Wealth Builder

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LEGACY WEALTH MANAGEMENT, LLC
THE BERRY-EDEN-FUNDERBURK GROUP

Why China Matters By Linda Eden, CFP®

Global diversification is a prudent and widely accepted investment strategy. A consumer actually has to be very deliberate if they intend to purchase products made "only in America." You might think that by owning an S&P 500 index fund, a widely accepted barometer of the U.S. stock market, you'd only be investing in the U.S. In reality, however, as much as 50% of the sales and profits of those American companies come from overseas markets.* So it shouldn't be surprising that the stock market's recent correction was partly due to weakening international markets, specifically China's.

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Avoid the Noise By Jeff Funderburk, CFP®

Chinese Stock Market Plunge Causes Global Rout!

Stock Market Turmoil: Dow Plummets More Than 1000 Points!

Why Stock Markets Are Melting Down All Over the World.

These are just a few of the headlines that came up as I Googled the search term "Stock Market" this morning, August 24th, 2015. With headlines like that becoming more and more prevalent, how can every-day investors be expected to make logical, non-emotional, investing decisions?

I get it, days like this where the bottom seems to fall out of the market are scary. We've worked hard for every penny that we've invested. We don't like seeing our account balances decrease, ever (even though we know logically that they can't increase all the time).

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> *"Unlike Greece, the world's economies and investors are much more exposed to any spillover effects from China due to our significant economic and financial links."*

Why China Matters Continued from p. 1

What happens in China can have a significant impact on our economy for a number of reasons. First of all, China is the world's second largest economy next to ours and it appears to be slowing dramatically. Add to that Beijing's unexpected move to devalue the Yuan on August 11th, raising concerns that China is manipulating its currency to make their products more competitive in the world's markets. This has left investors wondering if China's economy is even weaker than its government is willing to admit. An economically weak China lowers the demand for U.S. and international exports and reduces corporate profits, which in turn harms the markets; as stock market gains are primarily driven by corporate profits.

China is the largest buyer of industrial commodities in the world. The weakening economy and the possibility of lower than expected sales is pulling down the price of oil, copper, aluminum and iron ore. In fact, the price of oil has fallen about one third since mid-June when China's stock market began to slide. This is especially damaging to other emerging market economies, like Brazil, who export a lot of natural resources.

China is also the biggest foreign investor in U.S. government debt, owning about one fifth of all our public debt held by foreign countries. If China needed to draw on its huge investments in the United States to support its economy, that would raise the pressure on our U.S. bond market. More pressure on the U.S. bond market means higher interest rates. Higher interest rates mean higher borrowing costs which hurt businesses and consumers and may cause them to pull back on their spending. Consumer spending accounts for about two thirds of our economy's GDP. China's large reserve of U.S. bonds also gives them leverage; they can threaten to sell their U.S. bonds whenever we pressure them to raise the value of the Yuan.

In summary, unlike with Greece, the world's economies and investors are much more exposed to any spillover effects from China due to our significant economic and financial links. If there is one thing the markets dislike it is uncertainty. As China's economy becomes increasingly important to global investors, its government needs to be more forthcoming about the status of its markets and what they plan to do to address any weaknesses. Until they do, it will be difficult for them to assume their full responsibilities in the global economy. ♦

*Forbes/Investing – August 14, 2011

Avoid the Noise *Continued from p. 1*

By nature we pay more attention to the fear of what we can lose, than the hope of what we stand to gain. That fear often times is what drives investors to make investment changes, not based on a fundamental change to their overall financial plan, but purely out of emotional reaction.

Often times, those emotional decisions that make us feel better are actually not healthy investing decisions. But in this day and age of instant information we are constantly inundated with information, good and bad, that we have to sift through to aide us in making wise decisions. So what can we do in the here-and-now to be successful over the long-term?

Here are three tried-and-true behaviors that successful investors practice.

