Summit Wealth Partners

Volume 6, Issue 3, March 2015

The Rational Optimist™

$18 Trillion Reasons to Be Pessimistic?

by Mitch Levin, MD CWPP, CAPP

The psychology of pessimism, according to Harvard's Professor Steven Pinker, can be summarized to include two main themes: bad dominates good and the illusion of the good old days.

Regarding the bad domination, this is one reason why the press may prefer reporting about the bad. And it has been proven that avoidance of pain outweighs the pleasure of gain by 2.5 to 1. That is why we much prefer to have our accounts not go down, versus having the potential for our accounts to go up. And that is why many of us have our investment accounts "risk adjusted."

The illusion of the good old days is just that—an illusion. For example, the Fifties were a time of discrimination, low longevity and fear about the Communist threat, while few had access to the creature comforts, advances in health care, transportation, and telecommunications that we now enjoy and take for granted. The world is definitely less violent now than in the past, although, terrorism dominates today's headlines.

But this pessimism is counter-factual and counter-historical. We are getting better. And we have sacrificed much to get better. Rather than focusing on what we have sacrificed, why not focus on what has improved?

That $18 trillion question? That is our total on-the-books debt. Off the books, the unfunded future liability has been estimated to be on the order of $120 to $200 trillion. There is only $150 trillion of total world-wide wealth. How can we ever pay down the debt?

Most people know of only three depressing ways: 1) taxation; 2) monetization through inflation; and 3) reduction of promised benefits.

Let's explore.

The Laffer curve has shown that increasing tax rates does not increase government receipts. This is non-starter number one that will not solve the problem. This of course does not preclude our elected representatives from going down this route nevertheless.

Inflation has the simultaneous effect of increasing our debt's interest rates and payments. So non-starter number two doesn't solve the problem. Again, nothing stops our non-elected administrators from going down this route nevertheless.

And who among us believes that the 100 million people over the age of 50 will vote themselves fewer benefits? Non-starter number three will not solve the problem either. One more time the government may, nevertheless, apply this to many of us, in various and discriminatory ways.

> *"Americans always can be counted to make the right decisions—after trying everything else."*
> – Sir Winston Churchill

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Yield Curve Ahead

By Chad A. Warrick, Chief Investment Officer

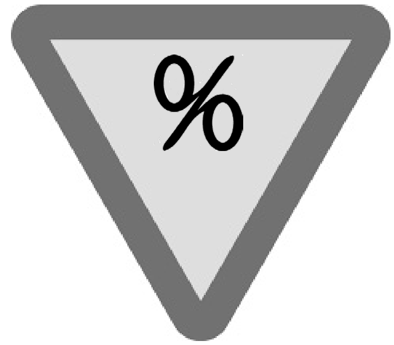
As the U.S. economy is slowly improving, there are thoughts that the Federal Reserve may raise interest rates. Many expect this will probably be in smaller increments and at a slower pace than in years past. The Feds are looking to move away from the measures they put in place (i.e. quantitative easing) since the US economy is showing signs that it is gaining solid ground.

Our growth rates are measured by taking into account available capital, the labor force, the unemployment rate and the level of labor efficiency. On the other hand, and at the same time, many developed and emerging markets are tightening their own fiscal policies-- this is known as “Divergence.”

And foreign countries, looking for better yields, are investing in the U.S. long-term bond market. For this reason the Fed may not be in a rush to raise interest rates.

Although today’s economic conditions are similar to what they were in 2004, when the Fed did raise interest rates, there seems to be litle concern for the long term rate to rise (affecting lending rates). rather, the short term rates are most likely to rise (affecting cash and CD rates).

