Issue 6

August 2011

RAW

Natural and Unrefined.
Telling it like it is.

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From The Hip

What's Important to You?

On my agenda this morning was to finish writing the content for the August issue of the Lynch Financial Advisors Newsletter. I started writing two weeks ago about the market crash. Explaining what had transpired the first part of the month, meant dealing with finance, economics, and most importantly behavioral science (much of which is still in its infancy.) Wrapping my own head around it sometimes takes a pint. But, then we had a few up days in the market... then a few down days, then an up day... you get the point. It has been very hard to write this newsletter with a market that keeps changing!

Family is VERY important to me. I have four brothers. My oldest brother (Rick) spent 2 weeks at my house this summer helping me build a fence and renovate part of my backyard… he was my defacto foreman for that time. He worked hard out of love for me. My little brother Brennan, (whom I am not sure if he has ever become accustomed to me calling him "my little brother"), shares my love of hot rods. He is largely responsible for stoking the flames. My brother Dominic is the one that all the brothers can talk with, but on different subjects. He spent three years abroad teaching in Korea and spent his off time traveling and reading some of the great Russian works.

I have three daughters, Megan (7), Ciara (5), and Tiana (2). They are all beautiful, smart and funny in their own way. They all have times where dad is their best friend and others when mom is. I just found out the other day that when Ciara grows up she is going to marry me.

Just thinking of those times that my daughters have fallen asleep in my arms, nearly moves me to tears. I can almost put myself back in the moment. Looking down at their little noses, seeing myself adjust their heads on my arm and feeling the dampness from the sweat on their back of their neck… a sure sign of child fast asleep; these little beings that I help create are completely trusting that their dad will keep them safe. As I stand-up from my couch with a daughter draped across my arms, I know all to well that at one point I will not be able to protect her. And as I lay her down and pull the covers up just so that it covers her chin a little bit, my daughter lightly wakes up, turns and give me a kiss… and as her head turns back to the pillow I can hear your tender lips say, "I love you Daddy." Quietly and from deep in my heart I say, "I love you too".

There in the darkness of her room, I stand and look at her. Thoughts of her growing up run through my head. My biggest fear of her first date and the boys that she will date in the future start to enter into my thoughts and I feel as though I have little control and am unable to protect her. I have kisses for the bruises, Band-Aids for the scraped knees, but what do I have for the heart that gets broken?

What can I do? As a father I am the dad that says, "you're not bleeding, you're fine". To some I am sure I appear tough, however, I know what lies ahead for them. The road will not be easy. There will be times that they have to pick themselves up. While I would love nothing more than to feel the tight squeeze of their arms around me as they sink into my arms every time they are hurt, I know that this world is much too tough for me to take away their opportunities to grow. A mother bird may seem harsh when she kicks the birds out of the nest, but she knows that they are going to need to learn how to fly. My hope is that I raise strong enough kids that they can whether the storms of life, but I am tender enough so they know I am always here when they need shelter.

There are a myriad of analogies in the above writing that correlates to the premise of my blogs and my newsletter and it feels almost shameful to now take my deep love that I am expressing for my daughters, and turn that into how one can deal with the markets, their finances, and their life. So I won't. I will only encourage you in three areas:

1. What is important to you?
2. How do you relate to the story?
3. Do you feel safe and secure? If not, why?

Events

Dinner Meetings Open For Clients & Prospective Clients
Our next dinner for clients to invite prospective clients to dinner (for free!) is scheduled for **September 14th**. Email Mike to reserve the date!

Alliance of Cambridge Advisors Annual Update Conference September 21-25, 2011
I will be out in Kansas City, MO for the ACA annual update conference, as well as meeting with a client that lives in Kansas City. The update conference is a great time to connect with other Fee-Only advisors in the Cambridge organization, share information and expand our knowledge.

In the News Today

Six months ago two sailboats left from San Francisco, one was captained by the boats owners, the other by a seasoned Captain (one that has been in out in the ocean for over a decade on a multitude of different boats). Today, the owners that are sailing by themselves are stuck in high seas, roughing it out because they believe that this is how everyone else is doing. Little do they know that a boat that left from the same harbor sailed far around the storm and is still on course for the boat owner's destination.

For those of you that are my clients, you know which boat you are in.

For weeks now, advisors have been fielding clients' calls, "How much more is it going to go down?" "Do I get out now?"

I can hear the echoes from far way: "I tried to help a client transfer money from Wells Fargo last week. I could not get anyone on the phone, instead I heard this message: *We are experiencing higher than usual call volume. Please do not leave a message as we will not be able to return it.*"

For those that have been around a while, this is a classic market correction. One foretold by many of the managers we use (as evident by most of their lack of correlation to the market). So while it is nice to know that right now we have missed much of the storm that is affecting others, I am sure there are questions of whether we will end up running into this storm in the future. Let's try to see why we had this and how it correlates to try to answer the question.

