

# Current Observations

## The Greatest Generation *By Paul Sutherland, CFP®*

While attending a seminar, the leader (who was also the former lead brand manager for L'Oréal), in his thick, rich French accent, told me, "Paul, marketing is all emotion. All you need to do is create emotion – nothing more." He explained that to really get excited about a product, people need to have an emotional relationship with that product. He went on to discuss the importance of integrity, ethics, virtue and honesty in marketing, which were values he held dear but felt the "marketers of the world" had mostly abandoned. His point was that to get any attention in our "sound bite" world of talk radio, tweets and headline news, we'd need to get an emotional response.

Patrick, my two-year-old, shrieks so loudly when he wants my or my wife's attention that we sometimes keep our windows closed. He indeed triggers an emotional response just as readily as today's writers, idea evangelists and marketers desire to get our attention, grab headlines and sell people on their ideas. For Patrick, however, it's gummy bears or playing basketball with his 15-year-old brother, Keeston, even though it's bedtime. What's interesting about the emotional "fear-greed" paradigm that we have been seeing so much of lately is that we are all still raw from the crisis of a few years ago and still see little in the way of "fixes" from our leaders. In times of crises, many governments seem to default to taking a shortsighted, myopic, easy path and "just say yes" to things like bailouts, dishonesty, and self-dealing by firms and individuals, and enact irresponsible policies that are just as unhelpful in the long term as saying yes to gummies or basketball. Any parent, adult or common sense-infused sibling knows that to say "yes" to Patrick's rants is a short-term gain that sets us up for extreme long-term pain. Because Patrick is my third child, I have the sensibility to let him shriek till dawn rather than give in to his demands. Governments, too, should have the sensibility to impose more austere measures regardless of the populist shrieking.



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## Gulf, Greece and Goldman = Shrieks

Feeding our fear at this moment in time are the now well-documented, sound byte-grabbing “three Gs”: 1) Gulf (oil spill), 2) Greece (Euro breaking down) and 3) Goldman (ethics and excess). Each of these is a real threat, and politicians and the press have an unrelenting desire to feed our emotions with fear, greed and lust-caused actions. So again people are selling, but really there is no sell without a buy. When someone sells a German bond, Swiss holding company, Hong Kong conglomerate, Spanish utility or French energy company, they’re likely saying, “I like a U.S. money market instrument better.” But on the other side of the transaction, another investor is buying the security and taking advantage of the emotional behavior of the seller. The question, however, in any buy, sell or hold decision is, “*What was the logical thought map of the decision?*” Was it logical in the long term or just a quick emotional response to the market’s and media’s shrieks? The world’s government experts, our representatives, heads of state and their advisers seem to have forgotten to think long term with their decisions and are responding to the shrieks of their constituents. Years ago a mentor told me, “Paul, before you can teach well, you need to be a good parent, husband and businessperson. Once you have mastered those skills, then you can teach.” Our representatives need to learn a thing or two. Fortunately, history tells us that while many mistakes are likely to be made, the entrepreneurial spirit of capitalism will prevail, and we will muddle through and fix our problems.

## The Greatest Generation

My wife, Amy, and I had the privilege of hearing Tom Brokaw, author of *The Greatest Generation*, speak and field questions a few weeks ago when he came to Traverse City. His thoughtful answers were inspiring and filled me with a hope that only rational analysis could bring. When asked about today’s political, economic and polarized world,

he smiled and chatted about Watergate, the Kennedy assassinations, Oswald, Martin Luther King, Agnew, Vietnam and the economic mess that we pulled out of in the ’80s. Also with a smile and a wise demeanor that only someone who had “been there – done that” could have, he talked about what he called “the greatest generation”—those who survived the Great Depression only to find themselves in two major wars, a Holocaust and the devastation of most of the world (except the U.S.). He did not want to trivialize today’s problems, but when he compared them to the world’s scenario during the ’60s and ’70s, we had to feel like our current situation was not something unmanageable. Things are not as bad as they seem in the political arena ... just like in the investment arena. As part of our disciplined approach to looking at companies, I often use SWOT (strengths, weaknesses, opportunities and threats) analysis – the same method I used when working toward my MBA. I got to thinking about the world’s economy, and as the SWOT illustration (right) highlights, we have reason to be either optimistic or negative – it’s our choice.

