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— PARTNERS —

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The Rational Optimist™

Love and Money

By Mitch Levin, MD, CWPP, CAPP
CEO and Managing Director

My wife has been my valentine for more than 30 years now. Swantje, of course , is much more to me than my sweetheart. My partner in life serves as my greatest fan, as well as, my biggest critic. I cannot imagine life without her. She makes my world a better place. Together we've raised two sons and created a life better than I ever imagined. Was it luck? Maybe? Most days, I would say it took a lot of hard work. But the reality is, it took much more than luck and hard work. Love definitely had something to do with it. The feeling of love is a valuable part of who we are and how we live. Economist Betsey Stevenson and Justin Wolfers, a couple themselves, often write about love and money and explored the value of love. The following is from an article they wrote titled *Valentine's Day and the Economics of Love* published in Bloomsburg.com February 13, 2013. I share their belief that "when you expand the boundaries of trusts and reciprocity, you expand the boundaries of what is possible." I think you will find this article interesting too.

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> On Valentine's Day, even a dismal scientist's mind turns to love. It's a powerful feeling, with a value that goes far beyond the millions of chocolate boxes and bouquets that will be delivered this Feb. 14.

Survey data from the Gallup Organization, where Justin works as a senior scientist, allow us to take a uniquely deep look at the state of love around the world. In 2006 and 2007, Gallup went to 136 countries and asked people, "Did you experience love for a lot of the day yesterday?" It's the largest such dataset ever collected.

The good news: Ours is a loving world. On a typical day, about 70 percent of people worldwide reported a love-filled day. In the U.S., 81 percent felt love, as did 81 percent of Canadians and 79 percent of Italians. Germany and the U.K. were less loving, with slightly less than 3 in 4 people reporting feeling loved. Surprisingly, the same was true of the supposedly romantic French. And if you're in Japan, please hug someone: Only 59 percent of Japanese said they had experienced love the previous day.

Across the world as a whole, the widowed and divorced are the least likely to experience love. Married folks feel more of it than singles. People who live together out of wedlock report getting even more love than married spouses -- an interesting factoid for conservatives worried about the effects of cohabitation. Women get more love than men, particularly in the U.S.

Continued on Page 5

What's Inside This Issue:

Looking Ahead with Rational Optimism from a Lesson in History

Chad Warrick, Senior Wealth Advisor
Partner and Chief Investment Officer

Happy New Year! I wish you a wonderful and prosperous 2014. As we start the New Year, I thought I would continue my commentary from the article I wrote in our January newsletter titled ***What Happened Yesterday May Not Happen Tomorrow***. I wanted to research the probability of a repeat of 2013 in 2014 or at best a double-digit return year based on no more than historical performance. And, although we have all heard this before, it is still worth mentioning again. Past performance does not guarantee future results. But it does provide some insight into the potential and characteristics of Market behavior. Based on BCA Research, the Dow has exceeded 25% annual growth 30 times since 1870 and with a positive follow-up year 23 times with a mean performance of 12%. So, based on history, there is a 77% probability of another positive year in 2014. How positive will 2014 be? Well, I will talk to you about this next year. Table 1 illustrates what has happened following the years when the Standard and Poor's (S&P) 500 exceeded 25% returns. As you can see, it has been a mixed bag; but 11 out of 17 times, we ended the following year on a positive note.

Table 1. Years with S&P 500 performance greater than 25%

Year	Price return	Following year's return
1928	38%	-12%
1933	44%	-5%
1935	41%	28%
1936	28%	-39%
1945	31%	-12%
1954	45%	26%
1955	26%	3%
1958	38%	8%
1975	32%	19%
1980	26%	-10%
1985	26%	15%
1989	27%	-7%
1991	26%	4%
1995	34%	20%
1997	31%	27%
1998	27%	20%
2003	26%	9%
2013	30%	?
Average	**32%**	**6%**

Source: SCIR & Strategas Research Partners LLC, as of December 31, 2013.