While I would love to point to one piece of evidence to say what created the storm, it would be conjecture at best. For years now, I, along with most of my clients have been worried about the growing deficit, which has added undue weight onto our debt. For those that hated Econ 101 class remember the deficit is what you are short currently, e.g. if you don't have enough money to pay your bills this month and you have been putting it on the credit card, the lack of funds is the deficit, the borrowing on your credit card is your debt.

For years, the average consumer had loaded on so much debt (housing, etc.), that they couldn't afford to pay it and started to default. We can blame the banks, lenders, etc., but at the end of the day, the consumer made the decision to make the purchase(s). We all know how that story ended.

Over the last few years a similar story has been playing out in governments throughout the world. Governments have been borrowing money and loading up the debt. And similar to the consumer, they are living in hope that they can make enough money (tax revenues) in the future to pay the debt they have accumulated.

Now, as my clients know, debt itself is not always bad (home and education are allowed). The idea, though, is that they have to be able to afford it. In our country's case, our debt load is increasing faster than our revenues. For you "home gamers" that simply means as we grow the economy (measured in GDP- Gross Domestic Product), the government hopes to collect more money. Think of it this way: If you get paid 5% for something you sell and every year the price of the product you sell goes up, but your commission stays at 5%, you would make more money each year. So, to put this into government terms, taxes are the are the commission the government earns on the

Events

September 14, 2011
Client Dinner Meeting

Sept. 21-24, 2011
Cambridge Conference

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products/services its people produce. As the prices of these products/services go up, the government makes more money (assuming taxes don’t go down). Now take the above analogy and follow this country over the last few years; we lowered overall taxes (cut our commission), gave money away (stimulus program), spent more money (health care, etc.) which has increased the debt we have. All the while we have gone through a few years now of low to no domestic product growth (read: less tax revenue). If you and I did this we would be in bad shape!

This is the simplest explanation I can give you for the market correction… but that really is just the tip. Because all of what I just mentioned should have been in the market… right? What they call “smart money”, that is people that buy and sell stocks and bonds for a living should have known all of this. If they did, then they should have discounted the prices of bonds and equities in relative terms to the information that they have. If they had been following what was apparent in the market, then we would have **slowly** grown out of the pull back of late 2008 and early 2009.

The answer is that the market doesn’t get this stuff right often (in the short term). The reality is that the market tends to move forward in a “heard” fashion. For nearly a decade I have argued that we need not concern ourselves with the heard. Much of what is in a client’s portfolio has little to do with the heard. Actually, some of what is in clients’ portfolios is actually betting against the heard.

I am going to leave you wondering about this heard and why the “heard” approach is wrong. If you want to get into this deeper take look over my white paper on Risk Assessment vs. Absolute Return on the website. To move away from the heard, let’s talk about some things that you can do. Let’s talk about some areas you do have control over.

What should you do?

1. If you have a loan that is over 4.675% it is likely time to refinance. If you are one of these people, and I have not contacted you, please send me an email. As everyone knows, I don’t make money off of your refinance. My only incentive is to help you!

2. Get to know your household “income statement” What are you spending? Are you spending in areas that you value?

3. Be ready for rebalancing your portfolios in late October/early November. I will GUESS that we will be choppy for the next few weeks. Once summer is over we may pick up some traction as the government is likely to announce some measures to get the economy moving more. By late October/early November, we should have some vision of direction. While we don’t “time the market” we do believe in being aware of our surroundings.
4. Most important: Go out and have fun with your family and friends. Spend time learning something new about what you are passionate about. See how you can create more value in your work environment.

Living

Business Ownership Transition Allows Couple to Move to the Farm and Plan for Retirement

The Johnsons hired Lynch Financial Advisors to help them secure their financial independence while preparing for retirement. The retirement issue led to discussions about ownership in the company the Johnsons had worked at for more than 20 years. They had a minor share in the business, however it was unclear how or if ownership would transfer to them if the current owners were to pass away. Our clients thought that the owners would simply give them the business, because it was like a “family,” and because they had done most of the work to build the business. We worked with the Johnsons to get more information and to ensure there was a corporate document stating what would happen in the case of a death of any of the owners. After further digging, we learned that the owners were not planning to give up their portion of the business. To the contrary, they wanted their share to be purchased for a seven figure number! While this came as a shock to the Johnsons, it inspired them to take action.

We brought in a CPA who specializes in company valuations and began negotiations between the Johnsons and the company owners. As with all negotiations, discussions became tense at times, but a price and terms were finally agreed upon. It took a lot of work for all parties involved, and a lot of time in Excel spreadsheets to come up with a fair valuation for the company, but after three years, a purchase agreement was signed.

Since then, the Johnsons have doubled sales, as well as the value of their company. Now they are planning for next leg of their journey… retirement.

This entails identifying and compensating key employees who can eventually take over operations and reviewing the company's financials to find new ways to increase profits. It also includes establishing a long-term buy-out solution that won't transfer too much of the business to the employees, ensuring the Johnsons are on track to reach their retirement objectives.

Today, the Johnsons are living exactly where they want to – out in the country – and they are enjoying working together to grow their business until they are ready to retire.

This case study describes actual client success stories and does not infer specific or guaranteed returns/results.

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