Since bond prices typically fall when interest rates rise, we’ve been preparing for this event by utilizing strategies that reduce interest rate risk while diversifying along the yield curve. Studies have shown that it can take one to two years before monetary changes in

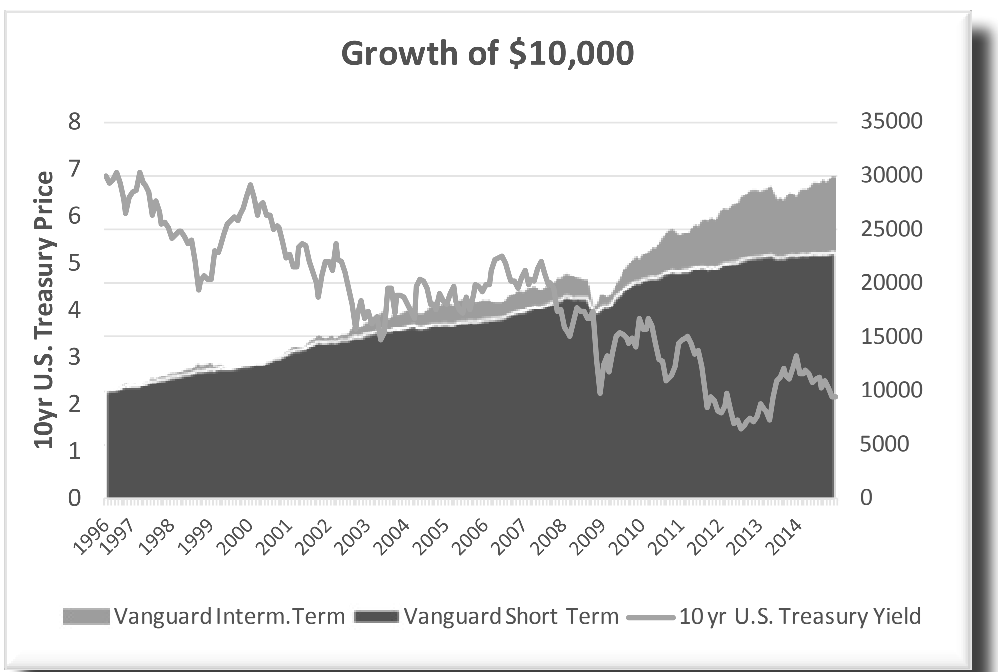


policy can have an effect on our economy. However, the Stock Market tends to be the leading indicator of cause and effect.

Here at Summit, we look for opportunities in all cycles and conditions to place our clients in better positions. History has shown that rising interest rates can provide opportunities to add income while reducing credit risk. Additionally, we have successfully used true alternative asset classes/investments to hedge interest rate risk combined with securing retirement income.

As we meet during the coming weeks, here are two strategies that are worth considering.

1. ***Refinancing your home*** With home values again appreciating and mortgage interest rates are at an all time low, you may want to consider refinancing your home. Although you may have just refinanced, a short few years ago, at a rate of about 4.675%, mortgage rates are currently at or below 4%. This decline in rates, makes refinancing a topic to be revisited. It could make a world of



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Yield Curve Ahead continued from Page 2

difference: improved cash flow, tax deductions, and inflation making the later payments feel lower.

2. ***True alternative asset class*** Since bond prices are high and they typically fall when interest rates are raised, you may want to consider an alternative asset class/investment combined with secure retirement income. This is designed to simultaneously reduce risk and increase return.

On behalf of our entire team here at Summit, I look forward to seeing some of you very soon and speaking with you about your situation and any questions or concerns you may have. We always seek to explore how we can place you in a better position. It starts with a conversation. Call us.

Chad

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However, there is a fourth option and one that gives us hope. One that I believe will dominate—eventually. It is growth policies.

Growth will solve the debt crisis. Growth will solve the middle class income issue. Growth will help the poor to escape poverty. Growth will reduce the debt in absolute terms and relative to the GDP. Growth will bring more dollars for the government to spend.

Growth may be most likely to occur in the near to mid term. This very same growth is pent up and could eclipse anything we have experienced before.

We have and we will continue to share with you the strategies most likely to protect you against a possible tax/inflation/cut and the strategies most likely to help you participate in growth.

Hang on, sit back and enjoy the ride, as we move forward.

Make great decisions!

Mitch

Stay Vigilant Against Bogus IRS Phone Calls and Emails

Source: IRS Tax Tip 2015-20, February 17, 2015

Tax scams take many different forms. Recently, the most common scams are phone calls and emails from thieves who pretend to be from the IRS. They use the IRS name, logo or a fake website to try to steal your money. They may try to steal your identity too. Here are several tips from the IRS to help you avoid being a victim of these tax scams:

The real IRS will not:

- Initiate contact with you by phone, email, text or social media to ask for your personal or financial information.
- Call you and demand immediate payment. The IRS will not call about taxes you owe without first mailing you a bill.
- Require that you pay your taxes a certain way. For example, telling you to pay with a prepaid debit card.