## Lunch in the USA

I had lunch today with a Zambian-born immigrant, and we chatted about Africa, where 30,000 of its citizens die of starvation and preventable deaths every day. He is hopeful about Africa’s fixes, but sad that corruption, “live only for today” mentality, aid that causes dependence and its fear-based system seem to bog down any progress. Throughout U.S. history, we have had men and women rise from obscurity to be leaders at times when they were needed most. When I think of how lucky we are, and how events from 234-plus years ago shaped our nation, I can see only reason to be optimistic. This young Zambian’s father worked in the copper belt and spent his meager mineworker’s income to educate his children. That was his only priority. That was his only goal. I’m becoming more and more optimistic that Africa will figure it out, too. When we look at Singapore, China, Brazil and scores of other countries and the progress they’ve made, it is so easy to be rationally optimistic. When the likes of



## WORLD ECONOMY

Strengths, Weaknesses, Opportunities and Threats (SWOT)



George Washington, Mahatma Gandhi and Nelson Mandela appear when their citizens need them most, it is easy to be optimistic. The Fourth of July is just around the corner, and I am so proud that I was born in the U.S. I am most proud of the fact not that we have fought and won wars and overcome the Great Depression, but that we have fought against complacency, negative attitudes, laziness, despair and had little tolerance for mediocrity throughout our history. We Americans have “good bones” and a great legacy. In a few years we will look back on the three Gs as an interesting footnote in history. Life goes on, and I am optimistic, because when I perform a SWOT analysis on the U.S. I see the opportunities and strengths boxes filled to the brim and the threats and weaknesses boxes chock full of opportunities to fix.

# Annuities – Pros and Cons

By Alice McDermott, CFP®



## “So what do you think of annuities?”

I typically hear that question about three or four times a year, but in the past two years, with the market volatility and the fear that goes with it, that question has cropped up more and more. The reason being is that fear sells. And when annuity salespeople are rampant in the market touting these products and promising that they offer “guarantees” and “higher rates of return,” people start to take notice. Hmmm ... where do I sign up?

## Types of Annuities

There are various types of annuities, each with different benefits, depending upon where the assets are invested and when payments begin. A “fixed” annuity, for example, provides a specified rate of interest for a period of time, while a “variable” annuity offers greater opportunity for growth but also comes with higher risks. Other types include “indexed” annuities, “deferred” annuities, “single premium” annuities and “flexible premium” annuities. Keep in mind that the cost of these products often is directly proportional to their complexity – the more complex, the more money someone will pay for the product and, typically, as happens with complex products, the less a customer will understand what he or she is buying.

I’m not generally a big fan of annuities, mainly because they are expensive, have potential negative tax consequences, and are complex and confusing. For clients who come to us already owning an annuity, I’ve often asked them general questions about it, and they looked at me with glassy eyes and said they hoped I’d tell them. Without getting into to all the details and nuances of the different types of annuities, the following are some of the pros and cons of owning them in your portfolio.

## Pros to owning annuities:

- An immediate lifetime annuity contract can guarantee periodic payments for life (main risks are inflation and the credit-worthiness of the company)
- Provide an option – compared to CDs – for those who are risk-averse and don’t want to risk losing part of the savings (fixed annuities still have credit and inflation risk)
- Provide a steady source of income
- Allow investments to grow tax-deferred (qualified and non-qualified annuities)
- No restrictions on who can invest (anyone can purchase a non-qualified annuity)
- Can be customized to fit your needs
- The sum value of some annuities are guaranteed to be at par or greater than the value of the amount invested (variable annuities – this benefit usually comes at a very high cost)
- Are backed (in some cases) by state guarantee funds, so if the company cannot pay, investments may not be lost (vary by state)

## Cons to owning annuities:

- They are very expensive! I haven’t found one client who wasn’t completely shocked when we pointed out the fact they were paying (in most cases) between 2.5% and 3.5% per year for their product
- Offer (mediocre) insurance coverage (one of the biggest selling points)
- Investment options are restrictive to mutual fund subaccounts that are

often very expensive on their own (variable annuities)

- A big selling point is the tax-deferred savings, yet I find other retirement plans (especially employer-sponsored 401(k) plans) a much more attractive, less costly, less complex, simpler means of funding for retirement
- Lack of liquidity – funds are often tied up for six to eight years and are subject to a sizeable “surrender charge” if withdrawn early

For retirees, an annuity offers an assurance of a stream of income for life or for a specified period of time. For those who fear the potential loss of their money due to poor investment choices, that “guarantee” can be attractive. Keep in mind that that while the annuity income can look big, a good portion of the annuity’s income is a return of principal. The problem with buying into this (and paying too much for that guarantee, in my opinion) is that there are numerous other options that are typically more flexible and suitable that should be explored. But in the end, if having an annuity will help someone sleep better at night and bring them peace of mind, then a FIM Group adviser can help find low-cost/low-load products that do not, for example, charge surrender fees or have very low expense charges. There are a handful of good products on the market, and we can help provide the due diligence before buying.

If you currently own an annuity, or are interested in learning more about these products, please feel free to call one of FIM Group’s advisors: Jeff or Kevin in Wisconsin; Kevin, Renee or Jim in Michigan; or myself. We’d be happy to explore whether or not an annuity may be appropriate for you.

