



# Murray Financial Advisor



September 2010

## In This Issue...

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### **Murray Financial, Inc.**

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## CFP® Code of Ethics:

### **Principle 1 – Integrity**

*Offer and provide professional services with integrity.*

### **Principle 2 – Objectivity**

*Be objective in providing professional services to clients.*

### **Principle 3 – Competence**

*Provide services to clients competently and maintain the necessary knowledge and skill to continue to do so.*

### **Principle 4 – Fairness**

*Perform professional services in a manner that is fair and reasonable and discloses conflicts of interest.*

### **Principle 5 – Confidentiality**

*Do not disclose any confidential client information without the consent of the client.*

### **Principle 6 – Professionalism**

*All matters shall reflect credit upon the profession.*

### **Principle 7 – Diligence**

*Act diligently in providing prompt professional services.*

### **Registered Investment Advisor (RIA):**

A firm that acts in a fiduciary capacity on behalf of clients by providing a higher standard of disclosure and due care with minimal conflicts of interests. RIAs are typically compensated on an hourly or fee basis (usually as a percentage of assets under management) rather than by a commission schedule.

I hope you and your family had a nice summer. The kids are back in school, football is in full swing (except for my alma mater, Virginia Tech...), temperatures are dropping, and it's a good time to get financially organized.



It's hard to believe that it has taken me a year to find the time to publish this latest edition of my newsletter.

The good news is that I've been extremely busy with my practice and family. The bad news is that I've been unable to convey important financial information to my "sphere" on a more regular basis. Finding outlooks that differ from what CNBC and the mainstream media is dispensing is not easy. Hopefully, this publication helps accomplish that goal.

I continue to read about Americans making the same financial mistakes over and over again. I suppose that is the way things are with human nature... History doesn't repeat itself exactly, but it often rhymes. In spite of this, with some education, effort, and discipline, you can fight off those inclinations. For help, see my article on page 5 which explains the **Six Basics of Financial Success**. Follow these guidelines and you may well be on your way to reaching your financial goals.

Have you stopped adding to your 401(k) out of fear of losses in the stock market? Do you dread a repeat of the so-called "Lost Decade"? Was it really that bad? Check out my article **The Lost Decade? Not Exactly...** on page 3 for my take on how investing from 2000-2010 was not as miserable as is being reported.

What are your investing principles and practices? Do you have any? Take a look at **Murray Financial's Six Principles and Practices** on page 2 and review my commentary. To be successful as an investor, you must have a plan—for both the good times and the bad. These principles and practices can help you formulate your plan.

And finally, Nick Murray's articles discuss how the press sensationalizes good and bad times and how inflation—the often quiet and silent killer of purchasing power—can be so dangerous to ignore.

Proper investment behavior truly is the key to financial success. Information overload, which is prevalent in today's society, can actually cause more harm than good. Investors believe that if they "study the numbers", their investment decisions will help them outperform the markets. That may happen for some, but it is generally due to luck more than anything else. And we all know that given enough time, luck runs out...

A much better way is to design a well diversified portfolio of low-cost index funds that matches your risk tolerance (i.e. stock to bond ratio) and is rebalanced quarterly.

*"The work of the financial advisor is not rooted in prediction—she cannot tell when, why, or how current negative trends will reverse—but in perspective: they always have and—so long as people are free to choose—they always will. - Nick Murray*

# Murray Financial, Inc.

## Investment Principles & Practices



### Principles

1. **Faith** – that the United States, and in aggregate, world economies will continue to grow and outpace inflation as they always have – long term.
2. **Patience** – in our approach and management of long term investments. We are following time-tested investment strategies that need time to work.
3. **Discipline** – to consistently adhere to and fully embrace the current investment plan, regardless of market conditions. We will take action based on a set plan as opposed to a reaction to market movement or news.

### Practices

1. **Asset allocation** – establishes a stock to bond/cash ratio that is appropriate for the investor's circumstances and helps reduce the likelihood of panic selling at a market low and/or euphoric buying at market highs.
2. **Diversification** – spreads risk among numerous asset classes so that a single category or security's decline will not, in a significant way, adversely affect the performance of the portfolio.
3. **Rebalancing** – takes advantage of market volatility by selling categories that have outperformed others (selling high) and uses those proceeds to purchase categories that have underperformed (buying low).

