this is occurring. The drawbacks are that the FED did a really poor job of communicating this to the market and it reacted violently in June. There was a period of about a week where just about every investment whether it be stocks, fixed income, or real estate declined in value. The sole exception was cash. The FED's miscommunication was mostly heard by traders on Wall Street who interpreted it in different ways giving rise to the high volatility of stock prices in June. It also resulted in a dramatic rise in mortgage rates resulting in concern for the real estate market and the resulting decline in real estate focused investments. Finally the rise in rates meant that Fixed Income investments lost value. The impact of which is readily apparent on your most recent portfolio statement.

“Beginnings are always messy.” John Galsworthy

Sometime before the end of 2015 I expect we will see the end of the secular bear market we are currently in. A great definition of a secular bear market comes from Barry Ritholtz:

“A secular bear market is a long term cycle which typically begins after a long term bull market peak and crash. It is primarily characterized by strong, even excessive rallies and selloffs, all occurring within a broad trading range. On Main Street there is a general disinterest in equities. Ratings for financial television and other media fall. Interest in non-stock investments – especially Bonds, Commodities and Real Estate – rise.”



Sources: <http://www.ritholtz.com/blog/2013/02/explaining-my-position-on-secular-bear-markets/> & [Monthly Chart Portfolio, Merrill Lynch Market Analysis, November 4, 2011](#)

The problems we face in identifying the long cycles we are experiencing are the limited data set – in this case 4 secular bear markets and that we won't know it's over till after the fact. On average secular bear markets last about 14.5 years with the longest at 22 years and secular bull markets last a tad over 20 years. The good news is the bear market if it has not ended then we are towards the end rather than the middle. The key factor will most likely be the FED and their attempts at ending Quantitative Easing (QE) will be either hit or miss. If they get it wrong we could have nightmare scenario of a rapidly falling stock market and rising interest rates leading to another recession. If they get it partially wrong we could have a stock market going nowhere with rising rates or in a best case scenario they get it right and we will have the beginning of a potentially multi-decade long secular bull market with slowly rising interest rates. One thing we

can accurately say is that FED Chairman Ben Bernanke will be ending his term and will not be reappointed therefor leadership of the FED will change hands while they are trying to end QE. A few other impacts and constraints will come from other countries around the world and their attempts at getting their own economies growing.

“All progress is precarious, and the solution of one problem brings us face to face with another problem.”

Martin Luther King, Jr.

The rest of the world. There is a lot going on if we take the time and energy to look. So as we take this journey around the world for your safety please be aware that a lot of this doesn't make the paper or the evening news in America.

Our journey begins in **China** the world's second largest economy after the USA. China is struggling with a credit bubble. Our credit bubble popped in 2008 and we are still feeling the effects. China's is popping this year. Their bubble is compounded by a number of issues including but not limited to poor accuracy in their accounting and record keeping departments, a population that is aging rapidly putting a strain on the social safety nets and their productivity, an authoritarian communist government that is trying to guide their country along from a socialist paradise to something that works. The resulting slowdown in China is ending a multiyear long bull market super cycle in commodities that is affecting every commodity producing nation in the world including our own. The Shanghai Stock Index itself has declined 41.17% from its peak on July 27, 2009 and is down 12.37% in the first 6 months this year. Although not currently facing anything as dramatic as our 'Lehman event' they will still need several years to get a handle over excess credit and over-investment in their economy. The good news is that this should help other developing economies around the world. One last tidbit from our Facebook postings is that, robots are being made and used in China that are cheaper to operate than cheap Chinese labor. Ponder that last sentence and the implications for our own labor force in the United States.

Japan the world's third largest economy is undergoing profound changes that may come too late to save their economy in the long run. In the short run the stock market has zoomed up by as much as 80% in 6 months then plunged 20% and started to rise a bit. Highly volatile might be an understatement and it is mostly the result of Prime Minister Shinzō Abe introducing a series of policy measures in an attempt to resolve the economic situation in Japan which has been referred to as the lost decades. Like our FED the Bank of Japan has set a target of 2% inflation, correction of yen appreciation, massive quantitative easing, bond buying, and setting negative interest rates. They want the consumer to spend and spend heavily because they plan on raising the consumption tax from 6% to 8% in 2014 and to 10% in 2015 to pay for their deficit which is rising to 11.5% of GDP this year. The policies may work in the really short term

but long term there are huge obstacles that are facing the Japanese people. They are aging rapidly having one of the oldest populations in the world. Their debt to GDP is above 200% and if interest rates rise then their debt payments will exceed their revenue.

Australia has suffered from a property bubble which is correcting and a decline in demand for commodities from China for which they were a major supplier. Despite this the overall economy appears to be in good shape and it should do well if global growth picks up.

