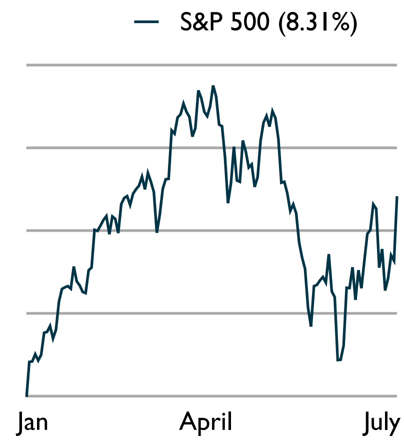
July 2012
SIMMONS Street NEWSLETTER

Reconditioning Your Retirement

Opening Remarks



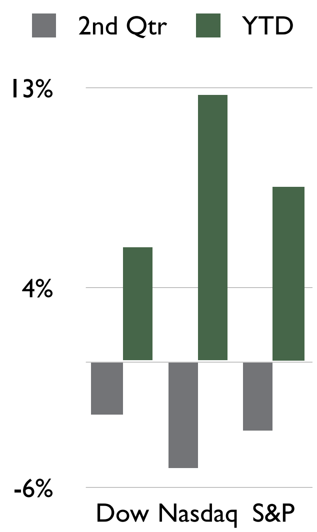
Old thoughts, like old habits, are sometimes slow to disappear. Likewise, as we evolve, conventional wisdom may not be as wise as we have come to understand. There are many financial service professionals who have obtained higher business degrees, doctorates and credentials that actively engage in the markets. Yet, this academia does not always guarantee success. The traditional rules have changed as people are living longer, and we simply cannot afford to depend on orthodox methods to preserve our hard-earned dollars through time.

We've learned that triumphs are not always correlated with intellectual ability, but rather in commitment and discipline. A farmer who resides in a rural area with very little access to news information stands just as good a chance or even better than the sophisticated insider on Wall Street.

As we open this newsletter, it seems appropriate to restate our purpose since this issue focuses exclusively on the various conditioned ideas and accepted methods we've been taught and how our misperceptions adversely affect our long-term results. It is our hope that we can open your eyes to how the public has been erroneously force-fed certain concepts. We hope to transform your interpretations and ultimately offer you a better vision of the future.

Our purpose is to provide you with an alternative to the way you view investing. We advocate a less stressful and ultimately a more successful strategy. Simply put, we want to make looking at the markets easier.

We will first briefly dive into the current market environment and then move on to the material that matters most. Thank you for taking the time to read and as always we welcome your feedback.



Market Insight

The S&P 500 index rose nearly 30% from last October until the first of April 2012. Since then, the S&P 500 has decreased around 3%, with various gyrations throughout the quarter. As one investor stated during the second quarter, "*We are riding the bucking bronco*!" All told, the S&P 500 closed the quarter with a positive return of over 8% year-to-date; not bad considering all the negative noise.

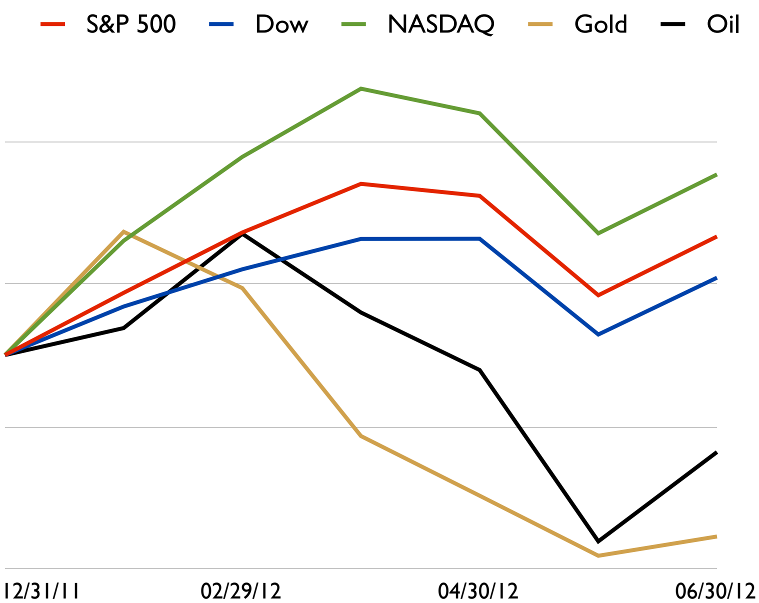
During the last five years, investors panicked themselves out of over $500 billion dollars from forsaken equity funds, while placing well over a trillion dollars in bond funds—more than doubling the assets in that disaster-prone class. At present date, the markets are almost exactly where they were at the beginning of 2007, which is to say the only people who lost anything in the last five or so challenging years were the people who liquidated.

