January 2014

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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.

Few Advisors Have a Written Plan For Investment Clients

I was astonished to read in a recent article in *Financial Advisor* magazine that only 39 percent of advisors surveyed use an Investment Policy Summary (IPS) for their clients. An IPS is a written document that describes a client's investment plan. Risk tolerance, savings and withdrawal timeline, initial investments, and how those investments will be monitored and adjusted are described in this document.

For example, at MFI an IPS might say that client will be: 1) adding to their accounts for the next 15 years, 2) making withdrawals over the following 25 years, and 3) maintaining an asset allocation with a stock/commodity/bond ratio of 80/5/15. It will then list the specific recommended

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Got Life Insurance?

Life insurance is arguably the most important type of insurance one can buy, yet many do not recognize this, or simply ignore the issue hoping it will go away. Nobody likes to talk about the "what ifs?" of someone dying, yet it is a critical aspect of sound financial planning.

It's best to leave surviving loved ones with financial stability. If your family is dependent on your income, the last thing you want added to their grief is additional stress from tight finances. The sad reality is that if you do not have adequate life insurance, your death can be financially

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Murray Financial Fees and Compensation

Financial Planning: MFI charges $200 per hour for financial planning with a maximum charge of $1,000 for a comprehensive financial plan.

Ongoing Investment Advice: Advisory fees are based on a sliding scale dependent on the client's total portfolio value. Fee is invoiced quarterly.

Assets Under Management	Annualized Fee
$0 to $50,000	2.00%
$50,001 to $100,000	1.50%
$100,001 to $500,000	1.25%
$500,001 to $1,000,000	1.00%
$1,000,001 to $1,250,000	0.90%
$1,250,001 to $2,500,000	0.80%
$2,500,001 and higher	0.70%
Section 529 Education Accounts	1.00%

Insurance Sales: This is a small part of MFI's annual business. Insurance carriers pay a varied commission for each policy placed.

Want more information? See MFI's "Form ADV, Part 2: Firm Brochure" at MurrayFinancial.com or request one to be sent to you via email.

Murray Financial, Inc.

Investment Principles & Practices

Principles

1. **Faith** – that the United States, and in aggregate, the entire world economy 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 in late December 2013 is near 16,500? **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 **not be invested in stocks and/or bonds** to begin with, and you certainly should not buy-in and sell-out on a whim. Rather you should simply keep your money in cash indefinitely (meaning 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 also means you will have to save even more. **If you do this, 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 the opposite of what your gut tells you to do.*

"Investors sabotage their best intentions by making investments with a confident yet uninformed swagger."

~ Daniel Kahneman, Nobel Prize winner in Economic Sciences

Did you Know?

- ⇒ The Dow Jones Industrial Average in late December is close to 16,500, which is nearly two and half times higher than the 6,547 low from the spring of 2009, and that does not include dividends. Many Americans, often guided by their professional investment "advisors", sold in a panic, are still in cash, and continue to be paralyzed by fear stemming from that dramatic stock market decline. ***In contrast, after that crash in 2009, MFI clients, in contrast, rebalanced a portion of their holdings from bonds into stocks and have realized roughly a doubling of the value of those assets.*** **Sell high and buy low.** ***<u>We have a plan for the good times and the bad</u>.***
- ⇒ Many actively managed mutual funds have expenses that are 0.5% to 1.5% higher per year than passively invested index funds. This means that the fund manager has to outperform the respective indexes by this amount just to break even with the indexes. Most fund managers fail at this endeavor. ***Retirement accounts at MFI are invested solely in index funds. We are satisfied with market returns and believe that the additional cost of actively managed funds are not worth the risk of underperforming the indexes.***
- ⇒ Only about 10% of investment professionals are fee-based-only Registered Investment Advisors (RIAs) that act as a fiduciary 100% of the time. The rest in the industry are either registered representatives (i.e. brokers) or dually-licensed, holding both broker and advisor licenses. Registered Representatives have a fiduciary duty to put their broker's interests ahead of their client's interests. ***Murray Financial, as an RIA, acts as a fiduciary at all times—always putting the client's interests first.***

"The stock market is filled with individuals who know the price of everything, but the value of nothing."

~ Phillip Fisher

Am I Earning These Returns?

Each quarter, I send a chart like the one below to all of my investment advisory clients. While the shorter time frames are interesting to look at, my focus, and hopefully my client's focus, is the 10-year column. Stock and bond investing should only be for the long-term investor. If you can't handle the ups and downs of the stock market, stick with cash and/or CDs (forever!), but expect returns similar to the short bond funds at the bottom of the list.

