Client 1st Notes

Fall 2013

Client 1st's Hattiesburg, MS Office had an open house for clients and "friends of the firm" on September 24th to celebrate our new office at 104 Titus Boulevard.

Craig Phillips was elected as President Elect of the Clearwater Free Clinic's (CFC) Board of Directors. The CFC's mission is to deliver comprehensive medical care to uninsured families through volunteerism and community partnerships.

***The Next Quarterly Introduction Events*!** Our next Introduction Events will be held at both locations on **Thursday, November 14th**. We will be hosting dinner parties for all referrals and their "referees" to welcome new members to the Client 1st family in style!

Our New Client Portal provides our clients with the ability to view their entire financial picture, *in real time, and all in one place* including all investment and bank accounts, credit cards, mortgages, airline, hotel and credit card award balances and much more.

Our Business Owner Clients were required by the Department of Labor to provide to each employee a notice titled *New Health Insurance Marketplace Coverage Options and Your Health Insurance Coverage* by 10/1/2013 if they have $500,000 or more in annual revenue. If you have any questions please contact your group health insurance provider or their agent.

Lee and Barbara Drake
In Chersoness, near Sevastopol, Ukraine

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 **Lee and Barbara Drake**, of Hattiesburg, MS who sent in this photo at Chersoness, near Sevastopol, Ukraine.

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

Affordable Care Act and Health Insurance Exchanges

Most Americans, including Financial Planners, are continuing to digest the implications of the Patient Protection and Affordable Care Act (ACA).

We continue to assemble information to allow us to help our client navigate these new waters whether they are business owners, employees or retirees.

While much is still up in the air on how all this will work, a good resource is www.healthcare.gov, where the healthcare marketplace will exist. You say "I want insurance" and it says "What state do you live in?" and it takes you to your options.

One feature of this new legislation that will effect a number of our clients is the ability to obtain health care if they retire prior to age 65 and have pre-existing health conditions. In the past, we have had clients who could afford to retire pre-65 but kept working to maintain group health benefits as they could not afford to retire and possibly have to fund a catastrophic illness.

The "Debate We Hate" - Debt Ceiling Politics
By Michelle Mabry, CFP, AIF

The "government shutdown" is unlikely to have even the slightest impact on the economy. Why? The Defense Department has continued to pay all of its civilian personnel by simply calling them "essential employees". And nobody in Congress had a problem with that as they quietly passed legislation that would give back-pay to all federal workers who have been furloughed, immediately after this stalemate ends (which it probably has by the time this newsletter is published). For more information on the impact of the markets by government shutdown's review our latest blog on our website: www.c1ag.com/blogs.

A much more serious issue is the debt ceiling. Congress must raise the total amount that the government can borrow (by selling Treasury bonds) to pay its obligations, including....*the interest on its current Treasury bonds.*

Most people believe that raising the debt ceiling increases the federal debt. It does not. The debt exists whether or not Congress authorizes additional borrowing.

Despite all the theatrics, neither President Obama nor Congress wants the United States to become another Greece on their watch...keeping in mind that Greece even avoided default. It's all politics and the side with the least leverage will blink...but at the very last minute, because that is how politics works these days.

The irony of the debt ceiling debate is that the gap between government spending and tax revenues has been rapidly closing on it's own. In July, the Congressional Budget Office reported that the deficit had fallen by 37.6%, the result of tax increases and sequester-related spending cuts. As a percentage of America's GDP, the deficit has fallen from more than 10% at the end of 2009 to somewhere around 4% currently. Last June, the government actually posted a surplus of $117 billion, paying down the overall deficit, and the Congressional Budget Office has projected that September will also bring government surpluses. By the way, you are not getting this information on the financial cable programs like CNBC.

Why are we so confident that this will all get worked out? What rational person—in Congress or elsewhere — wants to self-impose the problems that a default would cause, world-wide, when we have plenty of economic challenges already? Foreign investors continue to lend the U.S. government money at astonishingly low interest rates, which clearly tells us that they are not concerned about a default.

Interest Rates Will Trend Up—Someday
By Dave Stieh

We are sure that you have heard the alarming reports of the "dramatic rise of Treasury bond rates" and the "disasterous effect" on bond owners and the economy in general.

So what is really going on here?

Interest rates on the benchmark 10-year Treasury have risen from a May 2nd low of 1.63% to around 2.9% today. Why are investors asking for an extra 1.3% per year these days? Because nobody knows when the Fed is going to stop buying treasuries — the proverbial elephant jumping off the see-saw.

When a big buyer walks away from the marketplace there simply will be less demand for whatever they were buying. Therefore bond issuers — including the U.S. — will have to pay more (higher yields) to attract the remaining buyers.

How much more? In other words, how much higher will bond rates go and how much will bonds lose in value as

QE3 eventually winds down?

The second question is easy to deal with, you simply pull money away from longer term bonds and wait for the dust to settle, which is what we have been doing in our clients' portfolios. The first is a little trickier.

It is true that inflation has potential as a factor but with unemployment where it is, there is no catalyst for inflation in the foreseeble future.

The most logical alternative to bonds is, of course, stocks. If the stock market moves into a more volatile cycle than it has been lately, which is inevitable, people will flock to bonds (as they did in 2008) and drive interest rates even lower. The Fed will not begin backing off QE until the economy is healthy.

