Client 1st Notes

Spring 2013

Craig Phillips, Michelle Mabry and Dave Stieh conducted a due diligence audit on Strategic Capital Alternatives in Gig Harbor, WA, March 6-8.

Craig Phillips conducted due diligence audits on Lockwood Advisors and Palladiem, LLC in King of Prussia and Malvern, PA on December 18-19, 2012.

Michelle Mabry was a presenter at a Breakfast Briefing for Retirement Plan Fiduciaries, Retirement Plan Administrators and Investment Managers at the law offices of Ogletree Deakins on February 13, 2013 in Tampa, FL.

Save the Date! May 11th — Second Annual "Shredding Event" will be held at our Clearwater, FL offices on May 11th from 11:00 AM to 2:00 PM. A shredding truck from our Shred-It contractor will be there and lunch is on us. Guests, family and friends are invited.

Client 1st's Hattiesburg, MS Office will be moving in August to 104 Titus Blvd. as we have outgrown the current space. The phone numbers will not change. We will be planning an open house sometime in September.

***The Next Quarterly Introduction Events*!** Our next Introduction Events will be held at both locations on **Thursday, May 23rd**. We will be hosting dinner parties for all referrals and their "referees" to welcome new members to the Client 1st family in style!

Our "***Second Opinion Service***" is available to anyone who may wish to have a fiduciary professional review their portfolio in these volatile times. We will take them through our Discovery process to determine if their portfolio is appropriate in respect to their goals and objectives and if they are taking on more risk than necessary. There is no obligation and if we determine that they are in good shape with their current provider, we will let them know that as well.

Don & Ebe Bower
Near St. Petersburg, Russia

Take a Copy of the Navigator on Your Next Vacation! Each quarter we will award a $100 Bonefish Grill/Outback gift certificate or an AMX Gift Card to the client who sends in the best picture of themselves on vacation. To be eligible, you must be holding a copy of ***The Navigator***.

This quarter's winners are **Don and Ebe Bower of Fox Island, WA** who sent in this photo of a well–traveled *Navigator* outside one of Peter the Great's residences, Peterhoff, on an island near St. Petersburg, Russia.

We continue to receive quite a few pictures each quarter and if yours was not selected it may be included in a future *Navigator*.

New Website! Please note that our website address is now www.c1ag.com. We have had quite a few compliments on the new look and features. Our email addresses have changed accordingly to: first name@c1ag.com.

Medicare vs. Employer Insurance: What is Best For You?

By Michelle Mabry, CFP, AIF

Our clients who work past 65 often choose to stay on their employer's insurance plan rather than go onto Medicare. Often this is because of inertia or resistance to change. They are comfortable with the existing employer health plan and may believe it is somehow "better" than Medicare.

Another possibility is that they don't understand the rules requiring enrollment in Medicare for everyone over age 65 who is not covered by an employer group health plan that covers 20 or more employees. So if you work for a small employer and remain covered under their health insurance, you could be racking up late-enrollment penalties.

For every 12-month period you go without signing up for Medicare Part B, a 10% late-enrollment penalty will be added to your Part B premium when you finally do sign up. The basic Part B premium for 2013 is $104.90. It is higher if your modified adjusted gross income (MAGI) is over $85,000 and for couples exceeding $170,000.

Even worse, you may not have insurance because Medicare is the primary payor for people over 65 who are not covered by a plan that covers 20 or more employees- but only if the person is enrolled in Medicare. If a doctor submits a bill to the insurance company for a person over 65, the insurance company won't pay it until Medicare has paid its share (generally 80% of the bill). And Medicare won't pay if the person isn't enrolled.

If you work for a small employer or are self-employed and over 65, you should enroll in Medicare. You can do this online at www.medicare.gov. Contact your insurance company to see if you can keep your same insurance as supplemental or if you should shop around for a supplemental policy.

We can tell you from experience with our clients that you should probably shop around. No one should pay more than about $200 for a Medicare supplemental insurance. If you need a referral, feel free to contact us and we can provide you with some reputable agents who can help you find a good medicare supplement.

But what about those folks who work past 65 and remain covered by an employer with more than 20 employees? These people are not required to sign up for Medicare until their employer coverage ends. The employer coverage will be the primary payor.

