MURRAY FINANCIAL, INC.

A Guiding Light to Personal Finances

Fall 2016

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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.

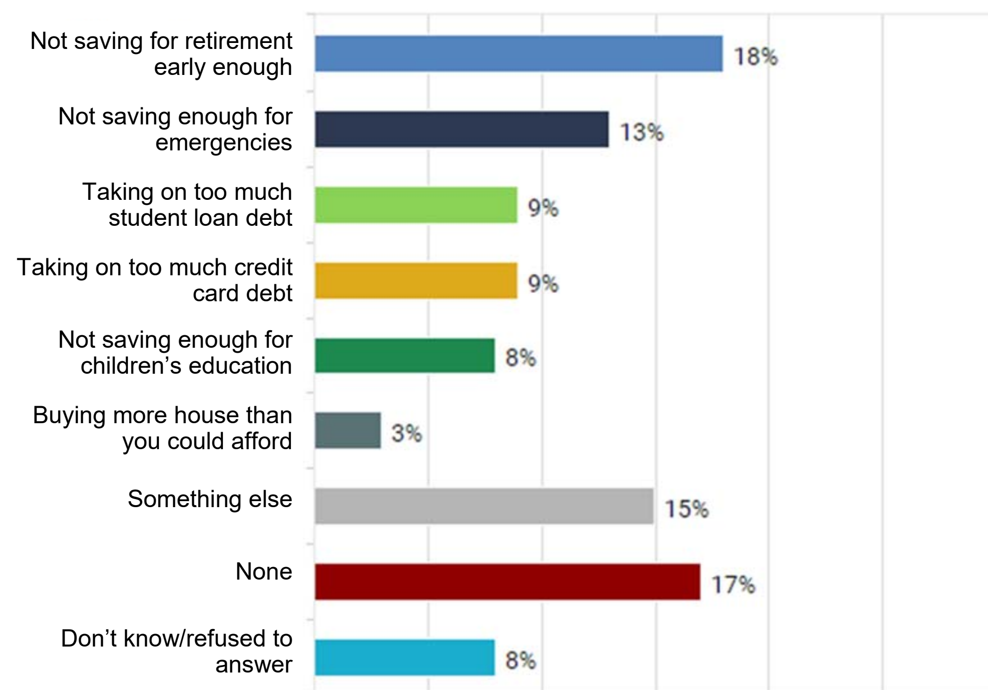
Registered Investment Advisor (RIA): A firm that acts in a fiduciary capacity on behalf of clients by providing a higher standard of disclosure and due care with minimal conflicts of interests. RIAs are typically compensated on an hourly or fee basis (usually as a percentage of assets under management)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

Financial Regrets: Let's Learn From Them

A recent survey by Bankrate.com asked a cross section of Americans to name their number one financial regret.

At the top of the list with 18% was "not saving for retirement early enough." Saving is a great challenge for most Americans. Delaying gratification by not spending takes discipline.

What would you say is your biggest financial regret?



Source: Bankrate Financial Security Index Survey, May 17, 2016
Results may not total 100% due to rounding.

Most people are not aware of how much they need to save for a comfortable retirement. Multiple studies have determined that a "maximum safe withdrawal rate" of a well diversified portfolio, with a 50/50 stock to bond ratio, that is periodically rebalanced and will last roughly 30 years, is about 4% annually. If you need $40,000 per year from a portfolio, that will require retirement accounts totaling $1 million. If you need $80,000, REGRETS: CONTINUED ON PAGE 6

Murray Financial, Inc: Firm Update

Practice Established: 2002
Clients: 85 individuals/families, 243 accounts
Assets Under Management: approximately $55 million

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, in the long-term.
2. **Patience –** in our approach and management of long term investments. We are following proven 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 to prevent a single category's decline from, in a significant way, adversely affecting the performance of the portfolio.
3. **Rebalancing –** takes advantage of market volatility by selling categories that have outperformed others (selling high) and using those proceeds to purchase categories that have underperformed (buying low).