*These principles and practices are the foundation of my investment advisory firm. Each one is critical to the overall success of the investment strategy.*

*In the past, many advisors panicked along with their clients (see Practice #1) and sold out of stock positions. Perhaps they got out early enough to prevent a significant decline in their client's account values, but how many sold out near Dow 6500 while the market is now near 10,000? **Now what?** The problem with trying to time the market is that you have to be right twice – once on the way out and then again with deciding when to buy back in. Studies show that market timing success rates for both the professional and non-professional trader are abysmal. Don't try it! **Make a plan and stick with it.***

*My opinion of stock ownership (via index funds, not individual securities) and its value in a long-term portfolio is a philosophy, not a market outlook. This philosophy does not change with current events or market conditions, no matter how dire or euphoric those conditions become (see Principle #1).*

*If you are not confident with Principle #1, you should **never be invested in stocks and/or bonds** to begin with – and you certainly should not buy-in and sell-out on a whim. You should simply keep your money in cash indefinitely (in CD's and/or money market accounts). However, doing so means you are relinquishing the fight against the very real reduction in purchasing power (i.e. inflation), which means you will have to save even more. If you do that, you must be consistent with your decision, regardless of how the market performs in the future. Jumping back in – which is really not investing, but rather speculating – when it "feels safe", has a very low success rate. Make a plan and be patient – through thick and thin. Remember, with investing, often the right move is to do the **opposite** of what your gut tells you to do.*

*"The direction of the next 20 percent market move is both unknowable and immaterial to the success of a lifetime investment program. It's the direction of the next 100 percent move that matters, and we know perfectly well which way that'll be, now don't we?"*

*~ Nick  
Murray*

## The “Lost” Decade? Not Exactly...



Contrary to what financial journalism would have you believe, the past 10 years of investing were not a total bust. Yes, we had two stock market meltdowns in 2002 & 2008, but 10-year returns for 18 out of 21 Morningstar categories (shown below) were positive. While stock performance numbers were below historic averages, it was not the financial disaster that we are led to believe. Plus, don't forget that the summer of 2000 was the tail end of an historic bull market for stocks which skews the return averages going forward from that point in time. Assuming that the stock market continues to slowly rise, future 10-year returns will dramatically improve as the starting point begins to move into 2001 & 2002—when stock prices were much lower. And finally, history shows that stock performance in the 10 years following a below average decade has been above average.

This leads to the question: Was your portfolio diversified over the last 10 years—and is it now? Nearly every new investment advisory client of mine in the past 8 years was over concentrated in one category—typically Large Growth Stock—which, as shown in the table below, was the worst performing investment category. On occasion, clients would also have an over concentration in one stock—which is even more risky (consider United Airlines, Enron, WorldCom, Lehman Brothers, Texaco, etc...).

Diversification, as well as balance, is critical. That balance extends to real estate—particularly rental properties. If you have \$500,000 in rental real estate and \$100,000 in your 401(k), you are not well balanced as over 80% of your investment portfolio is in one asset class. We've seen in the past few years what can happen when an asset class bubble is created and then bursts. The key is to be balanced and to adjust as warranted.

If you have indeed stopped investing in stocks, remember this axiom: As stock prices drop, value increases. Don't let the decrease in your portfolio's value (which will happen from time to time) skew your emotions. Create a plan and stick with it!

Category	2nd Q	1 Yr	3 Yr	5 Yr	10 Yr
Large Growth Stock	-12.1	12.4	-8.1	-0.2	-3.4
Large Value Stock	-11.8	13.6	-11.6	-1.6	2.1
Mid-Cap Growth Stock	-9.6	19.6	-7.9	1.1	-0.8
Mid-Cap Value Stock	-10.1	23.8	-9.4	0.4	6.7
Small Growth Stock	-9.1	19.1	-8.7	0.3	-0.3
Small Value Stock	-9.4	25.9	-8.7	0.4	8.1
World Stock	-11.2	12.1	-10.1	1.2	0.2
Emerging Markets Stock	-8.9	21.8	-5.3	10.6	9.2
Natural Resources Stock	-13.9	9.8	-8.5	6.4	11.4
Real Estate Stock	-3.9	51.6	-9.9	-0.8	8.7
High Yield Bond	-0.6	24.0	3.3	5.0	5.3
World Bond	-0.4	8.8	6.7	4.8	6.4
Emerging Markets Bond	-0.8	17.9	6.0	7.0	10.9
Inflation Protected Bond	3.2	9.7	6.3	4.0	6.4
Long Bond	4.1	19.3	7.1	5.1	7.4
Long Govt. Bond	14.9	14.0	11.4	5.3	8.1
Intermediate Bond	2.7	13.1	6.0	4.5	5.8
Intermediate Govt. Bond	3.4	8.2	6.9	4.9	5.5
Short Bond	1.0	7.1	3.7	3.5	4.1
Short Govt. Bond	1.5	4.3	4.9	4.0	4.3
Ultra-Short Bond	0.4	4.4	1.3	2.3	2.9

Source: Morningstar. Three-, five-, and 10-year returns are annualized. Posted 6/30/10

*“Poor people spend their money and save what is left. Rich people save their money and spend what is left.”*

*~ Jim Rhon*

*“What’s most relevant to you (as investors) is whether and how you’re doing something different from what everybody else is doing.”*

*~ Roger Ibbotson*

## “Time After Time”

By Nick Murray

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*“Nothing gives one person so much advantage over another as to remain always cool and unruffled under all circumstances.”*

