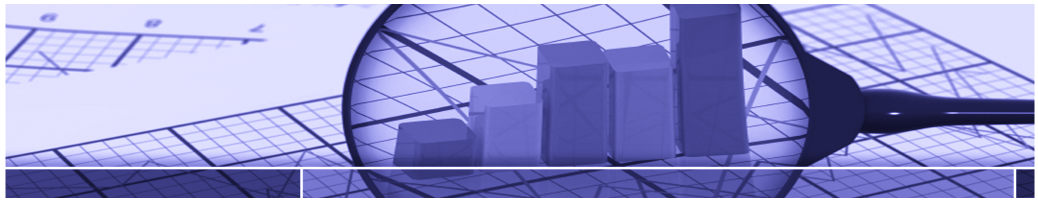

Nicholson Financial Services

Did You Know...?

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2013 has been a strong year for stocks so far. Through July 31st, the S&P 500 was up 19.63%, the DJIA was up 21% and the Russell 2000 Index was up 23.97%. International stocks continued to trail the US in performance with the MSCI EAFE Index up 7.53%. Why has the US stock market been so strong? Although there are a number of factors, I believe we are witnessing a "repricing of risk." After the 2008 crisis, many investors were scared away from investing in stocks. For the several years that followed, the markets have not been offering stocks the kind of valuation premiums that existed prior to 2008. Put simply, even though corporate earnings and revenue have continued to grow and prosper, stocks didn't go up as much as they should have, or would have prior to 2008. I have told clients for the past few years that I felt stocks were undervalued on the whole and that we could see a time come where the markets undergo a significant valuation shift. If that happened, stocks would likely go up very quickly as investors got more comfortable with higher valuations. That event combined with a lack of any significant negative news this year has fueled quite an impressive run for equities.

Nicholson Financial Services, Inc. is an independent firm.

Summer 2013

And so it begins...

In my last newsletter, I wrote the article "Bubbles" in reference to the current outlook for long-term bonds. To sum up, it was my opinion that long-term bonds have more interest rate risk built into them than ever before and ownership of such bonds could have a very negative impact on a portfolio over the next few years. We recently got a preview of what may be yet to come.

On June 19th, Federal Reserve Chairman Ben Bernanke announced the central bank would start to reduce its stimulus measures later this year if the economy is strong enough. This caused a pullback in the markets as investors feared what a decrease in federal support would mean. The S&P 500 had its worst two week period of the year following that headline, dropping about 5.5%. More surprising to me was the reaction of the bond market. Long-term bonds had their worst month in years. In June, over $80 Billion flowed out of bond mutual funds. This is in stark contrast to the massive net inflows to such funds over the past 4-5 years. My opinion, as expressed in the "Bubbles" article, is that this is the beginning of the "smart money" repositioning from long-term bonds into other investment opportunities.

In addition to the Fed Chairman's comments, real interest rates have been going up for several months. The yield on the 30 year Treasury bond has gone from a low this year of 2.81% in early May to roughly 3.75% as I write this. In my opinion, the bond market is starting to anticipate the Fed raising interest rates. However, that hasn't even happened yet. The S&P 500 quickly recovered after the late-June swoon to hit new all time highs in July. However, long-term bonds have remained weak and I believe that trend will only get worse.

I find it interesting that the stock and bond markets reacted so harshly to Mr. Bernanke's comments in June. I read the comments carefully and did not find anything negative in what he said. On the contrary, I thought his comments were very positive.

Basically, he was saying that IF the economy is stronger later this year, then the Federal Reserve would likely begin to reduce its asset purchases. The Fed will likely end all such purchases in mid to late 2014. The markets are concerned about the end of easy money flowing into the system. However, if the economy is strong enough, it will not need that money. For most of this country's existence, our government has not used such a fiscal policy. As taxpayers and investors, don't we want to see those asset purchases stop? Don't we want the economy to be strong enough that such measures by the Fed are unnecessary?

