



# Mentor Monthly Missive

July 2012 | Vol. No. 8 | Financial Planning News

## Masters to serve

Being in the business of advising clients about their personal finances, we are cognizant of issues related to conflicts of interest. Conflicts in business can arise when you are concurrently called on to serve two or more masters. Which do you serve?

At Mentor Capital we deal with the conflicts issue by always putting the client's interests ahead of our own. We strive to be thorough, objective and attentive. Because we are independent, fee-only advisors, conflicts are few.

I was pondering the conflicts issue after a recent visit to my doctor. My doctor actually has three masters: my insurance company, the hospital with which he is associated, and himself (or his wife, who yearns for a membership at the country club).

I depend on my doctor always to treat me in an

objective way, though, putting my healthcare ahead of any competing interests. But I know he is constantly being tugged in different directions as he prescribes a course of action:

- By the hospital. The hospital benefits when my doctor prescribes tests and procedures, because it has equipment and facilities to pay for, and unless it gets used it can't be paid for.
- By the insurance company. When my doctor does NOT prescribe tests and procedures, the insurance company benefits because it is the one ultimately paying for those tests and procedures.
- His own self-interests. The more I see him in his office, the more he gets paid. The less time he spends with me, the more patients he can see and the more he gets paid.

continued on page 2



John S. Davis, CFP  
President

john@mentoradvisers.com  
630-530-1191  
www.mentoradvisers.com

### Meet our Wealth Managers

Mentor Capital Management Inc. was founded in response to the belief that a consumer's best interests are served when his or her financial planner is Fee Only. Advisors of Mentor Capital strive to provide objective, prudent and thoughtful advice to clients based on their personal goals and objectives.

John S. Davis is Mentor's founder, president and chief investment officer. A graduate of the University of Missouri, Columbia, he is a Certified Financial Planner licensee and a Registered Investment Advisory Firm Principal.

Daniel B. Carey is vice president of Mentor Capital and a member of its board of directors. A graduate of the University of Notre Dame, he is a Certified Financial Planner licensee and a Registered Investment Advisory Firm Representative.

## Masters to serve (cont. from page 1)

---

At Mentor Capital we've done everything possible to eliminate conflicts of interest: We are paid only by our clients; We use third-party custodians for client investments; We do not engage in cross-dealing of securities; We never pay for (or accept payments for) referral business; We never recommend private stock placements or hard-to-value securities.

I trust my doctor to treat me with care and diligence. If I ever suspected he was putting other interests before mine, I would find another doctor. When engaging with a financial planning professional, consumers would be well-served to follow the same course of action.

- John Davis



## In Case of Emergency

---

Nobody likes to think about the possibility of job loss, serious illness or other major expenses. But these are all possible in an uncertain world, and having an emergency fund in place can help if such situations arise.

An emergency fund is a money market, savings or checking account where you keep a specified amount of money to cover expenses. The important part here is that the money is stored in an investment vehicle that allows quick and easy access to funds. But you do not touch the money in this financially liquid account unless a real emergency pops up. No ifs, ands or buts.

Setting up an emergency fund is usually the first step toward building a solid financial plan. If you don't already have one in place, start building one as quickly as you can. It obviously takes perseverance to stash money from each paycheck into your emergency fund,

but it may be well worth it one day.

How much cash should you put aside? Most financial advisors recommend to first aim to keep enough money in the fund to cover at least three months of expenses. However, as your take-home pay increases or your expenses grow, you may need to keep six months or even as much as a year's expenses in your fund.

Take it one step at a time. Once you've saved enough to cover three months of expenses, try for the six-month mark, and so on. Easier said than done, sure, but if you treat your emergency fund like any other must-pay monthly bill, it will undoubtedly grow over time.

# Monthly Market Commentary

---

Investors continued to monitor the situation in Europe, as news on Spanish financials moved markets both down (poor Spanish bank audits) and up (support loans for Spanish banks). Up to this point, there is still no long-term remedy for European countries, with the expectation that they will continue to struggle over the next several years under austerity programs, diminished growth prospects, and waning confidence.

While economic data in the U.S. were generally weak, they were not weak enough to drive the Federal Reserve to introduce a new program. Instead, the Fed merely extended Operation Twist until at least late 2014. Morningstar economists doubt that the program will have much more than a symbolic effect on rates, given the already-low rates on long-term securities.