First quarter corporate earnings were encouraging. This is ironic, since financial journalists were arrogantly discussing a slowdown in earnings growth. But why should we be bothered with nonsense, such as earnings, when it is much more enjoyable to obsess about the difficulties in Spain or Greece or other world-ending disasters? Last year, it was the fear of the U.S. dollar, amongst other things, and next year it will be something different.

After a decade of theatrical market volatility, it is apparent that we are being cleansed. The market is destined to trim off the fat and only the faithfully committed will be around to reap the benefits. These challenging times are when investors make their money. The work and dedication put in today will be rewarded by a payoff later. This situation will not last forever, and we will not lose sleep over it. We're confident that if we are faithfully patient and disciplined, success will be ours.

The Rules of Retirement Have Changed

What would you do if you didn't have enough money when it's time to retire? The answer, quite simply, is you keep working. What else can you do? Statistics show that the average retiree at age 62 needs to plan on retirement income that will last three decades, or roughly 30 years. Considering the rising cost of goods and services is roughly 3%, it will take nearly $250,000 in 30 years to buy what it takes $100,000 for today. I assure you this increase is a very real, intangible erosion of your purchasing power. What will be enough to live off of today will not be enough in the future. Any expenses and liabilities that are accounted for today will be replaced by others, namely health care, and your



HUMOR OF THE DAY

"A wise man once said, 'Yesterday is just a memory, tomorrow is only a vision and today is all that matters.' A wise man, but a lousy investor!"

expenses will indeed consistently rise. The theory that everything will be paid off and your expenses will be minimal does not hold much ground in practical application. You must plan for it.

We hope you have prepared for a retirement that allocates for a need of rising income. Your strategy must have the capability to progressively distribute additional dollars of income over time to cover inevitable increasing prices. The good news is that with a 30 year time horizon, you can afford to design an allocation for the long-term, therefore reducing risk exposure. It is necessary to keep your dollars growing because if you take your foot off the gas, you could be in big trouble. No other asset class can account for the need of rising income like equities. Bonds and cash surely cannot, although we have always been taught this "perceived" conservative approach was the answer.

The truth is that the rules of retirement have changed. Because people are living much longer, yet still retiring at the same young age, the planning has to be different. Most people aren't aware of this. They continue to practice the same traditional investment ideas that simply are not sustainable as we live longer. If people aren't prepared, they will not be able to afford the lifestyle they previously enjoyed.

Retirement – Your Second Career or Possibly Your Dream Job?

In 2010, a report titled "Mental Retirement" concluded that retirement appears to have a significant negative impact on cognitive ability. The report suggested that brain dysfunction increases when people exit the workplace. It stated, "Workers engage in more mental exercise than retirees because work environments provide more cognitively challenging and stimulating environments than do nonworking environments."

Why is the average American retirement age 62? Is it because that's the age when we've just worked long enough, or when we are tired of working? Perhaps we despise our jobs so much and that's the earliest age we can "get out" and begin collecting Social Security benefits. It is unlikely one would admit it, but it is possible this is the age we've all been conditioned to think that we can retire.

Many Americans in their 60s are eager to stop working, despite reports demonstrating that older workers are more productive than their younger counterparts. Older workers make fewer mistakes, have fewer absences and, to top things off, they've got wisdom. Yet, 62 remains the age most desired for retirement.

We are, however, beginning to see more and more people continue to work as they attempt to avoid drawing down saved dollars that may not be large enough to survive a 30-year retirement. We are also seeing many people in their 60s who feel they still have much more to offer.