To me, this is another example of many investors focusing on the wrong thing. More to the point, they focus on what the media tells them they should. Again, I saw no real negative in Mr. Bernanke's comments, but the financial news media made it sound like the beginning of Armageddon. Although I don't think the situation is that dire, I do believe the trend of money flowing out of long-term bonds and into stocks, commodities and real estate will continue.

This time is really no different from any other. Investors should be focusing on what they own and why they own it instead of worrying about the headlines. I know from experience this is often easier said than done. However, I regularly reiterate to clients that a major goal of mine as an advisor is helping them stay focused using logic rather than being swayed into making poor decisions by fear or greed.

The father of value investing, Benjamin Graham (whose teachings are closely followed by the likes of Warren Buffett) once said: "Individuals who cannot master their emotions are ill-suited to profit from the investment process." Graham wrote those words over 50 years ago, but they are still very true. Today investors can master their emotions with support from a seasoned advisor.

If the headlines are bothering you, I am only a phone call away.

Four Retirement Saving Myths

At every stage of your life, there will be competing financial needs. Don't make the mistake of thinking it will be easier to save for retirement in just a few years. It won't.

Before investing in a mutual fund, consider its investment objectives, risks, charges, and expenses, which can be found in the prospectus available from the fund. Read it carefully before investing.

No matter how many years you are from retirement, it's essential to have some kind of game plan in place for financing it. With today's longer life expectancies, retirement can last 25 years or more, and counting on Social Security or a company pension to cover all your retirement income needs isn't a strategy you really want to rely on. As you put a plan together, watch out for these common myths.

Myth No. 1: I can postpone saving now and make it up later

Reality: This is very hard to do. If you wait until--fill in the blank--you buy a new car, the kids are in college, you've paid off your own student loans, your business is off the ground, or you've remodeled your kitchen, you might never have the money to save for retirement. Bottom line--at every stage of your life, there will be competing financial needs. Don't make the mistake of thinking it will be easier to save for retirement in just a few years. It won't.

Consider this: A 25 year old who saves $400 per month for retirement until age 65 in a tax-deferred account earning 4% a year would have $472,785 by age 65. By comparison, a 35 year old would have $277,620 by age 65, a 45 year old would have $146,710, and a 55 year old would have $58,900.

Note: *This is a hypothetical example and is not intended to reflect the actual performance of any specific investment.*

Why such a difference? Compounding. Compounding is the process by which earnings are reinvested back into a portfolio, and those earnings may themselves earn returns, then those returns may earn returns, and so on. The key is to allow enough time for compounding to go to work--thus the importance of starting to save early.

Now, is it likely that a 25 year old will be able to save for retirement month after month for 40 straight years? Probably not. There are times when saving for retirement will likely need to take a back seat--for example, if you're between jobs, at home caring for children, or amassing funds for a down payment on a home. However, by starting to save for retirement early, not only do you put yourself in the best possible position to take advantage of compounding, but you get into the retirement mindset, which hopefully makes you more likely to resume contributions as soon as you can.

Myth No. 2: A retirement target date fund puts me on investment autopilot

Reality: Not necessarily. Retirement target date mutual funds--funds that automatically adjust to a more conservative asset mix as you approach retirement and the fund's target date--are appealing to retirement investors because the fund assumes the job of reallocating the asset mix over time. But these funds can vary quite a bit. Even funds with the same target date can vary in their exposure to stocks.

If you decide to invest in a retirement target date fund, make sure you understand the fund's "glide path," which refers to how the asset allocation will change over time, including when it turns the most conservative. You should also compare fees among similar target date funds.