# Protecting Your Assets

“At Schwab, we are dedicated to the principles of safety and soundness. They form the heart of our relationship with our clients.”

- Charles R. Schwab, Chairman

The majority of FIM Group accounts are held with Charles Schwab and Co., Inc., our main custodian, we feel that now is an appropriate time to remind our clients about the internal protective practices and stringent standards taken by Schwab that are designed to ensure the safety and security of your hard-earned assets:

- **Keeping Client Securities Separate from Broker-Dealer Securities**

Client securities – such as stocks and bonds that are fully paid for or excess margin securities – are segregated from broker-dealer securities, in compliance with the SEC’s customer protection rule. In the unlikely event of insolvency of a broker-dealer, these segregated assets are not available to general creditors and are protected against creditors’ claims. This is a legal requirement for all broker-dealers.

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are exhausted and there are no additional funds available from the estate of the failed brokerage firm.

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- To learn how Schwab keeps client personal and financial information safe online, visit [www.schwab.com/schwabsafe](http://www.schwab.com/schwabsafe)
- To learn how Schwab plans to provide continued client service in the event of disruption to normal business operations, please visit [www.schwab.com/businesscontinuity](http://www.schwab.com/businesscontinuity)

“Schwab is committed to staying financially strong, and we have confidence in our ongoing financial health. We run our business with a sound capital structure and position our company for long-term strength and stability. We take appropriate actions to help give our clients peace of mind about the security of their accounts.”

- Charles R. Schwab, Chairman

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- [www.aboutschwab.com](http://www.aboutschwab.com)
- [www.sipc.org](http://www.sipc.org)
- [www.sec.gov](http://www.sec.gov)
- [www.fdic.gov](http://www.fdic.gov)

## Investing with a Margin of Safety

On May 26, Barry Hyman, Jeff Lokken and I presented a webinar in which we discussed the markets, economy, investments and Roth IRAs. One of the topics we touched upon involved giving investments a margin of safety (see sidebar at right). Great investors are naturally disciplined toward investing with a margin of safety. Investing icons like Sir John Templeton and Warren Buffett, for example, talk about importance of discipline and a process of evaluation to ensure that a significant margin of safety exists for every investment made. For many investors, price is the best safety enhancer. For example, if you buy a dollar bill for 50 cents, you have less risk than if you paid \$2.00. What a company is worth, of course, lies in the details and complexities of the “What is it worth?” decision. You need to evaluate if you are paying less than what it’s worth with a degree of safety that compensates you for the risk and possibility of making a poor investment choice.

At FIM Group we use both soft and hard – qualitative and quantitative – techniques when making the “What is it worth?” decision. Since the numbers are the easy part, as they are the known variables, we spend a lot of time on variables such as management, ethics, industry, product and product strategy analyses. All of this bakes into a decision that potentially involves hundreds of decision tree braches.

Based on past participation, the most popular webinar we’ve conducted to-date is titled “What’s in My Portfolio and Why?” FIM Group will continue to host webinars on relevant investment topics. Visit [www.fimg.net](http://www.fimg.net) for the most up-to-date webinar information, and be on the lookout for e-mail alerts announcing upcoming webinars. If you prefer, or if it’s easier than accessing an online webinar, you may contact any FIM Group representative, and he or she will send you a CD that you can review anytime.

## WHAT GIVES AN INVESTMENT A MARGIN OF SAFETY?

- **Sort through Millions of Opportunities**  
(50,000+ stocks)
- **Good Management**  
(If Steve Jobs Took Over GM)
- **Good Industries**  
(Health Care, Food, Energy, Entertainment)
- **Good Ethical Values**  
(Transparency is Reality)
- **Good Companies**  
(Fad or Needed Goods & Services)
- **Good Products and/or Services**  
(Make Great Companies)
- **Good Balance Sheet**  
(Little Leverage)
- **Free Cash Flow/Income**  
(Cash to Reinvest or Pay Dividends)
- **Skin in the Game**  
(Insider/Family Ownership)

### KEY

Buy and sell at the right price.

### BOTTOM LINE

Prices fluctuate due to the liquidity of the markets, instant emotional responses and crowd behavior.

*Volatility is a friend of the wealth-creating investor.*

# FIM Group Would Like Your Feedback

Click Here



We realize that you are probably asked to take surveys all the time. Often they are long and daunting, but we have created a very short survey so that we can continue to provide exceptional client service. This survey is posted on our home page at [www.fimg.net](http://www.fimg.net). We would greatly appreciate you taking less than five minutes to provide us with constructive feedback on how we can serve you and other clients better.

Please visit [www.fimg.net](http://www.fimg.net), and click on the “FIM Group Survey” button.



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