Europe: America is the melting pot and Europe is not. By almost any measure you could pick a country that is doing poorly in Europe and I can pick one that is doing better by that same measure. To a degree they are all struggling under the strain of trying to fit into what the bureaucrats in Brussels have crafted. A visual image is if you took one citizen from each Euro area country and tried to squeeze them into a Volkswagen Beetle and then ask if they can drive it. Well, it will move if you start pushing it down the Swiss Alps but I hate to see the mess when they hit bottom. Ireland, Poland, the Baltic States, and if you squint your eyes a bit Greece are doing better. Italy, Spain, and the economic powerhouses Germany and France have issues. France's decision to raise taxes has needlessly weakened their economy. Germany is showing the strains of trying to haul the other Euro area countries out of their credit collapse. Collapsing is a good word to use for Portugal's government which is close to doing so and if it does it will mean no effective government in Portugal for 55 days as per their laws. The good news from all the upheavals is that there are a few bargains available for purchase in Europe and I am not talking just about the property in Spain or the Isles of Greece. The political leadership will do everything in their power to insure that the Euro Zone survives. This will be economically painful for the citizens and in the end may not be successful.

The **Middle East:** Turkey has seen protests about the autocratic rule of its Prime Minister which in part is fueled by opposition to the Islamization of the country which has progressed under his rule. Syria is still in the midst of a civil war started by citizens tired of oppression but is now mostly a loosely organized group of rebels united mostly in their desire for power, desire for Islamization and the long term goal of the return of the Caliphate in the Middle East. Israel is relatively peaceful and growing. Egypt has seen a military coup against democratically elected President Morsi that was started by the people of Egypt who are starving. A key to understanding the underlying issue is knowing that Egyptians don't produce enough food to feed themselves. They have to rely on aid and tourism to provide the income to buy enough food and fuel for their country. To add even more tension to the situation, further south down the Nile is Ethiopia which is working with China to build a dam across the upper Nile to provide power for their country. The Nile in Egypt is already over used and fears are rampant that the Ethiopians will further limit flow down the Nile. Islamists fear their setback with the deposing of Morsi will set back their gains in the region and they will be fanatical in their desire to get back power. By the duly enacted laws of the USA all aid to Egypt must stop if there is a Military Coup. (More on this later) Iran voted in a new President who wants better ties to the USA.

Unrest in the Middle East always leads to higher oil prices and this is no exception. One of the biggest threats to progress in the Middle East and in part to most of the countries around the Mediterranean is not having strong property rights. This is compounded by outdated methods of documenting the ownership of land, buildings and property lines. Most land ownership particularly along the Nile in Egypt is controlled by a small percentage of the population. Property rights in Egypt place it 72nd in the world but Greece is little better at 53rd while Israel is 31st.

Sub-Saharan Africa – While most countries would be listed as Frontier Markets an influx of Chinese firms and money is transforming a lot of countries in to stable places to do business. South Africa is considered a developed country and it has suffered from a recession and slower economic growth and is expected to grow slower than most of the other countries of Africa.

South America – Brazil is suffering from a serious correction to go along with problems in the other BRIC nations (Brazil, Russia, India, China). Brazil is trying to deflect some of the lackluster results on the FED's recent moves but that is a smokescreen for wider underlying problems that have led to mass protests in the streets. The most likely outcome is that Brazil continues to adjust for another year before finding firmer ground on which to grow. Yet a quick look around reveals problems in still struggling Argentina but brighter prospects in Peru and Chile.

Moving North to **Central America**, there doesn't seem to be much happening other than Charter Cities potentially taking hold in Honduras. If you want more information on this trend I suggest reading the Marginal Revolution blog and searching for Charter Cities. It is a fascinating development and should lead to much stronger growth in Honduras down the road. In case you missed it Mexico is a middle class country with one of her citizens vying with Bill Gates for World's richest man. That being said, Mexico experienced a great run the past couple of years but is looking winded and is seeing its market at an 8 month low. Depending on growth in the USA it could be poised for another period of strong growth.

Canada is more stable than the USA in many ways due to lower debt levels and a stronger banking system. Their abundant natural resources of Timber and Shale oil & Natural Gas have led to a boom in Energy related stocks and real estate. Yet manufacturing has slowed reflecting greater competition worldwide and a slowdown in worldwide economic growth. Any pickup in the American economy will see a related pick up in the Canadian economy.