These principles and practices are the foundation of Murray Financial's investment advice. 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 exited early enough to prevent a significant decline in their client's account values, but many sold out near Dow 6,500 while the market is now near 18,500. ***Now what?*** *The problem with trying to time the market is that you have to be right twice, once when you sell and then again with the decision of 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 stocks) 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 checking, CDs and/or money market accounts). By doing this, however, you are relinquishing the tough fight against the very real reduction in purchasing power (i.e. inflation), which will necessitate the need to save a lot more.* ***If you do this, you must be consistent with your decision, regardless of how the market performs in the future.*** *Jumping back in when it "feels safe" (which is really not investing, but rather speculating), 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.*

If your emotions cannot allow you to act rationally with your money, seek professional investment advice.

"Financial planning is the process of meeting your life goals through the proper management of your finances."

~ CFP® Board of Standards

Murray Financial: Compensation Breakdown

WHAT WE DO/HOW WE EARN OUR FEE

Quantifying goals, crafting a long-term plan, funding the plan with a long-term portfolio. 20%

Coaching clients to continue working the plan through all the cycles of the economy, and all the fads and fears of the market 80%

Analyzing/interpreting the economy and current events. 0%

Timing the market, calling tops and bottoms 0%

Identifying consistently top-performing investments 0%

Total 100%

Please advise any questions at any time. Thank you for your trust and confidence.
(signed)

Are You Earning These Investment Returns?

Each quarter, a chart like the one below is sent to my investment advisory clients. While the shorter time frames are interesting to observe, my focus, and hopefully my client's, are the 10 and 15-year columns. Stock and bond investors should be in it for the long-term. If you can't handle the ups and downs of the stock market, stick with cash and/or CDs, but expect returns similar to the shorter duration bond funds near the bottom of the list.

Morningstar Fund Categories as of June 30, 2016:

Morningstar Category	Q2 2016	1-Year	3-Year	5-Year	10-Year	15-Year
Large Growth Stock	0.54	-2.33	10.58	9.98	7.20	4.94
Large Value Stock	2.68	-0.09	7.97	9.37	5.52	5.55
Mid-Cap Growth Stock	1.98	-6.43	8.21	7.93	6.79	6.14
Mid-Cap Value Stock	2.37	-2.16	7.85	8.77	6.52	7.82
Small Growth Stock	3.79	-9.86	6.46	7.26	6.55	6.29
Small Value Stock	2.27	-4.30	5.92	7.67	5.69	8.15
Diversified Emerg Markets Stock	2.28	-9.89	-1.30	-3.19	3.21	8.58
Foreign Large Blend Stock	-1.08	-9.94	1.68	1.10	1.51	4.14
Foreign Small/Mid Blend Stock	-2.35	-7.02	4.38	3.74	3.75	8.10
Corporate Bond	3.62	6.35	4.93	5.08	5.99	5.70
Emerging Markets Bond	4.54	4.83	2.53	3.31	6.71	9.07
High Yield Bond	4.23	-0.46	2.92	4.58	5.97	6.57
Inflation-Protected Bond	1.56	2.63	1.20	1.54	3.71	4.38
Intermediate Government	1.27	3.66	2.78	2.50	4.24	4.15
Intermediate-Term Bond	2.35	4.63	3.59	3.64	4.79	4.77
Long Government Bond	5.68	16.43	8.43	8.91	7.02	7.94
Long-Term Bond	5.86	13.94	8.13	7.76	7.80	6.43
Short Government Bond	0.47	1.11	0.94	0.81	2.58	2.77
Short-Term Bond	1.03	1.49	1.42	1.54	2.97	3.19
Ultrashort Bond	0.49	0.54	0.56	0.73	1.62	1.96
World Bond	2.25	4.77	2.08	1.91	4.46	5.55
Muni National Interm Bond	2.17	6.41	4.58	4.48	4.21	4.25
Muni National Long Bond	2.93	7.93	5.78	5.69	4.58	4.59
Commodities Broad Basket	11.71	-12.01	-10.72	-10.95	-7.15	-3.37
Real Estate Stock	5.51	19.50	12.11	11.17	6.42	10.50

Returns for 3, 5, 10, & 15 years are annualized. *(over)*

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

~ Nick Murray

"Quick riches are more dangerous than poverty."

~ Napoleon Hill

Note Regarding Nick Murray: *Several clients and/or friends have asked over the years about my relationship with Nick Murray. While we share the same surname, there is no relation, at least none of which I'm aware. Perhaps there is a connection back in Ireland! Nonetheless, I do consider him to be one of my professional "gurus". He has great wisdom with regards to financial planning and investment advice. Plus, I love his pithy, no-nonsense writing style.*

Brexit and the Apocalypse du jour

By Nick Murray

Copyright does not allow me to re-print Nick's articles online, but I am happy to send you a copy of the full Murray Financial newsletter and this article. Simply email me at TimMurray@MurrayFinancial.com and request a newsletter by mail, make sure to include your mailing address.

