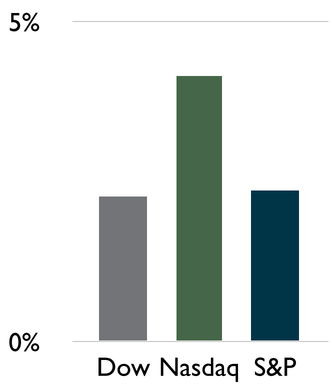
July 2013

SIMMONS Street NEWSLETTER

IN THIS ISSUE

2nd QTR 2013



Business As Usual

Opening Remarks

Instinctually, our society tends to gravitate toward shocking and dramatic events that aren't necessarily rooted in facts. It's human nature to create definitive and unwavering views built largely on emotion rather than knowledge, education and true understanding. It doesn't matter if we are discussing politics or the investing market place. We allow ourselves to be controlled by sensationalism and extraordinary events, despite facts that say they are exaggerated and often just untrue. Then, we quickly forget about them, only to repeat the same behavior the next time something sensational happens.

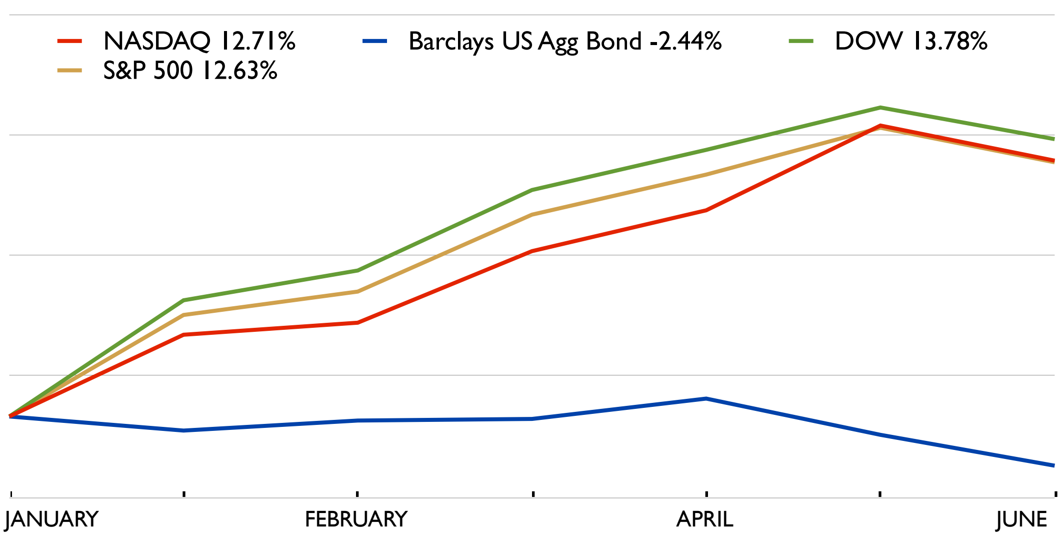
For example, last year it was the fiscal cliff that had people sweating and acting ill-advised. Today, no one even talks about it. Of course, our media has a lot to do with that, but in the end we are responsible for our own actions and beliefs.

The fiscal cliff is just one of the many headline examples, but illustrates the need for education and knowledge on subjects we clearly know little about. If we alter our predetermined plan because of a temporary emotional sideshow, we may end up making decisions we will regret when the show is over.

To make matters worse, journalists are incapable of learning that they should get all the facts before launching moral crusades. Every day, I see in the national and local news and even on social media sites how we are gripped and manipulated by emotions rather than knowledgeable evidence. It is almost as if the reality is too difficult to accept and the more flamboyant the details, the more attractive, convincing and believable. Sometimes it seems our present population is the least informed, despite the endless resources available to us.