But is staying on the company plan the best thing for you? Most people who do work past 65 stay on the company plan, assuming the coverage is superior to Medicare. Private, comprehensive health plans that are paid for or subsidized by the employer usually offer more benefits and at a lower cost than Medicare plus supplemental insurance. When evaluating your health insurance options, it is important to consider total out-of-pocket health care costs, not just the monthly premiums.

In summary, if you work past 65 and remain covered by an employer plan, the decision to stay covered shouldn't necessarily be automatic. You always have the option to go on Medicare and if you would end up paying higher out of pocket costs for the employer plan, it might make sense to switch to Medicare.

Watch Out for "Perpetual Bonds"

By Dave Stieh

Interest rates remain mired at historic lows. Today, if you invest $100 in two-year Treasury bonds, our government will pay you less than 25 cents interest each year. So wouldn't it make more sense to put your money in a relatively new category of bonds that is paying 6% coupon yields--the equivalent of six dollars a year on that hundred dollar investment?

Wow! Is there a catch? When an investment pays much more than its competition, there is always a catch, and this time it's a big one. The bond in question is called a perpetual bond, which means it has no maturity date. You buy the bond, and hold it, and hold it, and because the company that sold you the bond never has to give you back your original investment, you may keep holding it. All other bonds eventually mature, and pay you back your initial investment.

With a perpetual bond, you can only get your money back if the company decides that it can get cheaper financing — if bond rates go down — which, of course, means that you will have to reinvest at a lower rate. Heads, they win. If rates go up, then the company simply lets you continue to finance its operations at the lower rate. Tails they

win.

The other way to get your money back is to sell the perpetual bond on the open market. But how certain are you that there are other willing buyers for a bond that might never mature? You may have to accept a steep discount, dramatically reducing or even wiping out those tempting yields. And if interest rates were to rise--and who doesn't think that eventually bond yields will crawl up off the floor where they are today--you'll find that any potential buyer is wary of overpaying for what could become a lifetime obligation.

This brings up the importance of a concept called "duration," which is closely related to a bond's maturity date. Duration basically measures the amount that a bond's value would rise or fall if interest rates were to fall or rise. Money market funds and floating-rate bonds have virtually no duration; when interest rates move, they move with them. Bonds with shorter maturities and/or higher coupon rates will have shorter durations than bonds with longer maturities and/or lower rates.

Why does this matter? If interest rates were to rise by one percentage point, a bond with a duration of 5.1 (quite possibly a bond with a 6-year maturity or less) would lose 5.1% of its value. A bond with a duration of 20 (quite possibly a bond with a 23 year maturity) would lose 20% of its value.

And a bond with a maturity that is essentially infinite? Let's hope the people who have reached for the tempting yields of perpetual bonds are capable of taking on the kind of risk you normally find at the high-stakes tables of casinos.

Market Review

The following table shows market index returns for the 1st Quarter 2013:

Index	Q4	YTD	Description
S&P 500 Index	10.6%	10.6%	Large cap stocks
Russell 2500	12.8%	12.8%	SMID stocks*
EAFE	5.2%	5.2%	Int'l stocks
Barclays US Agg	-0.1%	-0.1%	US govt bonds
CFB Index	2.8%	2.8%	Managed futures

* Small to Mid Cap

Sources: http://www.channelnewsasia.com/stories/singaporebusinessnews/view/1188526/1/.html

http://online.wsj.com/article/SB10001424127887323701904578273591991562634.html

http://www.investopedia.com/university/advancedbond/advancedbond5.asp

Looking Back....Looking Ahead

By Craig Phillips, CFP, AIF

This past quarter, those of us who stayed the course with our investment portfolios--were rewarded handsomely.

The Wilshire 5000--the broadest measure of U.S. stocks -- rose 10.91% for the first quarter--more than half of the strong gains it made last year. The comparable Russell 3000 index rose 11.07% through the end of March.

When you look at global returns, it becomes clear that U.S. stocks delivered standout performance compared with the rest of the world. The broad-based EAFE index of larger companies in developed economies rose 4.38% in dollar terms during the first quarter of the year. The stocks across the Eurozone economies eked out a 0.63% gain for the quarter, reflecting continued uncertainty over whether Spain and/or Italy will require restructuring help on their government bonds. Meanwhile, the Far East economies rose 9.18% in the first three months of the year. In the only truly negative investment news, the EAFE Emerging Markets index of lesser-developed economies fell 1.92% for the quarter.