**Employment:** June saw a disappointing 84,000 jobs being added, mostly from sluggish private sector job gains. While the economy actually added 815,000 jobs, 731,000 were subtracted because of the seasonal adjustment factor. The good news is that in July, the seasonal adjustment factor will add, instead of subtract, more than 100,000 jobs to the total number, so that's something to look forward to. The unemployment rate remained at 8.2%.

**Manufacturing:** Manufacturing data in June fell sharply, mainly from a massive drop in new orders. This was the largest month-to-month decline since October 2001, and reversed 37 straight months of positive growth readings. Morningstar economists believe that many firms, faced with economic uncertainty in both developed and emerging economies, may have held back on new orders. However, at this stage of the recovery, the U.S. economy can tolerate some weakness in the manufacturing sector since it only represents 11% of overall employment. Month-to-month durable goods orders jumped 1.1%, but this was not enough to offset several previous months of decline. On a year-over-year basis, growth has slowed materially, falling to 4.6% from 6.9% in the prior month.

**Auto:** Auto sales have been a key driver in the economic recovery, and while they exploded upward in

the beginning of the year because of favorable weather conditions, growth has tapered off from March through May. Fortunately, auto sales in June jumped back up to 14 million units from 13.7 million in May, which was 21% above last year's tsunami-blighted numbers, putting a stop to the downward trend.

**Housing:** Housing data in June have been highly optimistic, with uniformly positive pricing data, new home constructions trending upwards, existing home sales data driven up at least partially by a lack of quality inventory, and homebuilder-related financial data continuing to rise. Morningstar economists believe that the more predictive, earlier-in-the-cycle data is stronger than the more concurrent data, indicating more gains ahead. Furthermore, low rates, falling inventories, and higher sales levels should lead to better pricing results as well.

**Quarter-end insights:** It has become more clear that the U.S. is less dependent on exports than many other countries (U.S. exports represented only 13% of GDP according to 2010 data), and so a general slowing of the world economy would not drastically affect the U.S. economy. However, the U.S. economy is not the same as U.S. stocks, so S&P 500 companies that have substantial overseas exposure are still at risk. Stocks with lower overseas exposure, such as utilities, communications, and health-care stocks, were among the best performers in the second quarter. The relative U.S. strength showed up in country-level data as well, with U.S. indexes down only 5% near the end of the second quarter, while both European and emerging-market indexes were down 10-15% for the quarter. Overall, consumers continued to spend, fueled partially by falling gasoline prices. Unfortunately, low commodity prices were bad news for many basic material companies, as prices for their goods dropped while costs of production remained relatively high.

## Need a Second Opinion?

---

If you are one of our valued clients who have friends or associates who have questions about the current economy, their 401(k), retirement programs, or their present investment strategy, then our new second opinion meeting is an opportunity for you to give them a valuable gift and it won't cost you a thing!

Because of our relationship with you, this service entitles the person(s) you choose to call our firm for a complimentary one-hour consultation. This second opinion meeting allows an individual to get another opinion in regards to their present investment program or answers to any questions they might have about the things that are important to them and their financial needs at this present time.

Not already a client of Mentor Capital Management Inc.? Then give yourself the gift of our second opinion service!

A Second Opinion will help you determine if your portfolio is properly designed to achieve your goals. It may afford you the opportunity to make necessary changes before it's too late. It allows you an opportunity to ask questions you may have wondered about, but just didn't know who to ask. You will receive independent, objective advice and a preliminary analysis of your portfolio.

Whether it's for yourself or someone else, just call or email and we will schedule an appointment.

We hope you will take advantage of this new second opinion opportunity.

---

©2012 Morningstar, Inc. All Rights Reserved. The information contained herein (1) is intended solely for informational purposes; (2) is proprietary to Morningstar and/or the content providers; (3) is not warranted to be accurate, complete, or timely; and (4) does not constitute investment advice of any kind. Neither Morningstar nor the content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results. "Morningstar" and the Morningstar logo are registered trademarks of Morningstar, Inc. Morningstar Market Commentary originally published by Robert Johnson, CFA, Director of Economic Analysis with Morningstar and has been modified for Morningstar Newsletter Builder.



John S. Davis, CFP  
President

Mentor Capital Management Inc.  
105 S. York Street  
Suite 450  
Elmhurst, Illinois 60126

john@mentoradvisers.com  
www.mentoradvisers.com

Tel: 630-530-1191  
Fax: 630-530-1442

---