Some suggest using retirement as an opportunity to work in their dream jobs, replacing the idea that they are forced to work longer. As children, we are constantly asked what we want to be when we get older and, despite this, many people accept a career that they end up resenting.

Upon retirement, we may doubt our financial stability, even though we may have done a decent job of setting aside some assets. A potential tactic to this dilemma could be to supplement our income to avoid drawing down retirement funds. At the same time, this provides people with an opportunity to achieve the goals they've always dreamed of. Because a high income may not be as necessary as it once was, this can open the prospect of a path that was once pushed aside for various reasons, such as income or flexibility.

The best way to preserve your retirement dollars is to simply not withdraw them. Postponing your withdrawals, for even five years, has a monstrous effect on values. Not only do you avoid attrition, but dollars are also allowed an opportunity to grow. At an average rate of return of 10%, a $500,000 retirement portfolio will grow to over $800,000 in five years if left alone. This provides the retiree a much better lifestyle than if they were to start taking an income five years earlier.

We are seeing more and more people retire from their first careers and move on to secondary passions which are more fulfilling. Everyone has their own interest, hobbies and dreams, and can afford to obtain jobs, even part-time, that they enjoy doing.

We have been conditioned to believe that age 62 is the ideal retirement age, but as a society statistics show that we have not prepared ourselves for what it takes to survive a 30-year retirement. We have relied on the old rules in an ever-changing and improving period. Who can blame us if we've never had anyone to adequately prepare us?

Today, we are also witnessing people take better care of themselves, eat healthier, exercise more and, with the help of medical advances, live much longer. The golden years are becoming longer and more gratifying. We must take the same care to adequately protect our retirement dollars that need to survive as long as we do. Conventional wisdom, practices and conditioned methods may no longer be the answer. The retirement era is evolving, and our investment and lifestyle strategies must evolve accordingly. If you are one who fears not having enough to retire on, this could be an extremely rewarding option and one that provides a solution to your doubt.

We Suggest you "Defriend" your Trading Strategy

We have developed a culture of believing that selecting the right investment is the road to prosperity. This belief couldn't be further from the truth. Whether choosing the very best investment, based on the Morningstar Rank, financial publication or analyst picks, we are all searching for the Holy Grail, that one investment that will make a difference. Picks made by a brokerage firm or other professional institutions will most probably behave like all the others, and if they perform either better or worse than the competition, it will only be marginally. We want the home run or even better the grand slam. Because of this, we paradoxically seek the strategy that generally gives us the least chance for success and exposes us to the worst failures of all.

Perhaps it's time we quit thinking this way. The major determinate to long-term success has more to do with investment allocation and good decision making rather than investment selection. Said another way, you will reach your goals by building a sound diversified portfolio, not by panicking at market bottoms or being overly euphoric at market tops. You must accept the stable tortoise and hare philosophy and continue faithfully committed to your process. This is the one strategy that places the odds best in your favor, but also requires the most self-control.

In a broader perspective, it's apparent that we have been conditioned to believe that choosing the best investment is the road to success, but history and fact prove otherwise. Asset allocation is much more important than investment selection and market timing. Virtually no one will retire early or run out of money based on which small cap money manager they choose. However, many people could easily run out of money because they allocated unwisely such as having too many fixed-income investments in a 30-year rising cost retirement.

We're living in a 24/7 trading culture derived by mainstream financial media and, even worse, the very brokerage firms where our money is housed. We have been conditioned to trade and trade heavily. Amazingly, I can easily name three high-profile brokerage firms that have the words "TRADE" included as a part of their name. Even worse, they all seem to solicit business by offering consumers the cheapest trading rates, as if intense trading was really the driving factor for investment success. This culture has supplanted the idea of long-term investing, and we are constantly being pressured to do something. This pressure causes us to lose sight of long-term financial goals and creates more mistakes that hinder our success.

The trading culture has become so bad that Brad Barber and Terrance Odean wrote the paper "Trading is Hazardous to your Wealth." They concluded that returns suffered the more investors altered their portfolios. Even worse, investments that were sold tended to do better than the things people bought to replace them. An investor can own the best stock in the world and still lose money on it by the manner in which it is traded.

