SUMMIT WEALTH
PARTNERS

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The Rational Optimist™

Optimism Bias: Are We All "Too Good To Be True?"

Differing Opinions Regarding Your Positive Outlook *By Mitch Levin, MD, CWPP, CAPP*

We humans have a tendency to over estimate our own abilities sometimes. How many of us believe we are better than average drivers? Many of us do; however, it is a statistical impossibility for all of us to be "above average." I accept it – I am a below average driver. Disappointing, yet true.

Sometimes we overestimate the likelihood of good events occurring, while under estimatingthe likelihood of bad events. Whether it is the probability of our getting cancer, being in a car accident, living a long life, or career success, we tend to look for the more optimistic outcome. More often than not, this is a great perspective to maintain.

"Is this optimism bias responsible for only 3% of Americans being able to retire with comfort and dignity?"

In the words of Samuel Johnson, "It is a triumph of hope over experience."

While we are optimistic about ourselves and our families, many are not as optimistic about others less close to them. In fact, we can be downright pessimistic about the fate of our fellows.

According to Tali Sharot, PhD in her book on the subject, we over estimate our ability to get along with others, or how attractive or honest or modest we are. This appears to be a universal phenomenon.

Dr. Sharot asks, "Is it good for us? Is the secret of happiness low expectation?" I do not think so.

High expectations make us feel better. Anticipation makes us happy. Optimism changes our objective reality. Success breeds success. We expect things to be better, so they become better. Keeping this perspective can drive happiness and a self-fulfilling prophecy.

Yet, in the March 2013 issue of Psychology and Aging, German researchers found that "being overly optimistic

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What's Inside This Issue:

Advisor's Message: Markets On the Run

The Challenge of Staying Disciplined During Market Runs

Chad Warrick, Jason Print, CFP®, Brad Towle, Brad Doster, Jette Browne, CFP®

Chad Warrick | Jason Print, CFP® | Bradley Towle | Brad Doster | Jette Browne, CFP®

Most professions present changing landscapes, with new and improved methods and tools being innovated to produce a particular good or to provide a service.

Ours is a discipline with those characteristics and then some. While our tools and methods of research and analysis are in continual development and revision, we must also diligently monitor the global markets, assess the economic impact of worldwide events, conflicts, and upheaval, and stay at the leading edge of technology, security, and compliance.

And, of course, we must perform – consistently and reliably. We thank you for the opportunity to do this on your and your family's behalf.

All of us know that putting money under our mattress is not a strong "long-term investment strategy," and the last nine months has proven it to be a terrible approach.

The first quarter of 2013 was stellar for the US stock market. Many investors, both institutional and retail, have gravitated toward more equity exposure in their portfolios.

Considering the headwinds we faced nine months ago – a polarizing presidential election, the ominous fiscal cliff (a non-event), uncommitted and flip-flopping rhetoric out of Washington, upcoming debt ceiling, and now the renewed threats by North Korea – we find it hard to imagine anyone could have predicted the market behavior over the past several months.

Many are wondering when the pullback will begin. Well, it is possible to see a pullback between now and the end of the current earnings season. It is hard to expect that we will experience this type of performance in the markets for another three quarters, without a hiccup or two.

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Something to Consider:

The people you care about are seeking financial guidance from someone. Doesn't it make sense for them to receive this important guidance from someone you know, like and trust?
Thank you for your continued trust and confidence!

Advisors Message: Markets On the Run

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Listed below are a few factors influencing recent performance and propelling the US Stock Market:

- Continuing indicators of an improving housing market
- Continued quantitative easing by the Federal Reserve
- The appearance of potential policy risk reduction in Washington

The US Stock Market still presents solid opportunities for long-term returns relative to other competing investment alternatives. In addition, we must not abandon our international and emerging markets exposure and opportunities, as their performance has lagged year-to-date in comparison to the US stock markets.

We see favorable valuations in the international marketplace, when compared to the US. We also believe in true diversification across and within asset classes.

Since the recent run-up in the US markets, the international and emerging markets are gaining appeal. It is important to note that we must and should remain disciplined with our approach to our investment allocation if we are to maintain our appropriate risk tolerance exposure.

High and low points in market performance are particularly great times to review and possibly reevaluate your investment risk tolerance, your goals, income needs, and the trajectory of your financial plan. Likewise, this is a great time to rebalance your portfolio.

No one can predict where the market will peak, just like no one can tell you when or how the next market bottom will occur; however, we can (and do) actively monitor and rebalance your portfolio, aligning your portfolio to support your goals and objectives, and most importantly, your long-term risk tolerance.