Myth No. 3: I should invest primarily in bonds rather than stocks as I get older

Reality: Not necessarily. A common guideline is to subtract your age from 100 to determine the percentage of stocks you should have in your portfolio, with the remainder in bonds and cash alternatives. But this strategy may need some updating for two reasons. One, with more retirements lasting 25 years or longer, your savings could be threatened by years of inflation. Though inflation is relatively low right now, it's possible that it may get worse in coming years, and historically, stocks have had a better chance than bonds of beating inflation over the long term (though keep in mind that past performance is no guarantee of future results). And two, because interest rates are bound to rise eventually, bond prices could be threatened since they tend to move in the opposite direction from interest rates.

Myth No. 4: I will need much less income in retirement

Reality: Maybe, but it might be a mistake to count on it. In fact, in the early years of retirement, you may find that you spend just as much money, or maybe more, than when you were working, especially if you are still paying a mortgage and possibly other loans like auto or college-related loans.

Even if you pay off your mortgage and other loans, you'll still be on the hook for utilities, property maintenance and insurance, property taxes, federal (and maybe state) income taxes, and other insurance costs, along with food, transportation, and miscellaneous personal items. Wild card expenses during retirement--meaning they can vary dramatically from person to person--include travel/leisure costs, health-care costs, financial help for adult children, and expenses related to grandchildren. Because spending habits in retirement can vary widely, it's a good idea as you approach retirement to analyze what expenses you expect to have when you retire.

Financial Planning When You Have a Chronic Illness

There's no such thing as a one-size-fits-all financial plan for someone with a chronic illness. Every condition is different, so your plan must be tailored to your needs and challenges, and reviewed periodically.

When you live with a chronic illness, you need to confront both the day-to-day and long-term financial implications of that illness. Talking openly about your health can be hard, but sharing your questions and challenges with those who can help you is extremely important, because recommendations can be better tailored to your needs. Every person with a chronic illness has unique issues, but here's a look at some topics you might need help with as you're putting together your financial plan.

Money management

A budget is a useful tool for anyone, but it's especially valuable when you have a chronic illness, because it will serve as a foundation when planning for the future. Both your income and expenses may change if you're unable to work or if your medical costs rise, and you may have unique expenses related to your condition that you'll need to account for. Clearly seeing your overall financial picture can also help you feel more in control.

Keeping good records is also important. For example, you may want to set up a system to help you track medical expenses and insurance claims. You may also want to prepare a list of instructions for others that includes where to find important household and financial information that a trusted friend or relative can access in an emergency.

Another step you might want to take is simplifying your finances. For example, if you have numerous financial accounts, you might want to consolidate them to make it easier and quicker for you or a trusted advisor to manage. Setting up automatic bill payments or online banking can also help you keep your budget on track and ensure that you pay all bills on time.

Insurance

Reviewing your insurance coverage is essential. Read your health insurance policy, and make sure you understand your co-payments, deductibles, and the nuts and bolts of your coverage. In addition, find out if you have any disability coverage, and what terms and conditions apply.

You may assume that you can't purchase additional life insurance, but this isn't necessarily the case. It may depend on your condition, or the type of life insurance you're seeking--some policies will not require a medical exam or will offer guaranteed coverage. If you already have life insurance, find out if your policy includes accelerated (living) benefits. You'll also want to review your beneficiary designations. If you're married, you'll want to make sure that your spouse has adequate insurance coverage, too.

Investing

Having a chronic illness can affect your investment strategy. Your income, cash flow requirements, and tolerance for risk may change, and your investment plan may need to be adjusted to account for both your short-term and long-term needs. You may need to keep more funds in a liquid account now (for example, to help you meet day-to-day living expenses or to use for home modifications, if necessary) but you'll want to thoroughly evaluate your long-term needs before making investment decisions. The course of your illness may be unpredictable, so your investment plan should remain flexible and be reviewed periodically.

Estate planning

You might think of estate planning as something you do to get your affairs in order in the event of your death, but estate planning tools can also help you manage your finances right now.

For example, you may want to have a durable power of attorney to help protect your property in the event you become unable to handle financial matters. A durable power of attorney allows you to authorize someone else to act on your behalf, so he or she can do things like pay everyday expenses, collect benefits, watch over your investments, and file taxes.

