

THE QUARTERLY

QUARTERLY NEWSLETTER · FALL 2011



FROM THE DESK OF ERIN BOTSFORD

BY ERIN BOTSFORD, CFP®

The summer is over and I, for one am glad to be back into a normal routine. It doesn't hurt that fall is my favorite season, with college football ranking right up there as a favorite weekend pastime. That being said, I thought I would update you on what we have been working on over the summer. In particular, we have been meeting with economists and market pundits to get their take on the economy, where it is going and how we can use this information to advise our clients. In addition, I have been finalizing the last minute details of my new

book, *The Big Retirement Risk: Running out of Money Before You Run out of Time*, which will be available soon after the first of the year.

As a nation we find ourselves with just over a year remaining until the next presidential election, and the political machine is certainly in full swing. Top of mind for candidates and constituents are the U.S. economy and a stagnant unemployment rate, which remained at 9.1% for July and August. As expected, President Obama put forth a proposal for another jobs program, but because of the vast difference in opinions that exists in Washington as to how to fix our economy and the debt situation, I believe it is doubtful much of anything will get passed. We likely will continue to see a stalemate in Congress, with much consternation between now and Thanksgiving when the Super Committee is supposed to come out with their findings or risk a 10% overall cut to all government programs.

As Congress, the President and the presidential candidates continue to debate the pros and cons of their budgetary decisions, we encourage you attend one of our "Elite Investing" seminars in October. As we have clearly discussed with all of our clients, we are now entering what we refer to as a demographic "winter," more aptly described as an extreme slowdown in the overall economy. As more and more baby boomers enter retirement, their spending habits are changing. Many of the 77 million people who bought and furnished their first, second and third homes are scaling back, which is clearly adding to the slowdown in the economy. Add that to the storm clouds brewing in the areas of social security, Medicare and fewer companies offering pensions, and we see some interesting times ahead.

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Having anticipated such a time as this, we are now gearing up to implement the second phase of our investment strategy by focusing much more on investment alternatives that do not trade with nor correlate to the traditional stock or bond markets. We believe retirees who continue to use traditional asset allocation models with no downside protection could be adversely impacted in the days ahead. For readers who are not our clients, we do believe there is time to change course and develop a strategic plan for what could be some difficult economic times ahead, particularly in the stock market.

That being said, we are hopeful in this last year of an election cycle we could see some euphoria in the markets from additional stimulus. We recommend you use this time to develop your plan to shore up the one thing everyone needs in retirement and that is cash flow. By securing your current and future cash flow, you can effectively wrap up your planning and other financial matters before the New Year.

Your Relationship Manager can help you with these and other financial planning considerations as we head into the holiday season. Remember, our goal at The Botsford Group is to be the keepers and protectors of your retirement lifestyle, as you define it. Since we are entering a new phase in the demographic cycle, be sure to mark your calendars for our October Elite Investing seminars and make plans to attend.

Elite Investing is Back

Join us for an evening of fine food, cocktails, and valuable insight on today's ever-changing market environment during our Elite Investing seminar. The event provides an opportunity to learn about exciting new investment opportunities designed to enhance your portfolio and discover new ways to diversify your investments.

The first educational seminar will be held on October 18th at the Westin Atlanta Perimeter North in Atlanta, Georgia, and the second will be on October 27th at the Northwood Club in Dallas, Texas. Both seminars will take place from 7:30pm – 9:00pm and are open to clients and invited members of your professional and social network.

To R.S.V.P. for either event, please call (214) 423-4203 or email RSVP@BotsfordFinancial.com. For more information about Elite Investing, see the article on page 3.

Introducing Our New Website

The Botsford Group has launched our new website! Please visit us at www.botsfordfinancial.com.



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Q3 2011 ECONOMIC UPDATE

Bryan Strike, CFP®, CPA



This was truly an unprecedented and downright ugly quarter for the United States of America and the world. Mostly notably, Standard & Poor's (S&P) rating agency downgraded the U.S. Treasury debt from AAA, the highest credit rating, to AA+. This, combined with more bad news in the European Union's struggle with Greece debt, has led to a strong retraction within the markets.

Market Recap

Market participants are beginning to realize what we have been preaching all along. Last quarter, I stated "the market is richly valued and investor concern and fear are driving them out into stable assets. Since fundamentals are faltering and negative macro-economic shocks are more frequent, the expectation is for a rough summer and third quarter." We are still there.