So if you look at these clues, you come out with something very different from the disaster scenarios you will be hearing about in the news. The Fed **is** planning to stop buying treasuries at some point in the future and let market forces take over—but only when it feels like the economy is healthy, and only so long as it can do this without harming economic growth or driving the stock market down. It's hard for us to see the 10-year Treasury rise much over 4% or about twice the dividend yield of the S&P 500, which would still look like pretty weak competition for stocks.

The bottom line today is that investors are demanding that additional 1.3% to compensate for all the uncertainty they face as they commit their money for 10 years. Can you blame them?

Market Review

The following table shows market index returns for the 3rd Quarter 2013:

Index	Q3	YTD	Description
S&P 500 Index	5.2%	19.8%	Large cap stocks
Russell 2500	2.3%	15.4%	SMID stocks*
EAFE	11.6%	16.6%	Int'l stocks
Barclays US Agg	0.6%	-1.9%	US govt bonds
CFB Index	-3.2%	-2.2%	Managed futures

* Small to Mid Cap

Looking Back....Looking Ahead

By Craig Phillips, CFP, AIF

The threat of a government shutdown pretty much guaranteed that the past quarter would end with a whimper rather than a bang. The S&P 500 lost a little over 1% during the final week of the quarter as Congress went through the gyrations toward a political standstill that shut down the government on October 1st.

Despite the final week's political selloff, the Wilshire 5000 — the broadest measure of U.S. stocks — rose 6.6% for the third quarter and is up 22.3% year to date. Large, mid and small cap US stocks followed suit with year to date returns of 20.8%, 26.2% and 27.5% respectively.

In the first half of the year, any diversification into investments other than U.S. stocks were dragging down returns. No longer. The broad-based EAFE index of larger foreign companies was up +11.6% in dollar terms for the quarter and +16.6% for the year. Emerging markets rallied as well for the quarter with a +5.0% but remained down 6.4% year to date.

Of course, no reasonable portfolio is invested solely in US stocks and other investment categories have not fared as well sor far this year. Real estate fell 2% for the quarter but is still up 3.8% year to date (Wilshire REIT index). Commodities reversed their recent slide and were up 5.4% for the quarter bringing the GSCI index almost flat (-0.3%).

Bonds have continued to provide disappointing returns in terms of both yield and total return. The Barclays Global Aggregate bond index is –2.2% year to date and the US Aggregate is –1.9%.

What is the most remarkable aspect of the US 20% plus stock market returns, which are extraordinary by any measure, is that they have been accomplished at a time when investors seem to remain constantly skittish. Just a hint last quarter that the Fed would end it's QE3 program sent the market into a temporary free fall. One might wonder why this would be taken in such a negative light as it is the Fed's economists way of telling us that the U.S. economy is getting back on its feet.

The eyes are still on Washington, they have shifted to the Capital Building. The question everybody has been asking in the final days of the quarter is: what would be the investment and economic impact of a gov-

Looking Back...Looking Ahead (Contd.)

ernment shutdown. This question might be one to consider going forward, since the two parties seem to have a lot of fundamental disagreements over spending priorities, and budget battles could well become quarterly events.

Interestingly, Congress has quietly moved away from the issue that has triggered the last few budget stalemates, focusing this time on whether or not to fully fund the health care legislation. In the past, the issue was budget deficits, but it turns out that the budget deficit has come down dramatically in the past 12 months.

What does this mean for your investments over the last quarter of 2013? Who knows? Nobody could have predicted, at the beginning of this year, with all the hand-wringing over the fiscal cliff and new tax legislation, that we would be standing nine months into 2013 with significant investment gains in the US markets and a resurgence in global investments led by, of all places, Europe.

This much we can predict: the recent uncertainties — the paralysis in Congress, worries about the direction of interest rates and if the Fed is going to stop intervening in the markets — will give way to new worries, new uncertainties, which will give the cable financial shows other reasons to assure us that the world is going to hell in an handbasket. The US stock market will return to normal market cycles and other asset classes will move up.

Whatever ups and downs you will experience — and you WILL experience them, perhaps in this quarter or next year — keep in mind that the underlying driver of business enterprise and stock value is constantly working on your behalf. American business will continue to generate profits, create new products and new markets, day after day after day. And this will remain true no matter what the headlines say.

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/
Government shutdown impact: http://www.latimes.com/business/la-fi-shutdown-economy-20131001,0,155302.story
Budget surpluses: http://www.cnbc.com/id/100880536
http://www.cnbc.com/id/101030631

Advisor As Fiduciary—Part 16

Suppose somebody approached you with this "elevator speech": "I want to help you achieve your financial goals, but I don't want to be legally required to put your best interests above mine because that would be too cumbersome for me to implement and my compensation would be diminished. There may be conflicts of interest that arise from time to time, but I will not disclose them to you. In addition, I don't want to assume the additional liability that comes with a fiduciary standard. But, I will do my best to help you."

This, of course, is the lobbying position of the large financial institutions, and when you lay it out, it does look somewhat ridiculous. Who would work with somebody like that?

Client 1st is an SEC Registered Investment Advisory firm who, by law, is required to act as a fiduciary. It continues to confound us as to why our entire industry isn't held to the standards that our clients benefit so much from.

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

611 Druid Road East, Suite 707
Clearwater, FL 33756
727.450.2301

104 Titus Boulevard
Hattiesburg, MS 39402
(601) 264-0946

www.c1ag.com

[1] Sources: Wall Street Journal, October 1, 2013. Investment Advisor Online October 4, 2013., Frank Russell Co online, October 2, 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.