Rather than sitting back and waiting for the next market pullback to occur, we are going to continually rebalance during the good times and the bad, to ensure your portfolio has the highest probability of long-term success and goal achievement.

As always, it has been a pleasure working with and for you over the last quarter. We remain committed to placing your interests first and deeply value the opportunity to provide this service to you and those closest to you. We wish you and yours a terrific spring...

SWP

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… was associated with a greater risk of disability." Dr. Frieder Lang found that pessimists may even live longer. Too bad for them. They are doomed to suffer a longer life … of gloom.

Is this optimism bias responsible for only 3% of Americans being able to retire with comfort and dignity? How confusing it all seems.

What does all this mean to you? While it is futile to send a "penguin to eagle school," (denying the reality of who we are, what we have, and the probabilities of reaching our goals) if we give the penguin a parachute, perhaps soaring and soft landings are equivalent.

Who else wants to again experience the markets' wild, deep, long, and painful downturns, only to miss the inevitable updraft? Who else wants the frustration of excessive taxation, or low returns, or uncertainty that you will make it through retirement?

Rational optimism is healthy. Having the parachute, in this case is having a comprehensive and integrated financial plan, regular medical checkups, appropriate budget adjustments, proper insurances, emergency savings funds, and with our help, you can seek to "soar like an eagle."

You deserve the comfort afforded by having a backup plan and safeguards in place to protect you, your family, and your interests. Providing the parachute – it's a key part of what we do.

Make great decisions,

Mitch

Summit Wealth keeps clients informed on changes and economic trends that may affect all financial futures.

"Every recommendation we make has a place and a specific purpose where it will contribute to your comprehensive and integrated wealth plan.

Without a complete review of your personal financial profile: your risk tolerance, income needs, tax situation, long-term care needs, and estate and charitable desires, no one can or should have an opinion on whether a specific strategy or investment vehicle is right for you."

Chad Warrick
Senior Wealth Advisor
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Eating Your Peas and Carrots

Protecting, Preserving, and Optimizing Your Way to Success *By Kyle Johnson*

One goal of a financial service business like ours is to help you identify money that you could be losing without your knowledge, through paying higher than necessary taxes, high costs, fees, and expenses, and inappropriate insurance placement. Many advisors, however, only know one approach to serving clients, and that is to use your current money to find "better products" that might get you a higher rate of return.

In fact, many people think that this is the only way to perform better financially. Yet this never ending cycle of searching for better products is also a primary contributor to clients continually hopping from one advisor to the next.

Too many are unaware that proper planning and financial efficiency with their current money can fortify their position now, and help them grow more consistently (and safely) into the future. This approach is pretty simple, and should start with your advisor's focus.

As leading wealth advisors, we not only help you earn better returns and determine smarter or safer uses for your money, we also take time to analyze your current savings situation, your needs, goals, concerns, ambitions, tax position, protections, plan continuity, and so on (all components of a comprehensive and integrated financial plan).

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Develop Your Prudent, Evidence-based Plan for Success
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The Market's At An All-Time High, Unless It Isn't

By about noon on March 5, as the Dow Jones Industrial Average convincingly breached its previous all-time high, the ever-vigilant financial journalists of CNBC.com rushed onto their website an article titled "Dow Hits All-Time High: What's Next for Lofty Stock Market?" And by five o'clock eastern time, they'd dropped the other shoe: "Dow Breaks Record, But Party Unlikely to Last."

The former piece was premised on the fiction that because the market had gone up a lot, it was—nay, it must be—somewhere between richly valued and wildly overvalued. The latter simply went around and interviewed every bear from whom it could get a quote on short notice—because, like most mainstream financial journalism, it was driven by a relentless, single-minded commitment to pessimism. And nothing ever seems to enrage financial journalism as much as does a rising market.

I mention this only because you may be so inured to financial journalism's negative bias that you don't realize it's being done to you. But that isn't at all the point of this little essay, which is to examine, as dispassionately as possible, the intellectually indefensible notion that because the equity market is nominally in new high ground it must, ipso facto, be "lofty" by any objective standard. (Ah, but then again, today's financial journalism doesn't seem to have objective standards. It has only its negative bias, and its commercial need to put up headlines that net surfers will stop and read.)

Let us then examine the three moments when the equity market has been at or near the level it reached when the Dow broke out on March 5. But permit me, if you will, to perform this analysis with reference to the Standard & Poor's 500-Stock Index, which—if for no other reason than that it encompasses about 80% of the publicly held common stock in America—offers in my opinion a more complete and accurate picture than do the thirty stocks in the Dow.