Marshmallow Testing

by Jessica Feliciano, Client Service Specialist

Imagine the smile on a child's face, as he is presented with a tray of marshmallows. His four year old eyes light up at the thought of savoring the fluffy treats. Surrounded by a group of peers, he must decide whether to eat his one marshmallow now, or wait 15 minutes and earn two marshmallows. Logically, we can conclude that waiting would obviously reap greater benefits, but this Marshmallow Test, showed the human brain tends to surrender logic when presented with the opportunity for instant gratification. This research study, conducted in the late 1960's, on a group of pre-school students, demonstrated an overall struggle to wait 15 minutes for two marshmallows. Most children, despite initially agreeing to wait the 15 minutes, surrendered their anticipated second marshmallow for the instant gratification of having just one (Szalavitz).

These same children were followed into adulthood, as a continued study, and it was discovered that childhood tendencies have a direct correlation to potential success in adulthood. The behaviors of a child reflect their innate abilities, and the foundation for their adult logic. Simply put, our habits reflect the way our brain computes and weighs decisions. As for those who waited, their success came as a result of carrying the ability to exercise self control and steer away from the temptation of instant gratification.

Similarly, could the temptation of instant gratification be the reason a majority of Americans lack the ability to save for retirement? In a survey of 10,000 adults, only 28 percent felt very confident they would reach their retirement goals (Weisbaum). We live in an age where upgrades come at the expense of financial stability and people are willing to sacrifice their livelihood in an effort to frivolously keep up with the Jones.' We can argue that foreclosures, repossessions, unemployment and outstanding debt are the obstacles that hinder us from preparing for retirement. We could even add to that argument the downfall of our economy for an added sense of validity. Unfortunately, excuses such as these will only delay an action that we must inevitably take.

Jessica's 4-year old son Julien conducting his own marshmallow test

Lack of financial preparation does not result from external factors. The outcome of our future lies in the decisions we make today with the resources we have at hand. There are three things needed in order to prepare. One, recognize that retirement is approaching and it requires planning. Two, consult with an expert who has the tools, market accessibility and strategic resources to help achieve retirement goals. Three, as the retiree, we need to be willing to make this a forefront priority in our lives.

Every essential factor of our lives requires some degree of sacrifice. To prepare for retirement is much like the Marshmallow Test. We can choose to eat the only marshmallow we have, or we can choose to focus on the long-term goal, strategically avoid the misuse of our resources and reap the long term benefits of our sacrifice.

Jessica

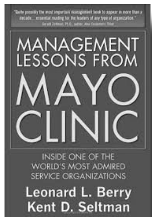
Source: http://en.wikipedia.org/wiki/Delayed_gratification http://healthland.time.com/2011/09/06/the-secrets-of-self-control-the-marshmallow-test-40-years-later/

Thank you for your business and your recommendations to friends and family!

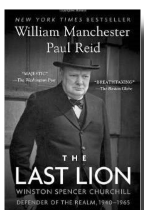
IN THE KNOW & ON THE *GO*

BOOKS WE'RE READING

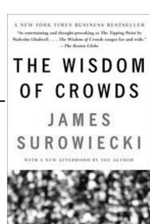
Management Lessons from Mayo Clinic Inside One of the World's Most Admired Service Organizations by Leonard L. Berry and Kent D. Seltman—This book is an essential read for those managing labor-intensive, highly interactive service businesses, and offers thought provoking guidance to anyone seeking to build a customer-focused culture."-George Day, Ph.D., Geoffrey T. Boisi Professor and codirector, Mack Center for Technological Innovation, Wharton School, University of Pennsylvania the last fifty years."—The Nation



The Last Lion Winston Spencer Churchill Deffender of the Realm, 1940-1965 by William Manchester and Paul Reid.—Spanning the years 1940 to 1965, The Last Lion: Defender of the Realm begins shortly after Winston Churchill became prime minister—when Great Britain stood alone against the over-



The Wisdom of Crowds *by James Surowiecki—While our culture generally trusts experts and distrusts the wisdom of the masses, New Yorker business columnist Surowiecki argues that "under the right circumstances, groups are remarkably intelligent, and are often smarter than the smartest people in them.*



FING*LISH*

Deficit Financing borrowing by a government agency to make up for a revenue shortfall. Deficit financing stimulates the economy for a time but eventually can become a drag on the economy by pushing up interest rates.