Real estate investments, as measured by the Wilshire REIT index posted a 7.43% gain for the quarter.

Investors who retreated to the safest bond categories deserve our sympathy, especially if they are using the coupons for retirement income. Treasury bonds continue to post near-record low yields. Today, if you lend the U.S. government money by purchasing a 2-year Treasury bond, your coupon rate is 0.24% a year; lend them a hundred dollars and you get back less than a quarter every 12 months.

It's hard to believe that the U.S. and global economies are still suffering a hangover from the Great Recession, But the fact that the Federal Reserve Board is keeping

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interest rates artificially low, coupled with still-high unemployment, makes the case. So, too, does unusually slow and bouncy economic growth; the U.S. economy, measured by the Gross Domestic Product, rose at a 0.4% annual rate in last year's fourth quarter, after a 3.1% gain in the previous three months.

However, there have been some optimistic signs. Consumer spending, which accounts for roughly 70% of the U.S. economy, rose in February by the highest rate in five months, according to the Commerce Department. Although the gain was still a modest 0.7%, the fact that people were spending more surprised many economists, who expected that the two percentage point increase in the payroll tax would cause Americans to feel poorer when they received their paychecks.

Rising home values and wage gains across the economy have made it easier for households to repair their finances. Incomes were up 1.1% in February and the overall U.S. savings rate managed to climb from 2.2% to 2.6% despite the increased spending and higher taxes. Home property values, measured by the S&P/Case-Shiller Index, rose 8.1% over the past year, the biggest year-to-year gain since 2006. Inflation is still low; the core measure which excludes food and fuel costs rose 0.1% from the prior month, in line with the 1.3% jump in the year since February 2012. And unemployment is finally trending downward. Employers added a net 355,000 workers in the first two months of the year. Rhode Island, Vermont, California and New Jersey showed the biggest declines in unemployment rates.

Does this mean the economic recovery will accelerate, boosting stock prices to even-higher levels? Or are today's record stock prices a sign that the market is about to take a plunge? Only someone with a working crystal ball can answer these questions. What we DO know is that the most successful investors are fearful when everyone around them is greedy, and greedy when other investors are fearful. For the past year, investors have been extremely nervous about U.S. deficits and the continuing debt crisis in Europe, yet stock market returns were excellent last year and unusually high in the first three months of this year.

All we can say for certain is that eventually the U.S. economy and the global markets will recover their mojo, and the Great Recession of 2008 will become a distant memory. Historically, the markets have delivered positive returns about 70% of the time, which is much better odds than you are likely to find in a casino.

Wilshire index data: http://www.wilshire.com/Indexes/calculator/
Russell index data: http://www.russell.com/indexes/data/daily_total_returns_us.asp
Treasury market rates: http://www.bloomberg.com/markets/rates-bonds/government-bonds/us/
Aggregate corporate bond rates: http://finance.yahoo.com/bonds/composite_bond_rates
Economic data: http://www.bloomberg.com/news/2013-03-29/consumer-spending-in-u-s-increases-by-most-in-five-months.html

The Advisor as a Fiduciary—Part 21

Both Michelle Mabry and Craig Phillips hold the designation of Accredited Investment Fiduciary (AIF ®) which requires a thorough understanding of the fiduciary standards of excellence and how they are applied to not only client investment portfolios but also how Client 1st conducts the business of an SEC Registered Investment Advisor (RIA)

In addition, they both have held the Certified Financial Planner (CFP) designation for many years.

Note: This commentary is a service of Craig Phillips, Michelle Mabry, Dave Stieh and Client 1st Advisory Group, Inc., an SEC Registered Investment Advisor.

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[1] Sources: Wall Street Journal, April, 2013. Investment Advisor Online April 1, 2013., Frank Russell Co online, April 4, 2013. [2] Your results would vary from the historical returns shown, which do not include the effects of fees, charges or taxes that would apply to a real investment. It is not possible to invest in an index and past performance is no guarantee of future results. Investing involves risk, fluctuating returns and the possibility of loss.