*“The strength of a nation derives from
the integrity of the home.” Confucius*

Home, the United States of America, a land seemingly plagued by every crisis and hit by a seemingly new scandal every week. Yet, I am more optimistic about the direction and strength of the American Economy than I have been in years. Real Estate has been bouncing back, stock market doing reasonably well, the bond market till May had done well, and we knew what we

were going to get from Congress and the President – gridlock. This Congress is on pace to pass the fewest bills of any Congress since WWII. That was the good news. The bad events are scandals & bickering and destruction of the rule of law. Follow the money: the law says we must stop funding Egypt if there is a Military Coup. My bet is on the “we won’t call it a military coup so we can keep sending them money” scenario. After all Egypt’s military needs our equipment which provides jobs in just about every congress person’s district. The ‘never mind the law doesn’t apply because we don’t won’t it to’ principle will be at work. This goes along with the recent decision by the current administration to waive or delay certain parts of the Affordable Care Act or as it is affectionately known Obamacare. This is a nice power I wish would be applied to our tax code but I digress. Within the next two years I expect a bear market correction (decline of 20+%) before the end of 2015 setting up the next secular bull market in stocks similar to what occurred in the 1980s & 90s. It will probably last for a couple of decades notwithstanding world wars, plagues, Carrington level solar flares and other catastrophes that are hard to predict with any accuracy.

“Take calculated risks. That is quite different from being rash.”

General George S. Patton

Long Term the world economy will grow and begin to grow faster. Find those things that have been beaten up and are despised by the markets and you have the potential to make a decent return. Some countries in Europe, South America, and even Africa have the potential to do very well going forward. Don’t bet against America but don’t fool yourself into thinking it’s cheap to invest here at the current time. Currently the most beat up sector is gold miners. In particular the Junior Gold miners which were recently down 70%+ from their peak. They are relatively heavy on debt and the price of gold has plummeted. Buying today is akin to trying to catch a falling knife. You could catch it but you could also cut yourself really badly. Bond funds have been risky with individual bonds less risky. Real Estate has higher risk due to rising interest rates. Domestic stocks are higher risk due to their valuations. Emerging market stocks and bonds are a mixed bag of risk with some countries lower on the risk/reward ratio and others higher risk/higher reward. They are more attractively priced in the index due to their recent selloff.

“Time is the wisest counselor of all” Pericles

If you have read to the end you may have noticed a little tidbit here or there that hints at the changes coming to everyone’s portfolios. The risks and rewards for various investments has changed significantly. This is due to long term secular trends. Fixed Income mutual funds and exchange traded funds (ETFs) have become the risky investments. Foreign overseas investments whether developed or developing markets have in many cases become less risky than domestic stocks. In the short term almost everything domestic is expensive (relatively). In

the long term there are a lot of bargains appearing. The end result is that by the end of the quarter/year(?) nearly every portfolio we manage will have less than 30% of their money in Fixed Income. The old saying that as you get older you should increase your fixed income holdings to offset the risk the stock market could decline is just that a saying. It is not a rule or law or science. It is a suggestion based on a time period when interest rates were declining and you could buy a bond or CD that would pay you enough income for the risk. We are no longer in that time nor do we have bonds available that pay enough to balance the risk. Real Estate has almost always been a good hedge against inflation and in many cases provides a steady income stream. We will be taking advantage of opportunities in Real Estate when they appear. A significant portion of your stock holdings will be invested overseas mostly in index ETFs (ETFs are like mutual funds but they trade like stocks instead of having one price at the end of the day like mutual funds). There will be a time when investing in Fixed Income will make sense and we will put money there. That time is not currently upon us.

The edge we have on the pundits & spokespeople on the TV, the radio, and the newspaper is our time horizon. Their time periods are measured in microseconds to days and if they are lucky weeks and months. Your time horizon is longer usually a decade or more. Currently, the odds that someone who is 65 will live 20 more years is over 50%! This is to your great benefit. There is no period of 20+ years since 1871 in which the domestic stock market had a loss. On any 1 day there is a 52% chance it is positive any 1 year and it rises to 68%. I can't guarantee the future but I like that bit of historical trivia. As with all hindsight I wish I knew that fact 20 years ago when I started this job. Sadly, I couldn't know everything on day 1 and despite 20 years I still feel as though there is something to learn to generate you a higher safer return on your capital.

As always I would love to hear your thoughts and any questions you might have regarding this letter and your investments.

Disclaimers: any investment can lose money, this is an opinion piece it is not meant to tell you to go buy or sell something without doing your own due diligence.

Sources: Barry Ritholtz and his website The Big Picture, Bloomberg.com, The Federal Reserve, Merrill Lynch, BrainyQuote.com, Wade Pfau, and of course Google to confirm some facts.

“Learn to enjoy every minute of your life. Be happy now. Don't wait for something outside of yourself to make you happy in the future. Think how really precious is the time you have to spend, whether it's at work or with your family. Every minute should be enjoyed and savored.”

Earl Nightingale