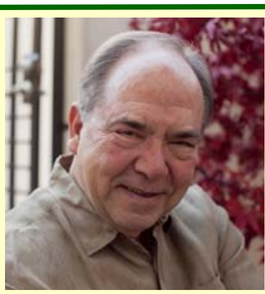
"Permanent loss in a well-diversified equity portfolio is always a human achievement, of which the market itself is incapable."

~ Nick Murray, Behavioral Strategies Conference, Oct 2015

"I have a ready answer when people ask me why I'm such a long-term investor. It's because I failed miserably as a short-term investor. I'm not against making money in the short term. I just don't know how to do it."

~ Thomas Gayner

of Markel Gayner Asset Management



Dick Wagner on Why Financial Planning Is the Most Important Profession of the Century

Below are excerpts from the May 2016 *Journal of Financial Planning* interview with Dick Wagner a pioneer of the Financial Planning profession who began his practice in 1982.

Our relationship with money is at the base of every positive human activity. It has to do with social justice. It has to do with providing support for all the technological and scientific advances that can and should be made. It has to do with being able to feed, house, and clothe a world that contains 7 billion human beings, and probably moving to 9 billion before the end of the century. Money is the best self-organizing force ever for enabling human beings to get along with each other in a peaceful and productive manner.

In my opinion, we don't talk enough about money's virtues and functions. We talk about income inequality, which is a fair enough subject, but I don't know what it's supposed to prove. If people have enough to eat and drink and stay warm and be sheltered, it strikes me that "inequality" is a rather specious issue. It's perhaps more important to look at income sufficiency. Income sufficiency is something that financial planners can comment on readily.

We need to recognize that we're dealing with something that affects every human being on the planet, and in very real ways. Everyone has to deal with the issue of money.

Financial Regrets: Let's Learn From Them

REGRETS: FROM PAGE 1

accounts must total $2 million.

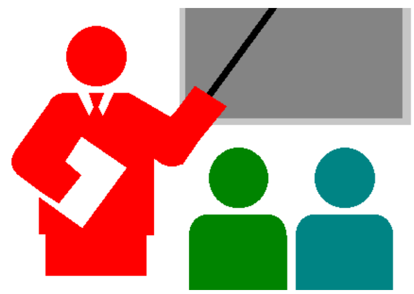
Another common regret was "not saving enough for emergencies." Proper financial planning makes funding for unexpected financial burdens (job loss, high repair bills, appliance replacement, etc…) a high priority. Nearly everyone has emergencies at some point that require a financial commitment. By having money set aside, retirement assets do not have to be liquidated, perhaps at a inopportune time.

Two additional regrets were debt related issues: student loans & credit cards. Excessive debt is very destructive to wealth building, and for many, it is an emotional and sometimes debilitating burden. Try to remain debt free except for a low-interest rate mortgage. Pay off credit cards in full every month and buy a house just large enough for your needs.

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

~ Daniel Kahnman, investment behavior expert

What is an Index or Benchmark?



Murray Financial's investment advisory client's portfolios are predominantly invested in index funds which are funds whose investments are modeled after a benchmark.

Just as a car salesperson uses the "blue book" to gauge the approximate price for a newly acquired vehicle, you can use market benchmarks to gauge the approximate performance of your mutual fund investments. Each market index tracks a representative sampling of stocks, bonds, or other securities that may be similar to the holdings in your investment portfolio.

The important consideration to keep in mind is that, when using benchmarks to compare to your investments, you should always compare apples to apples. In order to accurately do this, it helps to be familiar with a variety of benchmarks and the sectors and asset classes they track.

What Are Benchmarks and How Are They Used?
The dictionary defines a benchmark as "a point of reference for measurement." In investing, benchmarks are measurements used by investors, portfolio managers, and market watchers to track how a particular asset class or sector performs and to compare relevant investments to that measurement.