The Dow Jones Industrial Average fell 10.54% over the quarter, down 4.07% for the year. The S&P 500, an indicator of the top 500 publicly traded companies in the U.S., fell 11.19% over the quarter, down 6.74% for the year. Technology stocks fared slightly better over the quarter and for the year but small-capitalization securities, measured by the Russell 2000 index, fell a dramatic 16.4% for the quarter, down 11.73% for the year. On the commodity front, gold continued to march higher, up 22.29% for the quarter, and silver was up 17.82% on the quarter. Oil was down 7.5% last quarter and continued to slip, down 6.6% for this quarter.

The Economy

The U.S. economy has certainly seen better days. Unemployment remains stubbornly high, with year-over-year growth in non-farm payrolls of less than 1% and six-month payroll growth of less than 0.5%. In August alone there was no net job creation at all. Housing, although improving slightly, is still facing depressed valuations and sales. Domestic manufacturing is down, as measured by the ISM index. Consumer confidence is plunging. Real interest rates—interest rates less inflation—are negative. Various indices of economic activity continue to corroborate the high risk of an oncoming recession.

According to economist and fund manager John Hussman, "I'm not sure how other economists come up with the 10%, or 30%, or even 50% 'probability' numbers for recession that are reassuringly quoted by the media. I'm fairly certain they're tossing out numbers from the top of their heads, because statistical methods kick out a very high probability of recession here."

The Commodity Run

As discussed in our previous economic update, quantitative easing (QE) has gone through two rounds and the Federal Reserve is eyeing the possibility of a third. The past QE attempts have done nothing but provide a very temporary boost to speculation, which has already

reversed causing enhanced volatility in the stock markets and a plunging in the value of the U.S. dollar.

Generally, given the devaluation of one currency an investor could hedge its decline with the purchase of a foreign currency that is relatively appreciating. However, currently other central banks are viciously engaged in competitive currency devaluations, causing a spectacular rise in currency substitutes that cannot be printed by fiat—namely gold and silver.

Outlook

Last quarter, I stated, "The unimaginable government debt is merely sowing the seeds of the next crisis..." which cropped up in full force with the S&P downgrade. The U.S. national debt stands just shy of \$15 trillion, as of this writing, and this fiscal year through August the deficit is \$1.23 trillion. In other words, our debt is 5-7 times more than annual revenues to the government and we are spending about 150% of those annual revenues each year!

So, how is this going to play out over the next quarter? Some economists and money managers point to enhanced profit margins by companies leading them to higher expectations in the future. Unfortunately their analysis misses a few points: 1.) 22 cents of every dollar of U.S. personal consumption is currently being financed with transfer payments from the government; 2.) much of the profit margin increase is due to less expenses, in particular fewer employees; and 3.) wage compensation has never been lower as a share of GDP than it is right now.

Lastly, if President Obama's job's bill is passed, as currently drafted, municipal bonds will likely lose favor quickly among those most apt to invest in them—high income taxpayers. Why? As part of the job's bill, targeted to spend about \$447 billion, is a provision to generate income, primarily from the wealthy. The municipal bond provision only allows the interest earned on the bond to be exempt up to 28% rather than up to 35% for those taxpayers in the top income tax bracket.

Conclusion

This quarter I will wrap up with remarks from Howard Marks of Oaktree Capital, "We hear a lot about 'worst-case' projections, but they often turn out to be not negative enough...most people view risk taking primarily as a way to make money. Bearing higher risk generally produces higher returns. The market has to set things up to look like that'll be the case; if it didn't, people wouldn't make risky investments. But it can't always work that way, or else risky investments wouldn't be risky. And when risk bearing doesn't work, it really doesn't work, and people are reminded what risk's all about."

If you have questions about this article or our position on your investments, please reach out to your Relationship Manager.



UNDERSTANDING DURABLE FINANCIAL POWER OF ATTORNEY

By Jason Richerson, JD

A durable financial power of attorney is a good way to arrange for someone to manage your finances in the event you become incapacitated or otherwise unable to make decisions for yourself. A typical scenario is that a person (the “principal”) appoints another person or entity (the “agent”) under a general financial power of attorney. The principal determines how much or how little power the agent is appointed. The power given to the agent can apply to all the principal’s finances, or some portion such as financial investments. Someone you trust should be named as your agent. Common choices for agents are your spouse, a child, sibling or trusted advisor. Most states require the agent to be at least 18 years of age. In addition, you must get the agent’s permission to name him or her as your agent.

Why should I have a durable financial power of attorney?

It’s good planning! If you were incapacitated in a car accident or developed an incapacitating mental or physical disease, your agent could handle your finances without having to go to court. If you become incapacitated without a durable financial power of attorney, your spouse, close relatives, or current financial advisor will have to seek court authority regarding at least some portion of your financial affairs.

How do I create a power of attorney?