2014 could be the year that psychological/investor behavior along with the US Stock Market valuation will come into play, as 2013 was a year that nothing went wrong. These are not times to exercise complacency or bite off more risk than one could handle. Since 2008, we have seen solid growth from the equity markets and fixed income markets. I am comfortable saying that equities remain more attractive over fixed income in 2014 and that there is value to be found in both of these asset classes (Equities & Fixed Income). We need to continue our efforts and discipline in our global portfolio. For example: with the lag in performance from developed and emerging markets, they have the potential to fare well, relative to US Markets. Also, for those of us who were in the highest marginal tax bracket, if we add in the additional 3.8% tax from the Affordable Care Act, we are looking at a new marginal tax bracket of 43.4%. Municipal bonds can offer a significant improvement in tax-equivalent yields, especially, if we see a continuation of rising rates and falling bond prices.

Continued on Page 3

Continued from Page 2 Looking Ahead with Rational Optimism

Table 2 makes a great case never to abandon your stock market exposure based on negative years. The S&P 500 has had fewer negative years than positive since 1926. Historical performance illustrations and charts tell a great story, as shown on Table 3; we just need to make sure it is the whole story. I truly think this is worth pointing out, especially, as some may be in the process of re-balancing 401(k) plans and receiving their latest mutual fund report card.

Table 2: Distribution of S&P 500 total returns since 1926

Performance range	# Years
Less than -20%	6
Between -20% and - 10%	5
Between -10% and 0%	13
Between 0% and 10%	13
Between 10% and 20%	18
More than 20%	33

Source: SCIR & Strategas Research Partners LLC, as of December 31, 2013.

Table 3. S&P 500 cumulative total returns

Year	1-year	3-year	5-year
2000	-9%	41%	130%
2001	-12%	-3%	65%
2002	-22%	-37%	-3%
2003	28%	-12%	-3%
2004	11%	11%	-11%
2005	5%	49%	2%
2006	16%	34%	34%
2007	6%	28%	82%
2008	-37%	-23%	-10%
2009	26%	-16%	2%
2010	15%	-8%	12%
2011	2%	48%	-1%
2012	16%	36%	9%
2013	32%	56%	126%

Source: SCIR & Bloomberg, as of December 31, 2013.

The last five year performance numbers have improved dramatically as 2008's performance is no longer included in the five year numbers. This is another important reason not to track-record case. Traditionally, performance is shown in a series of trailing time periods 1, 3, 5 and 10 year time periods. Keep in mind performance illustrations are snap shots in time. It is important to know the starting and ending periods.

To summarize my rational optimistic view as we begin 2014, I first mention that it is okay to have a tempered mindset with regards to performance expectations. There is still a near-term possibility of a correction in the market (reality check). I still believe corrections will be met with buying opportunities because of the low interest rate environment and the need for income. We will continue our efforts with a global allocation to equities and fixed income as we look overseas for more significant value opportunities. Although global portfolio growth was disappointing in 2013, 2014 is a new year with newer opportunities. It remains critical that we see improving wage growth, job creation and a mild political environment as fiscal concerns are diminishing. Finally, it is important that the Federal Reserve and the new chairperson Janet Yellen do not overshoot the expectation for economic growth and inflation.

Summit Maintains Discipline in Approach to Investments
Jason Print, CFP
Partner and Financial Wealth Manager

Summit's models are not based on market timing or trying to predict returns in any given year. By remaining disciplined to the allocation models and consistently rebalancing, we can deliver consistent risk adjusted returns on behalf of our clients.

The same cannot be said of the active trading community. The performance of stocks far exceeded most expectations last year. The consensus of analysts surveyed by Barron's expected a return of only 4.5% for the S&P 500 in 2013. The so called "smart money" and highly compensated Hedge Fund community did not perform well either.

Hedge Funds returned an average of 7.4% in 2013. The Hedge Fund index is weighted by market capitalization and tracks 2,257 funds,

According to Bloomberg: "Hedge Funds trailed the Standard and Poor's 500 index for the fifth straight year as U.S. markets rallied to record levels."

Continued from Page 1 Love and Money

Money is related to love. Those with more household income are slightly more likely to experience the feeling. Roughly speaking, doubling your income is associated with being about 4 percentage points more likely to be loved. Perhaps having more money makes it easier to find time for love.

That said, the data aren't necessarily telling us that money can buy you love. It's possible that other factors correlated with income, such as height or appearance, are the real source of attraction. Or maybe being loved gives you a boost in the labor market.

What's perhaps more striking is how little money matters on a global level. True, the populations of richer countries are, on average, slightly more likely to feel loved than those of poorer countries. But love is still abundant in the poorer countries: People in Rwanda and the Philippines enjoyed the highest love ratios, with more than 9 in 10 people providing positive responses. Armenia, Uzbekistan, Mongolia and Kyrgyzstan, with economic output per person in the middle of the range, all had love ratios of less than 4 in 10.