Category Returns as of September 30, 2013

Morningstar Category	2nd Q	1 Yr	3 Yr	5 Yr	10 Yr
Large Growth Stock	9.3	20.7	15.3	10.7	7.6
Large Value Stock	4.4	21.2	14.7	8.7	7.3
Mid-Cap Growth Stock	10.1	26.1	16.0	11.9	9.3
Mid-Cap Value Stock	6.8	28.3	16.0	11.8	9.5
Small Growth Stock	12.3	30.4	18.8	13.1	9.6
Small Value Stock	8.1	29.5	16.1	11.4	10.0
World Stock	8.3	20.4	10.7	8.7	8.2
Emerging Markets Stock	5.0	3.0	-0.5	6.3	12.0
Commodities	3.2	-13.1	-1.4	-6.4	1.6
Real Estate Stock	-2.5	4.2	11.3	5.8	8.7
High Yield Bond	2.2	6.8	8.1	11.0	7.4
World Bond	1.5	-2.2	2.1	6.0	4.9
Emerging Markets Bond	0.1	-3.8	3.4	8.8	8.5
Inflation Protected Bond	0.6	-5.8	3.0	4.5	4.6
Long Bond	-0.6	-2.0	5.7	11.3	6.3
Long Govt. Bond	-2.4	-11.0	3.6	7.3	6.3
Intermediate Bond	0.6	-1.0	3.4	6.4	4.5
Intermediate Govt. Bond	0.4	-2.4	2.0	4.2	3.8
Short Bond	0.6	0.4	1.7	3.6	2.9
Short Govt. Bond	0.1	-1.0	0.7	2.2	2.6
Ultra-Short Bond	0.3	0.4	0.9	1.6	1.9

Three, five, and 10-year returns are annualized.

Out Of The Market; Skunked Again.

By Nick Murray

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"Far more money has been lost by investors preparing for corrections or trying to anticipate corrections than has been lost in corrections themselves."

~ Peter Lynch

The Dangers of Investment Bubbles

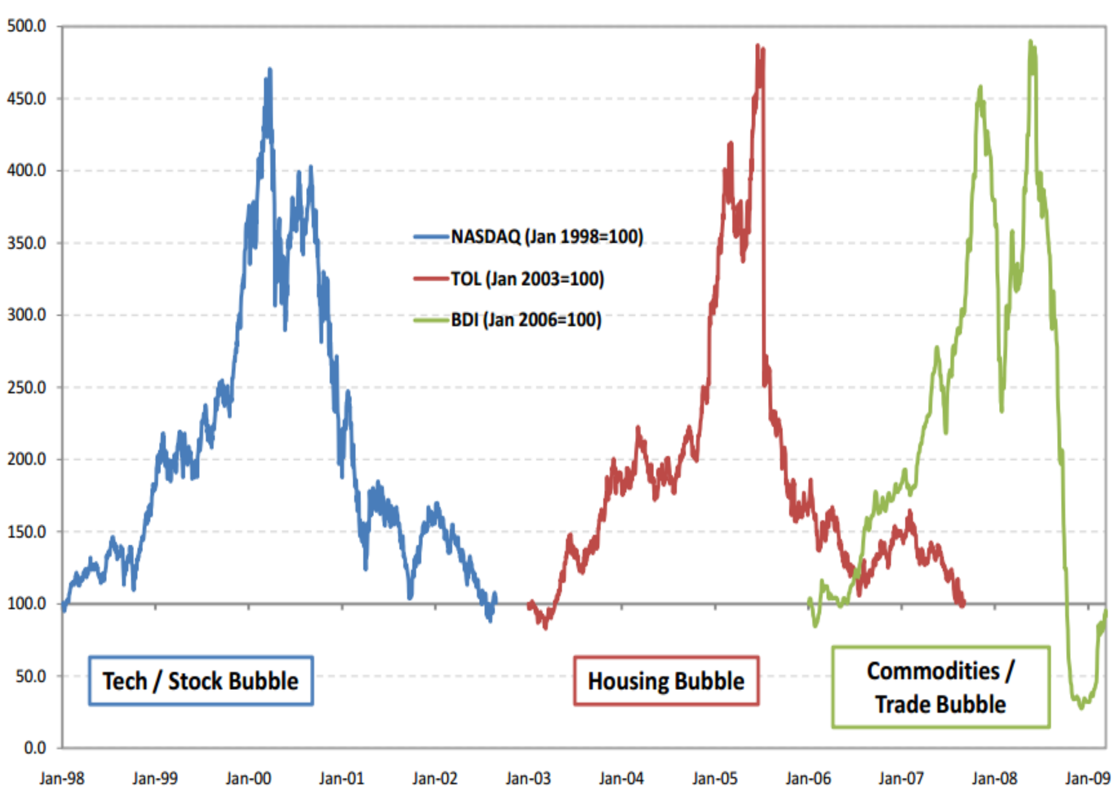
I am very interested in the study of human behavior as it relates to money. There is a particular branch of study in Behavioral Economics that investigates the consequences of massive asset inflation (boom) and equally massive deflation (bust) affectionately called Bubblenomics.

