Client 1st Notes

Summer 2013

Craig Phillips was appointed in June by Florida Governor Rick Scott to a four year term as Vice Chairman of the Board of Directors of the Early Learning Coalition of Pinellas County. He has also been named to serve on the Community Child Care Task Force.

He formerly served as the board Treasurer overseeing the agency's $50 million annual budget.

Client 1st's New Hattiesburg, MS Office is coming along and we plan on moving in August 1st to 104 Titus Blvd. The new office is just down the street facing Highway 98 just past the Newpointe Shopping center.

Michelle Mabry will be in Asia with two of her daughters and Peggy Phillips August 14-31st. Pam and Julie will be available for any service or investment inquiries.

The Next Quarterly Introduction Events! Our next Introduction Events will be held at both locations on **Thursday, September 5th**. 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.

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.

Mike and Sherryl Wozney
In Safety Harbor, Fl

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 **Mike and Sherryl Wozney** of Clearwater, FL who sent in this photo at Philippe Park in Safety Harbor as they begin their "Tour of Florida" in their beautiful new Porsche 911 Carrera S which was built to order in Germany and delivered in June.

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 Client Portal Is Up and Running—If you haven't "test driven" it yet, check out the video on the home page of the website. If you need any help with access or usage, please give us a call.

The “Hidden” $2 Trillion Economy
By Dave Stieh

Have you ever thought about the money that you spend in cash that ends up as unreported (no taxes paid) income?

Probably not, but this “underground” economy is estimated to be in excess of $2 trillion. That’s how much money Americans may have made in the past year that didn't get reported to the IRS, an amount that would all but eliminate the deficit if the government managed to collect taxes on all that income. This is an estimated $80 billion per year in lost tax revenue.

People think that most cash transactions are for the illegal drug trade or paying migrant workers off the books. But what about the tips that you give to a skycap at the airport, the nanny that is paid in cash or the unemployed guy that you paid to trim a few trees at your house? A recent study found tht over 80% of nannies are paid under the table. Ordinary Americans have gone underground.

It is estimated that in spite of the trend toward a “cashless society”, Americans still hold an enormous amount of cash—recent estimates as much as seven hundred and fifty billion dollars. Many Americans do not use banks—and their numbers are growing.

Recession is a growth driver of underground economies. People are motivated to work on the side while collecting unemployment benefits. The IRS estimates that lost tax revenue has increase fivefold since 1992.

More and more people have become “independent contractors” as opposed to long-term employees. Companies that hire independent contractors save on benefits and payroll taxes if they opt for temporary contract labor. A recent survey of 300,000 general contractors found over 60% had zero direct employees...and no payroll taxes.

The recent increase in tax rates for many American taxpayers will likely do little to reverse this trend.

All of this financial activity takes place under the radar of traditional economic statistics. Household income remains below what it was in 2007 but personal consumption has risen to pre-recession levels. Retail sales have taken off as well. Consumption is where it should be if unemployment was at a much lower level than the official government reports.

This leads us to consider that unemployment is not near as high nor the economy as weak as the government reports would suggest. While we can commend people who are able to find work to keep themselves afloat (and off welfare) when the legitimate economy has not been able to create jobs or raise income, there is a price to be paid. It is hard for legitimate businesses to compete if their competitors are not paying payroll taxes and worker’s comp.

But as some states legalize (and tax) marijuana sales and immigration reform brings migrant worker pay above-ground, we will see some large parts of the underground economy emerge.

Source: http://www.newyorker.com/talk/financial/2013/04/29/130429ta_talk_surowiecki

PBS Enters the Fiduciary Debate
By Michelle Mabry, CFP, AIF

Some of you may have seen the PBS special Frontline which has lots of people are talking. It was entitled "Retirement Gamble," and it told us a lot of things we already knew: that corporations have offloaded the decision-making for retirement portfolios on their (not always financially sophisticated) employees, but provided virtually no guidance. The 2008 market crash wiped out investors who had naively put their entire retirement savings in stocks and then sold out at the bottom in a panic.

The special report includes a few details that are likely to be shocking to many n0n-experts, including the fact that 401(k) plans are not provided for free, as many participants believe, and some plans were set up by mutual fund and brokerage companies who (no surprise here) populate it with their own funds and triple-dip, charging fees for managing the account, and more fees for managing the funds, plus commissions for selling the funds to those naïve plan participants. We learn what many professionals already know: that some people pay ten times more in fees drained out of their retirement plan than others.

Interestingly, the PBS report didn’t mention the new fee disclosure rules that went into effect in 2012. The US Dept. of Labor, which sets the regulations for corporate retirement plans, has mandated that all retirement plans disclose, in writing, the various costs and fees that are being charged to plan participants. These disclosures are

now starting to show up in performance statements, and we are seeing a huge shift in the retirement plan industry as employers and plan participants have become aware and seek to minimize these high fees.

Under current law, a broker who receives a sales commission cannot give participants investment advice because of conflict of interest due to varying sales commissions on different investments in the retirement plan. This is considered self-dealing. Most employer plan sponsors are under the impression that the brokers can give advice and is precisely one of the reasons they hire them. The DOL is working on proposals that would require those who give investment advice to plan participants to act in the best interest of the future retirees, and the proposal is expected to ban sales commissions. The requirement — known as the fiduciary standard, or putting the clients' interest first — would extend to IRA accounts that receive the rollover funds from 401(k) and other retirement plans.