Endowment Insurance a form of LIFE INSURANCE where the face value is paid out to the insured or a beneficiary after a specified contract period. For example, an endowment policy that provides benefits for 20 years until the insured is 65, pays its face value after 20 years where the insured lives or dies.

Near Money is CASH EQUIVALENTS and other assets that are easily convertible into cash. Some examples are government securities, bank TIME DEPOSITS, and MONEY MARKET FUND shares. Bonds close to REDEMPTION date are also called near money.

Open Outcry is a method of trading on a commodity exchange. The term derives from the fact that traders must shout out their buy or sell offers. When a trader shouts he wants to sell at a particular price and someone ese shouts ehe wants to buy at that price, the two traders have made a contract that will be recorded.

Poop and Scoop is an illegal scheme whereby unfavorable information about a stock is circulated, usually on the Internet, to drive down its price so it can be bought cheaply and later converted into a profit. In SHORT instead of, or along with, negative publicity to drive down prices. The opposite of poop and scoop is *pump and dump*, a practice that had its pre-Internet countereparts in the BOILER ROOM and BUCKET SHOP.

PLACES WE'RE GOING

March 19-21
Washington, DC

March 26-29
Raleigh, NC

Need a Speaker?

Invite a team member from Summit Wealth Partners to speak at your next event!

Collectively, our financial experts have several hundred years experience working and serving in the wealth management industry. Each one is committed to empowering full financial health, one investor at a time.

For availability and to discuss the specific topics that your group would like to have presented, please call Vicki Brodnax at (407) 656-2252 or email vbrodnax@mysummitwealth.com

Mental Accounting And The Illusion Of "Loss"

I was more than a little distressed, one recent morning, to see a financial news headline to the effect that Harold Hamm had lost twelve billion dollars.

You see, old Harold is kind of a hero of mine. He's one of those untutored geniuses that America throws up from time to time—an Edison, a Ford—who ends up revolutionizing the whole economic world. He was born the thirteenth and last child of Oklahoma sharecroppers in December 1945, and raised in an unpainted one-bedroom house that had no toilet. His highest level of education is a diploma from Enid High School.

Harold started out pumping gas, fixing cars and driving trucks—working his way up, hand over hand, in the oil patch. Until, in the fullness of time, he and his company, through painful trial and error, worked out a way to synthesize horizontal drilling with hydraulic fracturing, and unlocked the vast reserves of the Bakken Shale. In the process, he became a billionaire as the value of his company soared.

(Sadly, Harold has gotten about a jillion times more press coverage in the last year from an epic divorce case involving his second wife than he ever did from his accomplishments. I'm no billionaire, but I could have advised him that there is a 100% guaranteed, foolproof way of never getting sued for divorce by your second wife. It is never to get divorced from your first wife. But I digress.)

Anyway, it develops that in the recent halving of world oil prices, and the significant markdown of many oil company stocks—including that of Harold's Continental Resources—his net worth actually did decline by some twelve billion dollars. Please read that sentence again very carefully before we proceed further, because (a) the fact is undisputed, but (b) the verb used in the headlines reporting the fact is quite wildly off base, in a way that may not be immediately obvious. And the difference between (a) and (b) is not semantic, but substantive. It has profound implications for all of us in the way we think about our investments, and especially in the way we react to changes in their prices over relatively short time horizons.

I say again: the fact that Harold's net worth declined by a factor of twelve billion dollars from its all-time peak is undisputed. It's a matter of public record. You just take his share ownership position in the company's stock, multiply that by the stock's peak price, subtract today's value for his stock, and you get twelve billion dollars, every single time.

But that isn't what the headline said, is it? It said he had lost twelve billion dollars. But that could only be the case if you accepted not one but two common mental fallacies, which end up being the undoing of far too many investors.

