Mentor Monthly Missive

Financial Planning News

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Tapping in to Great Minds, Good Food

By John S. Davis, CFP

One of the greatest challenges of this business is keeping up with the latest wealth management strategies. It's one of the great pleasures too, because it allows me to get out of the office, collaborate with my colleagues from around the country and learn new ways to help clients.

I just returned from the annual conference of the National Association of Personal Financial Advisers (NAPFA), the fee-only financial planning industry organization. The conference always offers scores of educational opportunities in an interesting venue (Salt Lake City this year) – and way too much food! We also have access to some of the great minds in the industry, from academics to mutual fund managers.

Here is a brief synopsis of what's new in the wealth-management business:

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It's in Your Best Interest

Most clients of Mentor Capital are familiar with NAPFA, the National Association of Personal Financial Advisers. This is the Fee-Only financial planning industry organization that promotes objectivity, transparency and elimination of conflicts of interest when working with clients.

NAPFA members, like advisers of Mentor Capital, gladly accept the fiduciary responsibility always to act in clients' best interests. We never receive compensation that is contingent on any client's purchase or sale of a financial product (commissions). In addition, to avoid conflicts, we never receive compensation for referring clients to other advisers; nor do we pay other advisers for referring clients to us. We accept payments from no one but our clients.

NAPFA members are highly trained professionals committed to working in the best interests of their clients. The organization was founded in 1983 and, along with the Financial Planning Association and the Certified Financial Planner (CFP) Board of Standards has worked to require anyone providing financial advice to the public to abide by the fiduciary standard.

Mentor Client Corner

Many of our clients are active users of the Mentor Capital web portal. Here, they gain access to current portfolio values and share documents – including this newsletter. We encourage clients to use this convenient, secure resource. If you're not using the web portal, call us for a refresher course on how to access it and employ its various features.

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.

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Market Commentary from Charles Schwab & Co.

Stocks Rally on Stronger Data

U.S. stocks continued to climb higher last week following better-than-expected economic data. For the week, the Dow Jones Industrial Average was up 1.35% to 16,924, the S&P 500 Index rose 1.53% to 1,949, and the tech-heavy Nasdaq Composite Index climbed 1.73% to 4,321. Meanwhile, the yield on the 10-year Treasury rose from 2.46% to 2.59%, as its price correspondingly fell.

Stronger economic data leads to a proverbial "good news/bad news" dilemma. The good news is that a stronger economy is supportive of stocks. The downside is that the Fed will move to normalize interest-rate markets, perhaps earlier than some expect. At the very least, that will put additional pressure on bonds. Interestingly, the opposite scenario is unfolding elsewhere, with more aggressive central bank actions in Europe and Japan. In short, we are seeing signs of a "central bank divide" with potential ramifications for U.S. investors.

Slow, But Real Progress on the Jobs Front

Equity markets once again touched new record highs last week, supported by labor market and manufacturing reports that confirmed the U.S. economy has recovered from its weather-induced slowdown.

In the United States, both the ISM manufacturing and non-manufacturing surveys came in better than expected and the labor department announced that fewer Americans filed applications for unemployment benefits over the past month than at any time in the last seven years.

Most importantly, Friday's non-farm payroll report was solid, with 217,000 net new jobs in May. After a slump in early 2014, job growth is back to around 190,000 a month on average. This is hardly spectacular, but it does represent a significant improvement from earlier in the year.

In addition, there was more good news with hourly wages ticking higher last month after stagnating in April. To be sure, wage growth is still barely keeping up with inflation, but at the very least it is remaining stable rather than sliding. Overall, the report suggests the U.S. labor market continues to make slow, but real progress, although the plight of the long-term unemployed shows little improvement.

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The bottom line: Stocks have benefited from generally stronger economic data, and that should support earnings growth in the second half of the year, even with interest rates on the rise.

But a key question now for investors is how the Federal Reserve (Fed) will react to improving economic data as it continues to taper its asset purchase program. Our take: The Fed may move to normalize interest-rate markets earlier than some expect, although Friday's data on its own is not enough to change the path of monetary policy expectations.

Aggressive Actions in Europe and Japan

Elsewhere the story is different. While the Fed is likely to moderate its monetary accommodation and start raising rates by next year, other central banks are moving in the opposite direction. Last week, the European Central Bank (ECB) further eased monetary policy. Included in its actions was a move to push short-term deposit rates into negative territory, the first time a major central bank has attempted this. At the same time, the Bank of Japan (BoJ) is likely to continue its very aggressive asset purchase program through 2016.

For markets and investors, this "central bank divide" has at least three implications. First, global interest rates are likely to stay low and liquidity high for the remainder of the year, even as the Fed pulls back. Second, the dollar is likely to strengthen if the Fed is less accommodative while other central banks are maintaining very easy monetary policy. Finally, lots of liquidity from the ECB and the BoJ will help support international equity markets. This was already evident in Japan, which closed at a three-month high last week.

In short, we've been saying for some time that we have a positive view of European and Japanese stocks and U.S. investors should consider increasing their holdings of both. To us, the latest developments only support that case.

A Modern Approach to Wealth Management

Note: The following appeared in an advertisement from Charles Schwab, our custodian of choice. We thought it perfectly conveyed our approach and, with some minor editing, wanted to share it with you.