Most states require you be at least 18 years of age and competent enough to understand your actions. You can create a power of attorney by writing down exactly what you want your agent to be able to do for you. Legal assistance is generally advised throughout the process. The document can take effect when signed or can become effective when you are determined to be incapacitated by a doctor. The principal determines when the document takes effect during the creation process. Financial durable power of attorney ends when the principal revokes it, divorces (in some states), or upon death of the principal.

Many families view a financial durable power of attorney as a welcome blessing because it helps to protect their loved one during his or her time of need. Knowing your hard earned finances are in trusted hands should you become most vulnerable can be a comforting thought.



When You Think Investments, Think Elite

We are coming up on our one year anniversary of Elite Investing with The Botsford Group. The investments highlighted in this program have provided many of our clients diversification into investments less correlated to the stock market. We thought we would review the type of investments that have been offered through Elite Investing over the past 12 months. We have seen investments in:

Private corporate debt with:

- Monroe Capital
- Franklin Square
- Franklin Square Energy and Power

Venture capital with

- Hatteras Venture Capital

Equipment leasing through:

- Cypress Equipment Fund 17 & 18
- Cypress Income Fund 10 & 11

Mezzanine debt investment offered by:

- Terra Secured Income 1 & 2

Real estate investments with:

- DeBartolo Opportunity Fund
- Virtus Storage IV - self storage facilities

As many of you know, we send emails with new investment opportunities to our accredited investors who have elected to sign up for Elite Investing. An accredited investor is someone that has \$1 million dollars investable assets, not including your primary residence. If you meet this criterion and are interested in signing up for Elite Investing, please give us a call. You can also find out more information about some of our newest investment opportunities by attending one of our upcoming client events. Hope to see you there.



TRAVEL INSURANCE: A SMART BET FOR YOUR VACATION

Summer vacations are behind us and school is back in full swing, but that doesn't mean the travel season is over. Many people plan trips during the fall and winter, whether it's to watch the leaves change in Vermont, go skiing in Colorado, or take a cruise through the Bahamas. If you're thinking of a winter getaway, here is how a travel insurance policy can help you navigate a number of unexpected detours along the way.

- **Medical Emergencies & Evacuation** – Whether you are traveling domestically or abroad, a sudden medical emergency could end up costing thousands. This part of the policy explains the areas of coverage for emergency evacuation, limits on medical expenses and emergency dental work, and general policy exclusions.
- **Trip Cancellation** – In life, things happen. If you find that you cannot go on your trip due to unforeseen circumstances, such as illness or the death of a relative, you may be reimbursed for any non-refundable expenses, depending on your policy terms. Not all policies cover cancellation, and only some provide coverage if your trip is interrupted after you've left home, so read the policy wording carefully.
- **Baggage & Personal Belongings** – Although most policies will cover the replacement cost of your clothing and valuables, there are caveats. Carriers expect you to take 'reasonable care' of your possessions, which means a claim can be denied if you leave a camera in your car overnight, or leave your laptop on the table at a café while you order at the bar. Be sure to read your policy carefully for the coverage limits and exclusions, particularly for high-value items, like electronics and sporting equipment.
- **Personal Liability** – Some policies provide additional coverage if you are involved in an accident or are held accountable for damage that you caused inadvertently. This type of personal liability coverage is not applicable for accidents that happen while you are driving, and you should arrange for separate coverage if you are renting a car during your trip.

Finally, before you purchase travel insurance, confirm that it does not duplicate your current coverage. For example, you may be covered for theft and other losses away from home under your homeowner's insurance policy, and your medical and auto insurance may be valid in other countries. That said, when you are spending thousands on a special vacation that you've been planning for months, the small investment in travel insurance can provide an extra layer of protection for you and your family, and give you added peace of mind for your trip.

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Protecting Your PC

As people spend more and more time online, they become more vulnerable to losing their private information to a computer hacker. Here are three quick tips to protect your PC against unwanted intruders.

Password Protection – Never use the same password for more than one site, if personal information is stored within the sites. Do not store these passwords on your computer. If a hacker can gain access to your computer via any exploit, stored passwords on the computer can give access to all of your accounts.

Virus Protection – In addition to installing virus protection software on your PC, make sure that you keep all of your software programs up to date. Many manufacturers routinely release patches for known viruses and hacks. Ensuring that your operating system and commonly used software are patched can help reduce your risk of exposure.

Frequent Backups – Create a back-up of your desktop files to an external hard drive at least weekly, if not daily, in case you lose your data to a virus or hardware malfunction. Web-based services, like Iron Mountain, can also back up your files to a remote server automatically.

Whether you're paying bills online or chatting with friends on Facebook, your computer is at risk every time you connect to the Internet. By following these few precautions, you can safeguard your data, so you can surf the Web in peace.

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