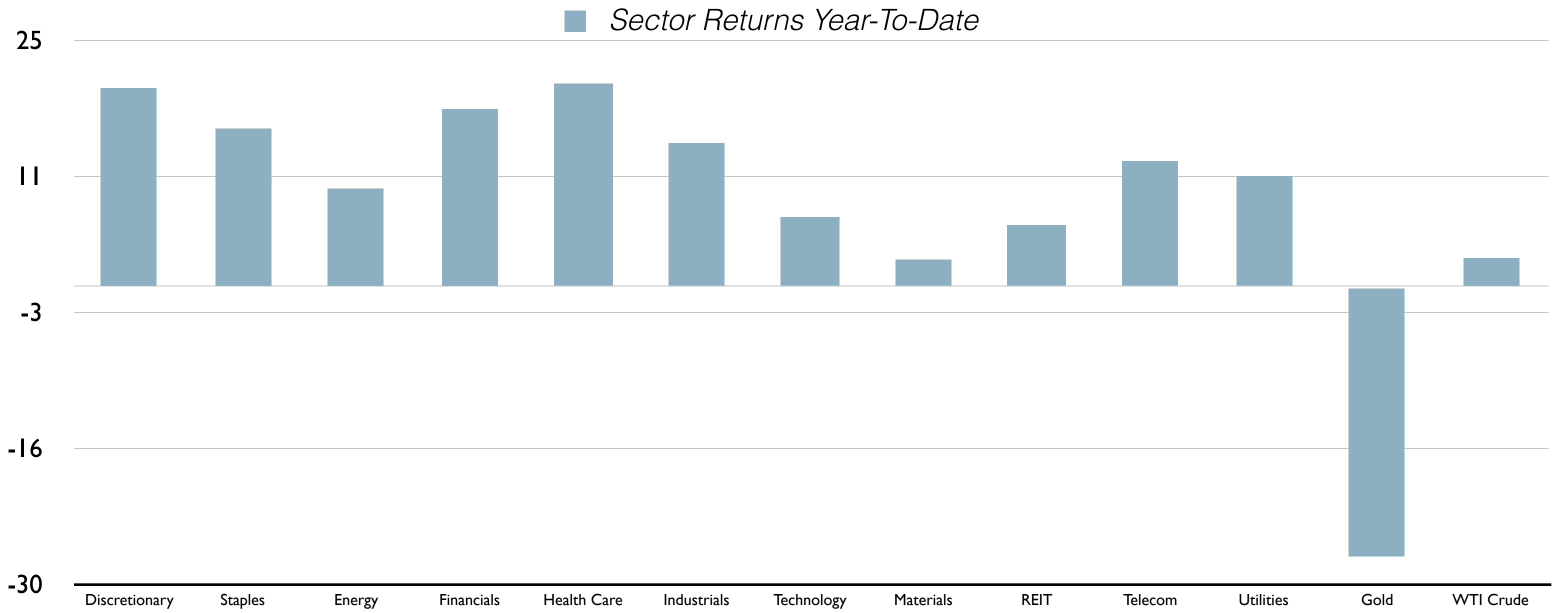
In terms of investing, an honest creation of wealth isn't all that sensational. It's a long, tedious, mundane process that only successful investors go through. They adopt a strategy and stick with it using faith, patience and discipline over the duration. They aren't excited by get-rich-quick schemes, and they know there is no such thing as high return, low risk. If you can accept that your investing mindset should be woefully boring, rather than filled with the drama of a reality television show, you have a very good chance of long-term success.

Notable Year-to-Date Performance



Market Insight

Stated categorically, the current level of the equity market is more than fully justified, and at nearly 1,700 on the S&P 500, the market has indeed simply (and finally) caught up with itself. The issue is not how fully valued the market is now but how undervalued it had been up until now. The conclusion is that all intelligent discussions of equity values must be on earnings, which are at healthy levels. About the worst thing one could reasonably say about the present equity market is that it seems more or less fairly valued.



For the first half of 2013, the Dow rose 13.8%, NASDAQ 12.7% and the S&P 500 12.6%. Now, with U.S. Treasury bond yields shooting up so rapidly, it appears we're finally seeing the start of a rotation from bond funds into equity funds. Due to the sudden surge in yields in the past two months, bond investors have had a truly horrific few weeks watching their principal erode. While bond yields have settled a bit, the damage has been done. Fixed-income investors seem to be realizing that bonds are not an oasis of safety when their principal erodes so rapidly.