Nobody should be surprised that the brokerage industry is lobbying furiously against these proposals, which has caused several delays and at least one incident where the DOL shelved a proposal for "further study" to explore economic impact on brokerage firms and consumers.

Will the new rules ever be enacted? The brokerage industry as hard as they tried, failed to stop the disclosure rules from passage, so their lobbying power is not unlimited. And few unbiased parties would argue with the idea that people receiving advice should be given unconfliced advice, and that sales people should openly disclose that they are selling rather than advising.

Client 1st provides Retirement Plan Consulting and Fiduciary Services to Plan Sponsors and Employers—Please call for details.

Market Review

The following table shows market index returns for the 2nd Quarter 2013:

Index	Q2	YTD	Description
S&P 500 Index	2.9%	13.8%	Large cap stocks
Russell 2500	2.3%	15.4%	SMID stocks*
EAFE	-0.7%	4.5%	Int'l stocks
Barclays US Agg	-2.3%	-2.4%	US govt bonds
CFB Index	-2.1%	0.7%	Managed futures

* Small to Mid Cap

Looking Back....Looking Ahead

By Craig Phillips, CFP, AIF

The most recent turmoil in the investment markets might cause one to think that people have lost money this year in U.S. stocks. But, in fact, most of the U.S. indices have posted double-digit gains, and the second quarter added a bit to those gains.

The Wilshire 5000--the broadest measure of U.S. stocks --rose 2.7% for the second quarter--and now stands at an almost 14% for the first half of the year. The S&P 500 was up 2.9% for the quarter...+ 13.8% year to date.

The rest of the world is not doing as well. The broad-based EAFE index of larger foreign companies in the developed world fell almost 1% for the quarter and is up just 4.5% year to date. The Eurozone fell as a group and is now down around –1.5% so far this year.

The news is much worse for emerging market stocks, which many feel are the world's engine for future growth. Their index fell -9.1% for the quarter and is down almost -11% year to date.

Real estate investments (REITs') were also down, 1.4%, but remain positive +5.9% for the year. Commodities are down 5.4% for the year and last quarter gold hit it's lowest settlement price since August, 2010.

Bonds have had a difficult first half of the year, with much of the decline occurring the last 30 days of the quarter, with the US Aggregate losing almost 2.5% so far this year.

The news has been mixed; Europe, especially in the southern countries, remains in recession, and there is turmoil in China as the country's leaders try to rein in the so-called "shadow banking system" — meaning lenders who are not officially sanctioned banks.

But here in the U.S., home prices experienced the largest price rise in the history of the S&P/Case-Shiller index with a 12.1% increase year to date.

Looking Back...Looking Ahead (Contd.)

It is clear to us that investors are making investment decisions based on emotions rather than logic. The initial panic following Fed Chairman Ben Bernanke's comments about ending its QE3 stimulus program seems to have subsided. The reaction based upon a single speech about a hypothetical Fed action that would only be taken due to improved fundamentals caused a sharp drop in the markets. This tells us that investors are not acting rationally and, thus, we are keeping our clients' portfolios conservative, defensive and very widely diversified.

Diversification can be a two-edged sword. Lately, the US stock market has delivered positive returns while everything else — international stocks, bonds, real estate, commodities and all the other pieces of a prudently constructed portfolil0 — are going in the tank. Investors will ask "The S&P 500 is up 14% why am I just up in low single digits?"

The truth is that no professional can pick the one winning asset out of all of the options every year (or every half year), and no prudent advisor would every try. There will always be one asset that returns more than the others, and that winning asset will always be different.

We have seen this many times and eventually some other investment will take the lead and diversified portfolios will look better than the U.S. stock indices and advisors will look like geniuses. Which will also be a naïve view of the situation, only proving that diversification leads to better long term returns with less volatility most of the time.

Of course, the markets will continue to be unpredictable but our focus will remain on our clients' financial goals and objectives. We have constructed portfolios based on moving our clients through their Plan goals with the objective of achieving all that is important to them from a financial standpoint *while taking on as little investment risk as possible.* Our policy of "Protect First, Participate Second" continues to drive our investment process. This requires prudent wide diversification, not chasing the current hot asset class.

Sources:

Wilshire index data: http://www.wilshire.com/Indexes/calculator/
Russell index data: http://www.russell.com/indexes/data/daily_total_returns_us.asp
Aggregate corporate bond rates: http://finance.yahoo.com/bonds/composite_bond_rates
Commodity index data: http://us.spindices.com/index-family/commodities/sp-gsci/

Advisor As Fiduciary—Part 15

On July 2, the National Association of Insurance and Financial Advisors (NAIFA), a product oriented trade association informed the SEC that middle-income investors would be harmed by a rule that would raise investment advise standards for brokers to that of fiduciary as is the case for Registered Investment Advisors like Client 1st.

Massachusetts Commonwealth Secretary William Gavin made the opposite argument asserting "average investors are hurt by brokers who do not have to act in their best interests but rather can sell high-commission, risky investment products as long as they meet suitability parameters.

The "saga continues"....

Calendar

Craig Phillips and Michelle Mabry will be attending the Plan Advisor National Conference in Orlando, FL, September 9-11.

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, July 1, 2013. Investment Advisor Online July 3, 2013., Frank Russell Co online, July 8, 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.*