We see it all around us. People engaging, asking tough questions, demanding quality, value and accountability. People taking ownership of their lives. It's the hallmark of today's modern consumer.

When it comes to managing your hard-earned money, should it be any different? [We] believe in an approach to wealth management that reflects those same values.

It begins with a wealth management consultant who encourages your involvement. That doesn't mean you have to be the investing expert, but it does mean you're encouraged to ask the questions that matter to you most and get straightforward, honest answers. We believe you deserve transparency, a clear and complete picture of what you're paying, and with a comprehensive explanation of the recommendations you receive, the rationale for them, the risks involved, and why one solution may be more appropriate than another. You deserve this kind of relationship whether our advice involves your investments, taxes, estate plan or the well-being of your family.

It also means having access to expert advice and an array of investments from leading asset managers across the industry. It's building an investment strategy designed to meet your goals and reflecting your comfort with market volatility. All of that without sacrificing value, because with investing, we know costs matter.

The result? A relationship tuned to your needs. You have a deeper sense of involvement with your money. You fully understand what you are doing in an effort to grow and protect it. And you have a team of specialists to rely on. Ultimately, you're more confident in your financial future.

If this sounds appealing, come talk with us. We'll share with you our passion for creating a better investing experience through a modern approach to wealth management.

Mutual funds ban frequent traders

So you think mutual funds aren't serious about stopping frequent traders from messing with their products?

Money Magazine reported recently that T. Rowe Price had blocked approximately 1,300 American Airlines employees from trading in their retirement plan mutual funds due to excessive buying and selling. Some employees were banned forever. Money said that Southwest Airlines employees have been warned by Vanguard to stop frequent trading.

Most mutual funds reserve the right to ban investors from buying and selling their funds, but they rarely do so. Investors who engage in frequent trading usually do so on the guidance of a newsletter or adviser.

Mutual funds threaten to ban traders because such activity makes it difficult for the funds to manage their portfolios when people are frequently buying and selling.

Investors who think they can gain an edge by frequent trading (we believe they cannot) should consider exchange traded funds (ETFs) instead. These investments are bought and sold on an exchange, not from and to a fund company. You can buy and sell most ETFs all day without irritating anyone.

Trading ETFs too frequently can hurt performance. Not only are there transaction costs, but there are taxes to be considered, too, where the trading takes place in a taxable account.

Have a question?

Do you have a question or want more information about any of the issues discussed in Mentor's Monthly Missive? Are you concerned about whether the financial decisions you're making are right for you? Would you like a second opinion about an action you're thinking of taking or something recommended to you by a stockbroker or insurance agent?

We offer a no-obligation initial consultation that might help. Please phone to set an appointment with one of our advisors. It could be the most financially worthwhile 45 minutes you've ever spent!

Tapping in to Great Minds, Good Food...continued

Technology – Advisers are turning to the cloud. Improvements in internet security and falling prices for computer storage space are spurring movement of documents online, where they can be accessed from any location. The trend is making it unnecessary to perform data backups or to maintain expensive hardware onsite.

Trusts – Wyoming is one of the most trust-friendly states in the country. A settlor of a Wyoming irrevocable trust can be a beneficiary and may appoint or remove a trustee, yet still protect assets from the claims of creditors. The state has no income tax (it's a big producer of oil, natural gas and wind energy), and it has efficient, responsive and friendly legislature and courts.

Student loans – This is a really big issue today. Think twice before consolidating a government loan with a private lender: You may lose some valuable benefits. Payment reduction, which was the main benefit of consolidating in the past, is no longer valid, as government plans allow the most affordable payment schedules.

Regulation - A culture of compliance exists at Mentor Capital. This means that we are continuously aware of how what we do and say fits in with financial regulation. One regulation about which we've been diligent is a ban on the use of testimonials, or using positive statements about us by our clients. While it is OK for clients to make such statements, we can't use them in our marketing or advertising materials. Facebook “likes” and LinkedIn endorsements are considered to be testimonials, so we have turned off those functions on our Facebook and LinkedIn pages.

Investing – What do investors really want? It's not just money, according to Meir Statman, professor of finance at Santa Clara University. Investors also want expressive benefits (“I am much smarter than mediocre index-fund investors”) and emotional benefits (“I love the exhilaration of winning”) from their investments. Therefore individuals behave in ways that are not always in their best interests financially. They look for evidence that confirms their claims and beliefs and reject evidence that contradicts them. Successful investors look for confirming evidence as well as disconfirming evidence in their investment strategies.

Health insurance – No financial planning conference would be complete without an address from an expert on the Affordable Care Act (Obamacare). Rick Mayes worked on Medicaid policy in the White House for George H.W. Bush and is now an associate professor in the University of Richmond's department of political science. He said that consolidation of physicians' practices into Accountable Care Organizations (ACOs), medical homes and multi-specialty health systems may result in elimination of insurance companies. Consumers would pay directly to an ACO, which would manage the full range of their healthcare needs.

Income taxes – With creation of the net investment income tax (Obamatax), we now have three federal income tax systems: The regular tax (Form 1040), the AMT (Form 6251) and the NIIT (Form 8960). Why not go for a home run and create a fourth?

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