The rise in rates sparked a stampede for the exits in June as investors withdrew $60.2 billion from taxable and municipal bond funds, making it the worst month ever for bonds in terms of total outflows. PIMPCO Total Return suffered its worst month ever, while Vanguard saw its first outflow in nearly 20 years.

The bull market in bonds, all things considered, was a heck of a run, but that bull market is over. And it's been over for nearly a year. All major market trends run much further as well as much longer (in both directions) than virtually anyone can ever anticipate. The quite simple truth remains: interest rates cannot stay forever at panic-induced levels unless equity markets do too and we know that is very unlikely.

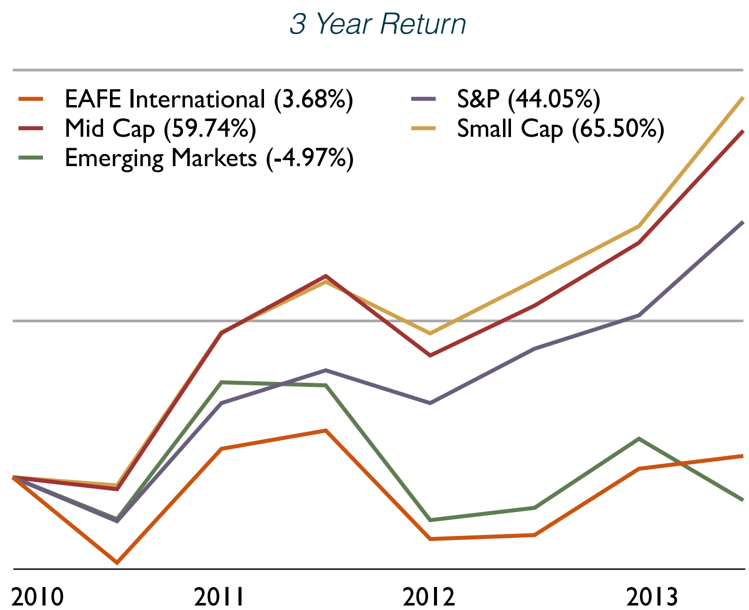
Is Your Strategy Built on Selection and Timing?

There has never been an investor who didn't reach their goals because of fees and costs associated with investing. Fees from a fund, an adviser's fees or trading cost are never a deterrent from someone actually reaching their goals. As a whole, investors tend to focus on the things that matter least. On the other hand, poor planning, or a lack of planning altogether, are usually the predominate reasons an investor fails to succeed. Improper asset allocation and performance chasing are two more that come to mind. There are many others, but the one I want to discuss is selection and timing.

The practice of selection and timing is the attempt to "pick" the best investment and "time" the decision to buy or sell. It is by all accounts trying to find the next big stock or relative investment that will outperform based on certain timing thresholds. This is unfortunately the method practiced by many investors. As a professional in the industry, I believe that an investor whose sole objective is picking the best stocks or chasing performance is nothing short of an amateur, not to mention dangerous to both his clients and himself.

As a professional, you have not "arrived" until you understand and accept that the value brought is not in the selection and timing. The best investors, in my mind, are the ones whose approaches are based on goal-setting, planning and even behavior modification. Even if the selection and timing approach has a successful short-term period, studies consistently prove long-term results come up way short.

You'll sometimes hear investors rewording their approach by stating "I'm not trying to outperform, I'm just trying to get better risk-adjusted performance by investing in things with competitive returns but lower volatility." As if that wasn't just another euphemism for attempted outperformance. The pure fact is that return and volatility are the same thing. Many people are convinced that volatility




"I left out the stock market section for your own good."

and risk are the same, but that's not so. Return and volatility are one in the same, and there is no consistent way to decouple the two.

When the investor finally accepts that the selection and timing approach is nothing more than fool's game, the future suddenly begins to look brighter. The selection and timing adviser helps people make mistakes (speculation, chasing fads, panicking). On the other hand, the adviser who delivers what clients desperately need (goal-focused planning, long-term historical perspective and behavior modification) helps people avoid mistakes. It's not only a better value proposition; it's a better life. It's also a less stressful life. As an investor, which style have you adopted and which one will realistically help you reach your objectives and needs?