"Summit's clients are some of the nicest, happiest, and wealthiest people"

Fun facts aside, we think there is a deeper and more consequential purpose to the study of love. Think about what love means to you. To us, it means caring about others and being cared for. Love is valuable, even if it is absent from both our national accounts and our political discourse.

In the language of economics, love is a form of insurance. It involves bonds of reciprocity that provide support when we're feeling down, when we're sick and when times are tough.

More broadly, love has the power to mitigate the free-rider and moral hazard problems associated with social (and private) insurance. Bailing out a bank might

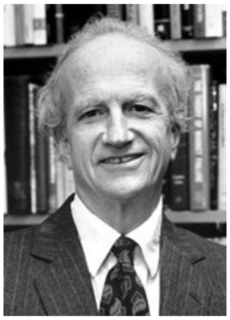
encourage executives to take bigger risks in the future, but helping loved ones down on their luck has fewer incentive problems because our loved ones typically care for us in return. Such mutually beneficial relationships make us all more resilient in times of crisis. This is why the household remains one of the most powerful institutions for organizing not just families but also our economic lives.

If we can find more love for our fellow citizens, our society will function better. Hard as this may be to achieve in an era when trust in government, business and one another is low, it's worth the effort. When you expand the boundaries of trust and reciprocity, you expand the boundaries of what is possible.

Perhaps this article confirms why Summit's clients are some of the nicest, happiest, and wealthiest people. We know that you have worked hard for your money. In some cases, you sacrificed and delayed gratification, living below your means, in order to save for the future. That is why it is so important to us to help you preserve and protect what you have earned during your lifetime. And to help you live well.

On behalf of our entire team here at Summit, thank you for your continued trusts and confidence. Together , we can expand the boundaries of what is possible! Make good decisions! And Happy Valentine's Day!

(Betsey Stevenson is an associate professor of public policy at the University of Michigan. Justin Wolfers is a professor of public policy and economics at the University of Michigan, and a nonresident senior fellow of the Brookings Institution. Both are Bloomberg View columnists. The opinions expressed are their own.)



1992 Nobel Prize in Economics

Awarded to Gary S. Becker

Dr. Becker received the Nobel Prize in Economics in 1992 for his contribution in expanding the domain of analysis of microeconomics to include a wide range of human behavior and interaction including non market behavior.

He was born in Pottsville, Pennsylvania but his family moved to Brooklyn, New York when he was four years old. Both of his parents left school after the eighth grade.

He attended Princeton University and became interested in economics when he accidentally took a course in economics and became attracted to the subject that dealt with the social organization.

Wanting to become financially independent, sooner than later, he graduated Princeton in three years. He attended graduate school at Chicago where he was greatly influenced by Dr. Milton Friedman .

Dr. Becker preserved and continued his research and passion for the study of sociology and economics throughout his career. Although he received support from his colleagues in Chicago, he dealt with great criticism and hostility from other economist who believed there was no significance in his research.

How satisfied and validated he must have felt to receive the most prestigious award in economics for his seminal work in the face of such adversity.

To learn more, go to "Dr. Gary S. Becker—Biographical", Nobelprize.org. Nobel Media AB 2013. Web. 23 Jan 2014.

"All I want is a chance to <u>prove</u> money can't make me happy."

"Finglish" (n) Financial English

90-Age Formula

The 90-age formula assumes that the retiree will live to be 90 years old. It calculates the annual withdrawal amount by dividing the book value of the Registered Retirement Income Funds (RRIF) at the beginning of the calendar year by (1-(90-plan holder or spouse's age)). The morbidity calculation allows the RRIF to act as a lifetime annuity. The money withdrawn from the RRIF is taxable at the retiree's marginal tax rate.

Marginal Tax Rate

Under a marginal tax rate, tax payers are most often divided into tax brackets or ranges, which determine which rate taxable income is taxed at. As income increases, what is earned will be taxed at a higher rate than your first dollar earned. While many believe this is the most equitable method of taxation, many others believe this discourages business investment by removing the incentive to work harder.

Source: *Investopedia .com*

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Happy Valentine's Day!

Look Inside!

"If women didn't exist, all the money in the world would have no meaning."
— Aristotle Onassis

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