There have been many bubbles throughout the ages. There was the Dutch Tulip Mania in the 1600s in which some tulips sold for more than 10 times the annual income of a skilled craftsman. Then came the British South Sea Stock Bubble in the 1700s promulgated by inside-trading and political bribery. Others include the Dot-Com Bubble of 1997-2000, the Real Estate Bubble of the early 2000s, and the Commodity Bubble from 2007 to 2009.

What is interesting is how the pattern of behavior seems to repeat itself, regardless of what is actually “bubbling”. Why is that? The common variable in all investment bubbles is human nature. Time and circumstances may change, but our behavior remains the same.

Professor Jean-Paul Rodrigue of Hofstra University has extensively studied behavioral economics with particular attention paid to investor CONTINUED ON PAGE 6

Blowing Bubbles: From Technology to Commodities



Dr. Jean-Paul Rodrigue, Dept. of Global Studies & Geography, Hofstra University

“Investing should be more like watching paint dry or watching grass grow. If you want excitement, take $800 and go to Las Vegas.”

~ Paul Samuelson

The Dangers of Investment Bubbles

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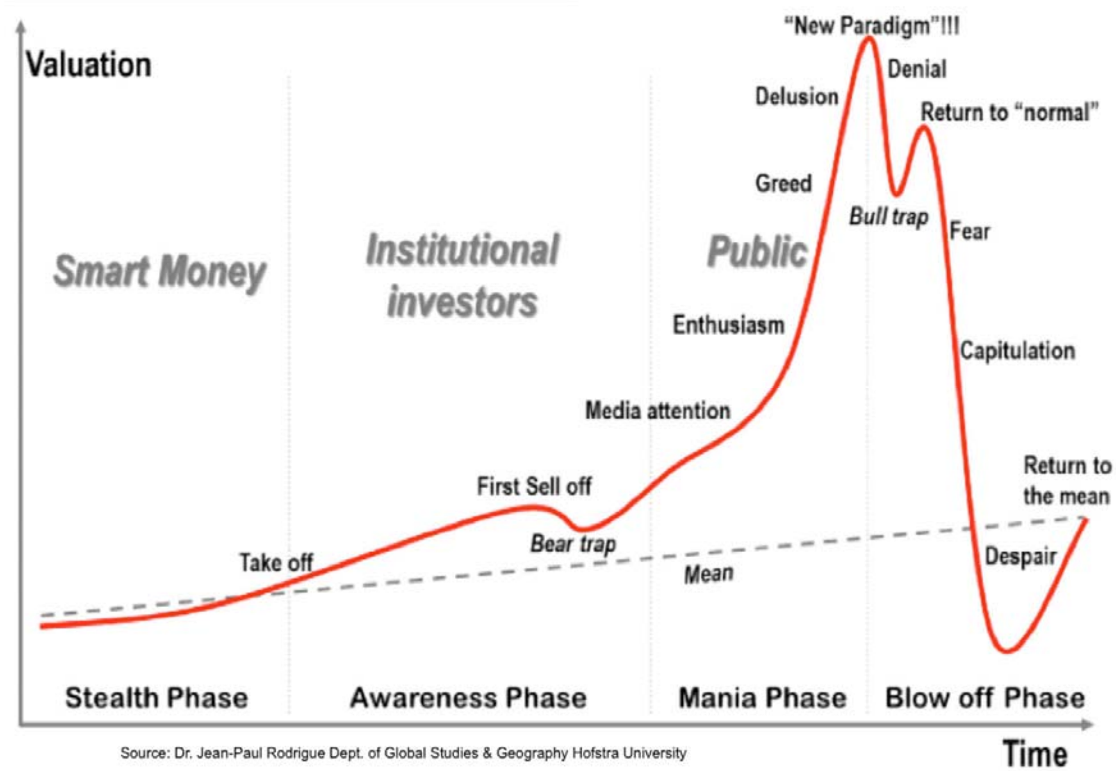