The average return of the stock market throughout time is roughly 10%, while the average return of investors in the market remains at a disgracefully low 3%. Suffice it to say, to beat most investors all you have to do is invest in a properly diversified equity portfolio and then, do nothing. By doing so, you have outperformed the average investor by over 300%. We are constantly drawing long-term conclusions from short-term data, and our results have suffered.

As we wrap up, let's examine Facebook's dreadful IPO for a second. What rules were people following when they bought Facebook stock on its opening day at 38 or higher? Most were following no rules at all and were drawn to the stock simply because it was popular or they feared missing out on the occasion. Well, now they know, or should know, that it's dangerous to chase after what's hot. Others, who refuse to admit that they were just plain wrong, are working hard to blame someone else, whether it be Facebook management, Morgan Stanley or NASDAQ. More importantly not one person's retirement, other than the creators, will be dependent on the outcome of their investment in Facebook.

The market is simply the collective action of thousands of humans, most of whom are susceptible to the same human failings that have fueled irrational market movements for centuries. In other words, perception, fear and greed were more important factors in Facebook's first day of trading than any sound practices.

"SOMEONE'S SITTING IN THE SHADE TODAY BECAUSE SOMEONE PLANTED A TREE A LONG TIME AGO."

-WARREN BUFFETT

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"A WHOLE GENERATION OF AMERICANS WILL RETIRE IN POVERTY INSTEAD OF PROSPERITY, BECAUSE THEY SIMPLY ARE NOT PREPARING FOR RETIREMENT NOW."

-SCOTT COOK

Realistically, there will always be investors making the same mistakes. I'm motivated by the opportunity to help you avoid these mistakes by changing the way you think in order to put the odds in your favor.

In Summary

You will never make a good investor out of someone who is fundamentally afraid of the future. Successful investing is essentially a belief that takes place in the investor's mind. This is the battle between faith in the future vs. fear of the future. Maddeningly, many of the problems that plague poor investors are intensified by their efforts to prevent them. Belief will always dictate investor behavior.

Whether it is our desired retirement age and lifestyle, investment selection, market timing or asset allocation, we have all been conditioned to think certain ways. These principles may not be as wise as we believed in the past and as demographic trends change, we must adjust accordingly.

Where we obtain our information is another story altogether. We may receive it from the product salesman, the media or the many brokerage firms who rely on trading volume rather than increasing investor values for revenue. The list goes on, and we have to take everything with a grain of salt. We've been conditioned to fear the markets rather than understand them, and coincidently, we lose sight of the distinction between risk and volatility. It is essential that we dislike rising costs, more than ups and downs of the market; however, everywhere we turn we are convinced otherwise.

There are roughly 10,000 people retiring each and every day. For a husband and wife, both age 62 today, the average age at which the second one will die is 92. People don't understand that they need to have a lifestyle-sustaining rising retirement income that must last at least 30 years. Younger generations need to realize that this gap will only increase as life expectancies increase. Unless people face this fact, there is no hope for them. Maintaining purchasing power over 30 years is the only realistic solution to their problems. Everything you will need to buy will cost more.

Most retirees shift to fixed-income investments at the very time they need rising income to maintain purchasing power. Equities is the only asset class that has always increased income more than the cost of living over every 30-year period in American history. This information must change the way advisors work with their clients.

There are 70-odd million baby boomers that will be entering retirement over the next 20 years and are facing three-decade retirements. We find many people's long-term financial needs are diametrically opposed to their short-term emotional needs, desperately wanting total protection from volatility even at the risk of negative real returns. When emotions win, the investor will lose.

Amateur advisors are steadily leaving the business, deserting their clients just when they are in the most desperate need of sound guidance. Countless others are just holding on by selling clients whatever pipe dream they are disastrously clutching on to today. Ten thousand Americans are retiring per day, and most of them get terrible advice or no advice at all. We are challenging conventional wisdom in this industry, and it's necessary in order to help our clients. Is the income going to outlive the people, or are people going to outlive their income?

Helping you become a better investor,

Mark Simmons
President

Disclosures