Vanguard Confesses That Advisers Are Needed

In a recent research report, Vanguard acknowledged that wealth managers and investment advisers can add significant value to clients. Vanguard suggested that investors would most likely do better if they worked with a professional adviser. They go on to explain that left alone, investors often make choices that impair their returns and jeopardize their ability to fund their long-term objectives. This type of behavior leads to wealth destruction rather than creation. Vanguard further stated that "the greatest obstacle to clients' long-term investment success is likely themselves."

Proving this point, a study by Dalbar showed that the 20-year average returns for the S&P 500 Index and Barclays Aggregate Bond Index were 8.21% and 6.34% respectively. You would expect the average investor return to be in the same general vicinity as the benchmarks. Not so. Instead, the average equity investor earned just 4.25% per year, and the average fixed income investor earned just 0.98% per year over the same 20-year period. Dalbar attributes much of the difference to poor investor behavior.

Vanguard suggests that an adviser may be able to help narrow the gap if they can help clients overcome their negative behaviors: "Advisors, as behavioral coaches, can act as emotional circuit breakers in bull or bear markets by circumventing their clients' tendencies to chase returns or run for cover in emotionally charged markets."

According to Vanguard, asset allocation is another critical element where advisers can bring substantial value. Some studies conclude that as much as 90% of portfolio return can be attributed to asset allocation. While many advisers realize the importance of finding a suitable asset allocation strategy for their clients (thereby adding value in the process), Vanguard points out that many investors "neglect it on their own, overlooking its contribution to their long-term success."

Having a suitable asset allocation not only bolsters the return, but it can have an important psychological effect as well. Vanguard suggests that knowing the allocation "was arrived at after careful consideration, rather than as a happenstance of buying funds with attractive returns … can serve as an important emotional anchor during those all-too-frequent uprisings of panic or greed in the markets."

It is intellectually dishonest to put managing your finances in the same category as pumping your own gas or bagging your own groceries. For many investors, a trusted, competent adviser can help capture a much greater percentage of the market's return than they

"IT AIN'T WHAT YOU DON'T KNOW THAT GETS YOU INTO TROUBLE. IT'S WHAT YOU KNOW FOR SURE THAT JUST AIN'T SO."

-MARK TWAIN

would be able to get on their own. If that is the case, hiring an adviser can be money well spent.

Our Family of Clients

When I began working in this business, fresh out of school, I remember discussing my long-term career plans with a friend. I stated that the goal in my advisory practice was not to have a large quantity of clients but rather a meaningful core group that made my work special and gratifying. I call this group my "family of clients." I would much rather work with people I have a connection with than 500-plus whom I have very little association. That has always been my long-term personal and business goal and always will be.

I remember my friend quickly dismissing my plans, saying it was not possible to do such a thing. Now, after nearly 15 years in the industry, my objective has become a reality. Even though we are still growing our firm and taking on clients, we have been able to attract and retain quality patrons we enjoy working with very much. These are individuals that we have a strong connection with and who make going to work every day satisfying. We are so very thankful for these wonderful relationships.

If you are not a client and need help or know someone else who does, please let us know. Additionally, if you are a client, please refer us to your friends, family, coworkers, etc. Simmons Asset Management is a growing practice and would much rather reasonably grow through referrals, rather than direct marketing, so we can focus on what truly matters most to us: our family of clients.

Closing Remarks

We named this issue "Business as Usual" because, despite the endless attention the markets receive, the indexes are at a place they deserve to be. It is business as usual. The returns we've experienced in the past couple years are nothing out of the ordinary. While there are many outlets quick to point to the Fed's "pumping" of the system as the reason for these results, the facts tell us a different story.

Quite simply, businesses are doing well. The economy is growing at a moderate pace. The majority of economic and business factors are improving consistently and modestly. For long-term investors, this is an ideal situation. We don't need an overzealous economy growing unsustainably out of control, and we don't need a stock market with overinflated prices getting ahead of itself.

There will always be antagonists of positive improvement in the marketplace. Our job as responsible investors is to disregard them. If the market advances to unseen levels, as it probably will, I assure you there will be countless journalists deriving untold numbers of reasons why the values are false. While difficult, it's best to tune them out and not let these antagonists derail us from our steady course.

Helping you become a better investor!

Mark Simmons
President

Disclosures