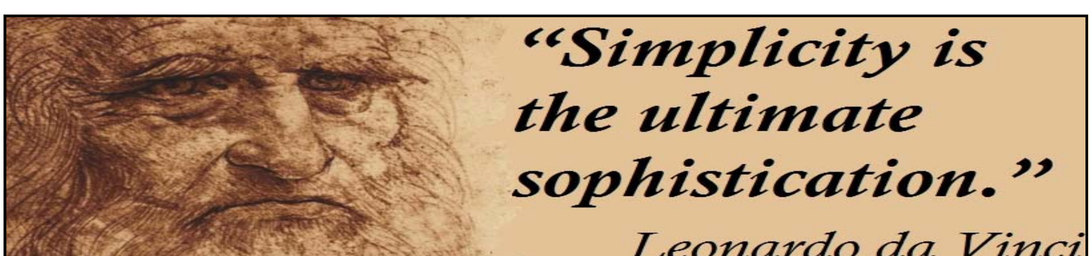
"The individual investor should act consistently as an investor and not as a speculator."

~ Ben Graham

behavior as it relates to bubbles. Above is a chart he developed to describe the emotions involved throughout the bubble cycle.

Bubbles are not good for society. They each cause great economic imbalance that often results in catastrophic financial conditions for many. The real estate bubble in the US was particularly damaging due to the sheer number of participants combined with the extreme amounts of debt involved.

How do Murray Financial investment clients take advantage of bubbles? We don't, at least not directly. We never try to predict that there will be a bubble. That's impossible to do. With our "own everything and rebalance" investment approach, we take advantage of bubbling valuations (by selling that category when it goes higher than its target weighting) and we take advantage of crashing prices (by buying more of that category if it drops below its assigned target weighting). ***As described in the first article in this newsletter, MFI clients have a plan in place via an Investment Policy Summary (IPS) for both the good times and the bad.*** If you don't have a plan, I suggest you develop one soon. Need a new year's resolution for 2014? Establishing an investment plan would be a good place to start!



Few Advisors Have a Written Plan For Investment Clients

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investments resulting in a portfolio with the proper asset allocation ratio. It will also explain how often the portfolio will be monitored and rebalanced if warranted.

Why is an IPS so important? It provides specific details on how a portfolio will be established and managed. Having a plan in place is critical. If the stock market crashes, the plan mandates the selling of bond funds to purchase stock funds that are now lower priced. This gut wrenching decision is very difficult for professionals to make, let alone individuals. A plan is also important during "good times", as it calls for selling higher priced stock funds to buy lower cost bond funds. These actions help maintain the target asset allocation described in the IPS.

I was also sadly disappointed to read that during the credit crisis and ensuing stock market crash many advisors went along with their clients' emotions and willingly sold their stock holdings. This is not what we are paid to do! We are paid to follow a plan and guide our clients through good times and bad. Thankfully, all MFI clients stayed the course and followed their plan. Many of those stock funds bought near the bottom of the market in 2009 have now increased in value by 150%.

If you don't have an advisor helping you and/or you have an advisor that does not have a written IPS for your portfolio, contact me and I will help you.

That famous quote applies here: Failing to plan is planning to Fail! ~ Tim

Got Life Insurance?

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devastating to your family.

How much insurance is enough? Calculating this is similar to calculating how much retirement savings is needed. Studies show that about 4% of a well-diversified portfolio can be withdrawn each year and still allow the principal to last 25 or more years. If you want to replace an $80,000 annual salary, you would need a $2 million term policy.

Should you accept life insurance through your employer? You definitely should, particularly if it is offered at little or no cost to you. However, don't rely on it for all your life insurance coverage. Work-based policies are typically contingent on your employment. You could get seriously ill, need to stop working, lose your life insurance, and then die with no insurance payout. You may quit or get laid off and lose coverage. The bottom line is that you need to have adequate life insurance, excluding work-based coverage, regardless of your employment situation.

How long should your term be? For parents, a general guideline would be to secure a term to the point in time where your children should be financially independent. A 20-year term policy is very common for this purpose. If your children are independent or close to being independent and your spouse is still relying on your employment and savings to build up a retirement account, you may want to consider a longer term or an additional policy. This is where consulting a financial planner who is also a licensed insurance agent could be advantageous. Contact me for quotes; don't wait until it is too late!

"The dominant determinant of real-life, long-term investment outcomes is not investment performance; it is investor behavior."