A Variety of Measures
Some of the more popular and widely used indexes include:

- **IBC's Money Fund Report Averages®:** These benchmarks track the averages of taxable and tax-free money market fund yields on a 7- and 30-day basis.[1]
- **Barclays Aggregate Bond Index:** A combination of several bond indexes, Barclays indexes are among the most widely used benchmarks of bond market total returns.
- **10-Year U.S. Treasury Bond:** The yield on this long-term U.S. government bond is often looked to as the standard bond yield for long-term bond investments.
- **Standard & Poor's Composite Index of 500 Stocks (S&P 500):** A broad-based, unmanaged index of the average performance of 500 widely held industrial, transportation, financial, and utility stocks. Many people believe that this, one of the most often-cited indexes, includes the 500 largest stocks on the New York Stock Exchange. Not true: In fact, it includes the stocks of companies that are or have been leaders in their respective industries and that are listed in the New York Stock Exchange and the NASDAQ Market System. The industry weightings in the S&P 500 are selected to reflect components of the Gross Domestic Product (GDP).
- **Dow Jones Industrial Average:** Following the returns of 30 well-established

BENCHMARK CONTINUED ON PAGE 9

Murray Financial Fees and Compensation

As a Registered Investment Advisor (RIA), Murray Financial's investment advisory and financial planning income is derived solely from client fees. Unlike brokerage firms, there are no incentives, bonuses, or other product-based remunerations from outside sources. This keeps our focus on the client and their goals—not what is being sold.

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

Ongoing Investment Advice: Advisory fees are based on a sliding scale depending on the family's total portfolio value. Fees are 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%

The 6 Basics of Financial Success

1. Fund Your Future First: Specific numbers can be calculated, 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. Not addressing this will likely result in a much lower standard-of-living during retirement.

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. Pay off your credit cards in full each month, save for a "slightly used" car purchase and pay cash, and encourage your kids to go to an in-state college or secure scholarships for out-of-state tuition.

3. Wants vs. Needs: Understand the difference and control your wants so you can be successful at #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 outperform 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 investment advice.

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.

Success in investing doesn't correlate with IQ once you're above the level of 25. If you have ordinary intelligence, what you need is the temperament to control the urges that get other people into trouble in investing."
~ Warren Buffet

Be courageous. I have seen many depressions in business. Always, America has emerged from these stronger and more prosperous. Be brave as your fathers before you. Have faith! Go forward!"
~ Thomas A. Edison

"Among the four most dangerous words in investing are: it's different this time."

~ Sir John Marks Templeton (1912-2008)

Retirement Demystified: Three Ideas

By Nick Murray

Copyright does not allow me to re-print Nick's articles online, but I am happy to send you a copy of the full Murray Financial newsletter and this article. Simply email me at TimMurray@MurrayFinancial.com and request a newsletter by mail, make sure to include your mailing address.

What is an Index or Benchmark?

BENCHMARK FROM PAGE 6

American companies, the Dow is among the most renowned of the stock market indexes. However, the S&P 500 can be considered a broader indicator of the stock market.

- **The Nasdaq Composite Index:** This index was created in 1971 and measures all domestic and non-U.S.-based common stocks listed on the NASDAQ market. It contains many new-economy companies and is widely acknowledged as a benchmark for technology stocks.
- **Morgan Stanley Capital International's Europe, Australasia, Far East (EAFE) Index:** The most prominent of the indexes that track international stock markets, the EAFE is composed of companies considered representative of 20 European and Pacific Basin countries.

In addition to those above, there are many others including the Value Line Composite Index (stocks); the Russell 2000 Index (small-cap stocks); the Citi 3-Month T-bill (money markets); the Dow Jones World Stock Market Index (major international markets, including U.S.); and the Barclays Global Aggregate Bond Index (global bond index).

With fund investing, market indexes can be used as a benchmark to evaluate how a given fund has performed in relation to the overall market. Be careful to look at the fund's performance relative to the benchmark over time.

For reasons I have never understood, people like to hear that the world is going to hell. Yet pessimism has consistently been a poor guide to the modern economic world. ~ Deirdre McCloskey, economic historian

"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

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ADDRESS SERVICE REQUESTED

Fall 2016 Newsletter

Reminder: Do you know someone that might want to receive this newsletter? Please provide their mailing address and one will be sent ASAP.

"Investment is most intelligent when it is most businesslike."
~ Benjamin Graham, The Intelligent Investor

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 after-tax income.
- ❑ I regularly carry high interest (>6%) consumer debt (i.e. 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 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 (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.