Just before doing so, let me ritually deny anything predictive in what I'm about to do. There is not a whisper of a forward-looking statement in this essay, and if you think you hear one, I assure you that it's in your own head. I simply propose to inquire into the relative valuation of the Index at this moment—in the neighborhood of S&P 1,540—compared to the valuations which prevailed the last (and only) two times the Index visited this neighborhood.

The first time the market reached these levels was in March 2000. That year, the earnings of the Index were $56 and the dividend about $16.25. At its peak just below 1,530, then, the Index was trading at just over 27 times its current-year earnings. At that time stocks were also competing with a current yield on the 10-year U.S. Treasury bond close to 5.8%.

The second event was the all-time high in October 2007 at 1,565. That year's earnings were $82.54 and the dividend $27.73. Thus, the Index was selling at about 19 times earnings. The yield on the 10-year Treasury was around 4.5%.

Can you see from these data that stocks were quite a bit cheaper in terms of earnings at the peak in 2007, and that they were also somewhat more attractively priced relative to competing bond yields, than they'd been at the top in 2000? Because if you can, you may have an inkling of what's coming next.

On March 5, 2013—the day the Dow made its new all-time high—the S&P 500 closed just a whisker below 1,540. (It may be a little higher or lower by the time you read this, but I hope by now you see that that isn't going to matter.) The earnings of the Standard & Poor's 500-Stock Index ***last year***—forget about 2013's higher estimates for a moment—were over $102, with the dividend at about $30.44. Thus, the Index was selling at about 15 times the last year's earnings. *The 10-year Treasury was yielding 1.89%.*

I'm sure you've already grasped the point, but perhaps you'll indulge me while I spell it out: ***At roughly the same price level it was thirteen years ago, the S&P 500 is selling for pretty nearly half the multiple of earnings it was then. The dividend yield is almost twice what it was then. And both the earnings and the dividend compare much more favorably to bond yields than they did then.***

This is "lofty"? Forgive me, but you'd have to be operating with no objective valuation standard whatsoever in order to conclude that equities are expensive—on their own earnings, and especially relative to bonds—compared to where they were the last two times the market peaked in the 1,500s.

Does this mean they have to go up from here? Of course not: nothing means stocks have to go up, and I've already forsworn any prediction, real or implied. Moreover, valuation is never a timing tool. I'm simply (if somewhat laboriously) making a suggestion that I'm highly confident your financial advisor will warmly endorse. To wit: ***please don't let financial journalism do your thinking for you.*** Given their biases, long-term historical perspective isn't something those folks are ever going to be particularly good at—especially when compared to you and your advisor, reasoning quietly together.

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Eating Your Peas and Carrots

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Through this process, we can identify opportunities to plug any financial "leaks," correct any misaligned coverage or more appropriately align your risk tolerance with your expectations of return.

Addressing risk tolerance first is a tremendous step that is all too often glossed over. By tackling this accurately on the front end, the investment decisions you make from there can lead to a greater sense of satisfaction and ease. This can eliminate the frustration and confusion caused by inevitable market volatility.

Great advisors work to help you avoid losses and to help you save the money others are often lose. This requires no change in lifestyle – just a protect-preserve-optimize approach. Coupled with smart and broad allocation, and disciplined, active rebalancing, you would be hard pressed to find a more reliable (and rational) approach to investing.

Finding newer, glossier products is rarely the best solution. Nor is taking greater risk or utilizing exotic strategies. Like many things in life, winning in the wealth management game depends upon the small stuff. It is the "eating your vegetables" approach.

Not necessarily as glitzy as the stuff you'll hear from financial entertainers on CNBC, but it should keep you healthy and strong and give you the best shot at success.

Sunday, May 12th, 2013

To all mothers and grandmothers, both here and passed on, we thank you for your love and guidance.

THE WALL STREET JOURNAL.

"To speak to an operator go back in time to 1965."

"Finglish" (n) Financial English

Investotainment - Television reporting about the stock market, the economy and other business and financial matters that appears to be news but may have more entertainment value than factual value. As such, it is generally not a good tool to use in making financial decisions. Investotainment seeks to entertain viewers with tactics such as fiery debates between talking heads and alarmist coverage of short-term fluctuations in stock prices.

Passive Income - Earnings an individual derives from a rental property, limited partnership or other enterprise in which he or she is not actively involved. As with non-passive income, passive income is usually taxable; however it is often treated differently by the Internal Revenue Service (IRS).

Wall of Worry - The financial markets' periodic tendency to surmount a host of negative factors and keep ascending. Wall of worry is generally used in connection with the stock markets, referring to their resilience when running into a temporary stumbling block, rather than a permanent impediment to a market advance.

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LOOK INSIDE!

- ***Investotainment*:**

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