~ Nick Murray

What's The Market Going To Do?
(Hint: The Economy Won't Tell You)

By Nick Murray

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"The only value of stock forecasters is to make fortune-tellers look good."

~ Warren Buffett

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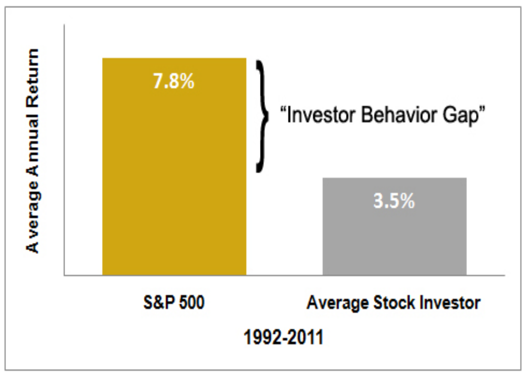
Investor Behavior Gap

Dalbar Inc. is a research firm that studies investor behavior and analyzes investor market returns. The results of their research consistently show that the average investor earns below average returns.

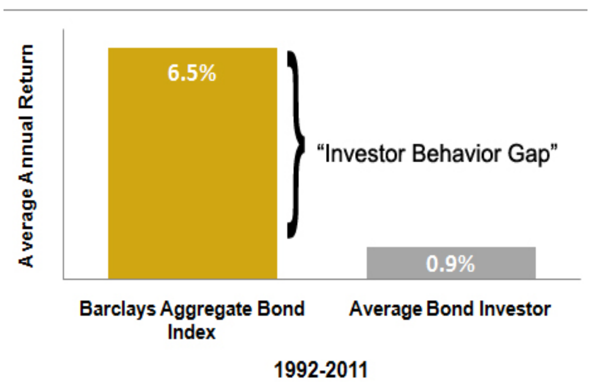


In the two decades leading up to 2011, the S&P 500 Index averaged 7.8% annually. This rate of return, while below the historic average of about 10.5%, was still reasonable. Meanwhile, the average stock investor that owned the S&P 500 Index during this period, earned an annual market return of only 3.5%, significantly below what the index itself earned.

To clarify, the unmanaged index fund returned 7.8% per year. The investors owning this fund earned 4.3% *less*. This is called the "Investor Behavior Gap". What causes this? Investors, either on their own or guided by an undisciplined professional, have been trying unsuccessfully to time the market. Study after study shows that market timing is futile for individuals and most professionals.

Below is a graph showing the results of a similar study of bond funds, resulting in an even larger gap.

The lesson here? **Controlling behavior and emotional response is the primary factors of successful investing.** If you can't control your own behavior, find an investment advisor who has control of theirs and ask him or her for help.



Average stock and bond investor performance results are based on a DALBAR study, "Quantitative Analysis of Investor Behavior (QAIB), 2012." DALBAR is an independent, Boston-based financial research firm. Using monthly fund data supplied by the Investment Company Institute, QAIB calculates investor returns as the change in assets after excluding sales, redemptions and exchanges. This method of calculation captures realized and unrealized capital gains, dividends, interest, trading costs, sales charges, fees, expenses and any other costs. After calculating investor returns in dollar terms, two percentages are calculated for the period examined: Total investor return rate and annualized investor return rate. Total return rate is determined by calculating the investor return dollars as a percentage of the net of the sales, redemptions, and exchanges for the period.

"All of us would be better investors if we just made fewer decisions."

~ Daniel Kahneman, Nobel Prize winner in Economic Sciences

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January 2014 Newsletter

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 second opinion. Not sure if you could? Read through the list below. If you check one or more boxes ☑, you probably could benefit from the services of an independent CERTIFIED FINANCIAL PLANNER™ Professional.

- ❑ My expenses are typically higher than my income.
- ❑ I regularly carry high interest (>6%) consumer debt
- ❑ My savings is generally whatever is left after I pay bills.
- ❑ I do not maximize IRA, 401(k), or 403(b) contributions.
- ❑ The new money added to my retirement accounts is allocated to stock *and* bond funds.
- ❑ I ignore the very real risk of diminishing purchasing power (i.e. inflation) and invest only in low risk assets.
- ❑ I have never calculated what I need to save each month to reach my retirement goals.
- ❑ I have 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 by randomly buying and based on market movements.
- ❑ My investment portfolio is not well diversified.
- ❑ I usually pick funds that have done well recently.
- ❑ I don't save for college expenses tax-free.
- ❑ 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.