*~ Thomas Jefferson*

## The 6 Basics of Financial Success

1. **Fund Your Future First:** Others have called this “Pay Yourself First”, but I think this description is more accurate. A more accurate calculation can be done with financial calculators, but a rough rule of thumb is to save 10% of your gross income *before* you begin spending for the month. Make your savings deposit and then live on the balance. If you can’t pay the bills with what is left over, you need to either increase your income or decrease your spending. If you don’t do this, it is very likely that your standard of living during retirement will be dramatically lower than it is while working.
2. **Control your debt:** For most, the only debt should be a fixed rate mortgage—and that mortgage should be for a house that is appropriate for your circumstances (not too big or expensive). And don’t count on your home to be your retirement plan as I have tried to make clear to my clients years before this recent real estate bubble burst. Pay off your credit cards in full each month, save for a car purchase (yes, pay cash for your car), and keep your kids in-state for college or secure scholarships for out-of-state tuition.
3. **Wants vs. Needs:** Understand the difference and control your wants so you can do #1.
4. **Invest, Don’t Speculate:** Invest for the long term with low-cost index funds (either mutual or exchange traded). Don’t try to time the market or pick individual stocks. Mutual fund managers, who spend millions of dollars on “research”, regularly do not beat their respective indexes—you probably can’t either, so don’t try. But if you must gamble, use only a small portion of your investable assets.
5. **Diversify & Rebalance:** Diversify your long term savings into many investment styles (large growth, small value, etc...) and rebalance to keep your portfolio close to your initial targets. If you don’t know what investment categories or styles are—seek professional help.
6. **Keep Doing 1 through 5 Into Retirement:** Your stock/commodity/ratio may need to be updated as your circumstances change, but the same basic steps apply.



*“Most of the time common stocks are subject to irrational and excessive price fluctuations in both directions as the consequence of the ingrained tendency of most people to speculate or gamble... to give way to hope, fear, and greed.”*  
 ~ Benjamin Graham

## “How Do You Feel About Money?”

By Nick Murray

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TimMurray@MurrayFinancial.com for a PDF  
copy of entire newsletter.*

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permission.*

*“Inflation is  
taxation  
without  
legislation...”  
~ Milton  
Friedman*

*“I continue to believe that the American people have a love-hate relationship with inflation. They hate inflation but love everything that causes it...”*

*~ William E. Simon*



## **We Help Bridge the Gap...**

**A divorce is never easy, but it can be financially fair.**

A Certified Divorce Financial Analyst™ (CDFA™) has the skills and knowledge to help you avoid the common pitfalls of divorce.



**Institute for Divorce  
Financial Analysts™**



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## ADDRESS SERVICE REQUESTED

### September 2010 Newsletter

The Lost Decade? Not Exactly...  
Six Investment Principles and Practices  
Nick Murray Articles...  
Basics of Financial Success  
Financial Planning Checklist

[Read more inside...](#)

## Financial Planning Checklist

Most could use the services of a financial planner or an investment advisor – or at the very least benefit from a 2<sup>nd</sup> opinion. Not sure if you could? Read through the list below. If you check 1 or more boxes , you probably could benefit from the services of an independent CERTIFIED FINANCIAL PLANNER™ Professional.

- My expenses are typically higher than my after-tax income.
- I regularly carry high interest (>6%) consumer debt (credit card, auto & student loan, etc.).
- My savings is generally whatever is left after I pay my bills.
- I do not maximize my allowable IRA, 401(k), 403(b), or Thrift Savings Plan contributions.
- The new money added to my retirement accounts is allocated to stock and bond funds, instead of only stock funds, thus reducing the benefit of dollar cost averaging (DCA).
- I ignore the very real risk of diminishing purchasing power (i.e. inflation) and invest only in low risk assets (i.e. CD's, Money Market Funds, Short Term Bonds, etc...).
- I have never calculated what I need to be saving each month to reach my retirement goals.
- I've never considered what my retirement goals are.
- Market events and financial "news" compel me to change my investment plan.
- I don't have an investment plan.
- I try to time the stock market (which is speculating, not investing) by randomly buying and selling stocks and/or bonds based on market movements and conditions – or just hunches.
- My investment portfolio is not well diversified among 10 to 15 stock and bond asset classes.
- I usually pick funds that have done well recently.
- I don't know or utilize the various tax-beneficial ways to save for college expenses.
- I do not rebalance my portfolio on a regular basis.
- I don't know if my life insurance premiums are priced competitively.
- I use life insurance products as investment vehicles.
- I have an annuity in my Individual Retirement Arrangement (IRA) account.
- I have not diversified my portfolio due to avoidance of capital gains on the sale of securities.
- I'm not confident that my income tax returns take advantage of all allowable deductions.

*"Financial planning is the process of meeting your life goals through the proper management of your finances."  
~ CFP® Board of Standards*