The first fallacy is that you measured Harold's experience of the stock only in terms of its decline from its peak price to wherever it is now, rather than measuring it from zero—where he started out—to its current worth. This is an emotional quirk—the folks in the white coats term it a heuristic—called mental accounting.

Let's say that one day, in the full flush of the public's enthusiasm for shale stocks, Harold's shares had a market value of $24 billion. (I neither know nor care what the exact number was, and it is perfectly irrelevant to the point I'm making.) We have observed that their market value subsequently declined by twelve billion, and this—I say thrice—is undisputed.

You can conclude that he "lost" twelve billion only by that peculiar twist of pretzel logic called mental accounting. But I would maintain (and I'll bet almost anything that old Harold would agree, though maybe not out loud in front of the divorce judge) that he has so far been enriched to the tune of twelve billion—from zero to the twelve billion his recently depreciated shares are still worth.

And wait; I'm just getting warmed up. Here comes the second mental lapse: the idea that the gleefully headlined twelve billion dollar decline is "lost" to Harold. In point of fact, he hasn't permanently lost anything, because he hasn't sold his shares. He has most certainly experienced a whopping decrease in the market price of those shares. But he's still got them, and his company still has its reserves of oil and gas in the ground.

The decline may continue for a spell; it may not. My blissfully unscientific guess, as a nearly fifty-year observer of the commodity cycle, is that so much exploration, development and produc-

Client's Corner continued on Page 7

Welcome Kristiana Daniels to Summit

by Vicki Brodnax, Editor

Please join Summit in welcoming Kristiana Daniels to our Naples team. Kristiana will be working as a client service specialist. She is a recent graduate of Taylor University where she earned her B.A degree in Psychology and was a member and captain of the Women's Soccer team. Born and raised in the Midwest, Kristiana and her husband Tim recently relocated to Naples. In her free time, Kristiana enjoys reading, baking, and being outside.

The Naples team celebrated Kristiana's first day with a small reception!

Left to right, Patricia McNair, Jeffrey Janson, Jason Print, Nicole Sadez and Kristiana Daniels

Kristiana Daniels

Holiday Closings

Summit will not be open

Good Friday
April 3rd

Memorial Day
Monday, May 25th

Client's Corner continued from Page 6

tion of energy is being shelved at $50 a barrel (leading to less supply) and so much more consumption is being unleashed at the lower price (leading to more demand) that energy prices may eventually start cycling up again, and with them, potentially, Harold's net worth. At least that's the way it's always worked in the past.

I remind you that on the single worst day in the entire history of the American stock market—October 19, 1987—Warren Buffett was universally reported to have "lost" $347 million. He didn't sell either, and at last report was worth about $44 billion. There's a critical difference between temporary decline and permanent loss. The former comes and goes, but in a well-diversified equity portfolio, history suggests that the latter can be locked in only if and when you sell.

I'm inclined to the belief that a whole lot of people who, and I quote, "lost money in the stock market" in the last decade managed to do so only by succumbing to not one but both of these mental quirks. Especially in the Great Panic of 2008-2009, they characterized the experience they were having as a "loss" from the all-time market peak (up to that time) in October 2007. So that by the time the market troughed in March 2009 they saw themselves, regardless of what their investments had originally cost them, as having "lost" over half their portfolio's value.

The resultant emotions thereupon triggered the second mistake: they turned what was only a temporary decline into a permanent loss the only way the diversified investor has ever been able to do so in the past: by selling in a panic.

Know what your financial advisor is really for? To help you not think that way. He or she is not there to forecast the economy, nor to time the market, nor to handicap which mutual fund raindrop will get to the bottom of the window before the other similar raindrops. But simply to keep you from making the big mistakes that seem always to proceed from the big mental/emotional lapses.

And one fine day, you may decide that your advisor's ability to do that made all the difference.

In the meantime, don't be too concerned about old Harold. I expect he'll be fine. I just hope he doesn't go getting married again real soon.

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LOOK INSIDE!

"It's not how much money you make, but how much money you keep, how hard it works for you, and how many generations you keep it for."- Robert Kiyosaki

Source: Investopedia; The Top 17 Investing Quotes of All Time By David Bakke | May 16, 2011