A living trust (also known as a revocable or inter vivos trust) is a separate legal entity you create to own property, such as your home or investments. The trust is called a living trust because it's meant to function while you're alive. You control the property in the trust, and, whenever you wish, you can change the trust terms, transfer property in and out of the trust, or end the trust altogether. You name a co-trustee such as a financial institution or a loved one who can manage the assets if you're unable to do so.

You may also want to have advanced medical directives in place to let others know what medical treatment you would want, or that allow someone to make medical decisions for you, in the event you can't express your wishes yourself. Depending on what's allowed by your state, these may include a living will, a durable power of attorney for health care, and a Do Not Resuscitate order.

Review your plan regularly

As your health changes, your needs will change too. Make sure to regularly review and update your financial plan.

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I already have health insurance. Will I have to change my plan because of the new health-care reform law?

For the most part, no. The Patient Protection and Affordable Care Act (ACA) does not require you to change insurance plans, as long as your plan, whether issued privately or through your employer, meets certain minimum requirements. In fact, the ACA may add benefits to your existing plan that you have not had before.

Your present insurance plan may be considered a grandfathered plan under the ACA if your plan has been continually in existence since March 23, 2010 (the date of enactment of the ACA), and has not significantly cut or reduced benefits, raised co-insurance charges, significantly raised co-payments or deductibles, and your employer contribution toward the cost of the plan hasn't significantly decreased. However, if a grandfathered plan significantly reduces your benefits, decreases the annual dollar limit of coverage, or increases your out-of-pocket spending above what it was on March 23, 2010, then the plan will lose its grandfathered status.

Some provisions of the ACA apply to all plans, including grandfathered plans. These provisions include:

- No lifetime limits on the dollar cost of coverage provided by the plan
- Coverage can't be rescinded or cancelled due to illness or medical condition
- Coverage must be extended to adult dependents up to age 26

The ACA doesn't apply to all types of insurance. For example, the law doesn't apply to property and casualty insurance such as automobile insurance, homeowners insurance, and umbrella liability coverage. The ACA also doesn't affect life, accident, disability, and workers' compensation insurance. Nor does the law apply to long-term care insurance, nursing home insurance, and home health-care plans, as long as they're sold as stand-alone plans and are not part of a health plan. Medicare supplement insurance (Medigap) is generally not covered by the ACA if it's sold as a separate plan and not as part of a health insurance policy.

What are health Exchanges and do I have to buy health insurance through them?

A health insurance Exchange is essentially a one-stop health insurance marketplace. Exchanges are not issuers of health insurance. Rather, they contract with insurance companies who then make their insurance coverage available for examination and purchase through the Exchange. In essence, Exchanges are designed to bring buyers and sellers of health insurance together, with the goal of increasing access to affordable coverage.

The Patient Protection and Affordable Care Act does not require that anyone buy coverage through an Exchange. However, beginning in 2014, each state will have one Exchange for individuals and one for small businesses (or they may combine them). States have the option of running their own state-based Exchange or partnering with the federal government to operate a federally facilitated Exchange. States not making a choice default to a federally run Exchange.

Through an Exchange, you can compare private health plans based on coverage options, deductibles, and cost; get direct answers to questions about coverage options and eligibility for tax credits, cost-sharing reductions, or subsidies; and obtain information on a provider's claims payment policies and practices, denied claims history, and payment policy for out-of-network benefits.

Policies sold through an Exchange must meet certain requirements. Exchange policies can't impose lifetime limits on the dollar value of coverage, nor may plans place annual limits on the dollar value of coverage. Insurance must also be "guaranteed renewable" and can only be cancelled in cases of fraud. And Exchanges can only offer qualified health plans that cover essential benefits.

In order to be eligible to participate in an individual Exchange:

- You must be a U.S. citizen, national, or noncitizen lawfully present in the United States
- You cannot be incarcerated
- You must meet applicable state residency standards