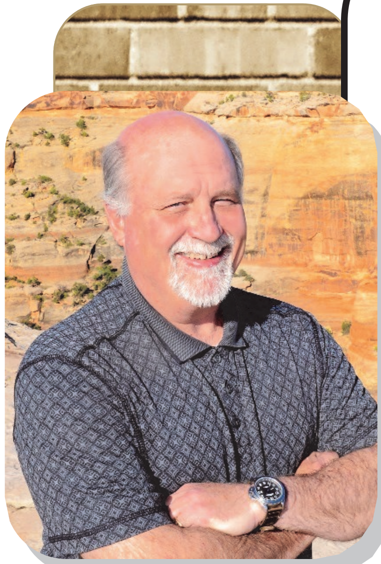
1. Maintain your Perspective – The investments that we hold should be custom-tailored to our timeframe, risk appetite & ability, and ultimately have been chosen to help us meet our long-term goals. For most of us a year feels like a long time, but in the investing world even an entire year is a small slice of time, relative to the timeframe set out to achieve our long-term goals. Over the long-term (5, 7, or even 10+ years) these market down-days, weeks, months, or even years, become just temporary declines in the permanent uptrend that the market has displayed throughout its entire history. It's important to always maintain this long-term perspective, especially during heightened market volatility.

2. Leave Emotion at the Door – Easier said than done, but possibly one of the most important behaviors to practice. Having someone that can act as a buffer between our emotions and the trade button is a great way to separate our emotions from our investments decisions; helping us to invest with logic and discipline rather than emotion.

3. Avoid the Noise – Realize that newspaper, TV, magazine, and internet pundits are all out for subscriber growth, ratings, or click; they are not out to provide us with wise investment advice. Doom & Gloom headlines sell better than All is Well in the World headlines. Keeping this in mind should make it easier to avoid the noise and stick to the plan.

Maintaining calm and discipline through heightened market volatility is not easy, but it is extremely important to the overall success of our financial goals. By separating our emotions from our investment decisions, maintaining focus on the long-term plan and ultimately avoiding the noise, will help to set us up for success. ♦

"By nature we pay more attention to the fear of what we can lose, than the hope of what we stand to gain."



Learn From the Greeks By Mike Berry, CFP®

The situation in Greece has been a long time coming and was basically caused by a three headed beast. The first head is that Greeks have a long history of hating to pay taxes (don't we all). But Greece has the highest non-compliance rate when it comes to following the tax code of any civilized nation in the world. It's like a national pastime to cheat on your taxes. To compound that issue is the second head of the beast, the fact that Greece has a huge amount of government entitlement programs. Recently I heard an interview with a retired Greek who worked as a bank teller for 30 years, never making more than the equivalent of $30,000, and is now receiving an annual government pension that is the equivalent of $50,000. That's why there is rioting in the streets when austerity programs are introduced. These people are well taken care of by the government and don't want to have to go back to work. The third head of the beast has been birthed by the first two and is that Greece has borrowed so much money to make up for low tax revenue and high paying entitlement programs that no one wants to lend them any more. Greece's lenders (the other countries of Europe), are demanding Greece reduce its spending and begin increasing revenues before they will give them more money.

"We need to be asking ourselves, 'what can we learn from the situation in Greece?'"

Now let's bring it back across the Atlantic to the good ol' U.S. of A. While we currently have pretty good voluntary compliance with our tax code, that compliance rate is going down. Even though most citizens believe in paying their fair share, the complicated tax code makes compliance more difficult and with all the credits and exemptions, close to half of all our taxpayers pay no federal income tax at all. In addition, because of the unfavorable tax climate for businesses, many are moving overseas to pay lower taxes. We currently have more people receiving government handouts of one form or another than ever before. This has made it hard for people to go back to work because it means losing some benefit or another. Our national debt is not anywhere near as large as Greece's when compared to our GDP, but the interest payments alone take up about 20% of all tax revenues collected and if we keep borrowing, someday our lenders will consider us too high of a risk and turn the money spigot off.

What can we learn from the situation in Greece? The answer is that we are creating the same three headed beast here in the USA that has crushed Greece. The good news is we still have time to slay the beast. But first, we have to open our eyes and learn from the Greeks. ♦

Margin or Margin? by Dan Funderburk, CFP®

Ironically, when it comes to finances, the word "margin" can take on two very different, almost conflicting, meanings.

On one hand, margin is used to describe a very aggressive investment strategy. Margin in this sense is taking on debt to invest. This strategy allows you to magnify the returns of the general market. If the market is up 10%, you could very easily expect to be up 20% if you are using margin. Conversely, if the market is down 10%, you could very easily be down 20%. This type of strategy is typically reserved for speculators and day traders and isn't appropriate for those who are investing for the long-term.

On the other hand, margin can be used to describe a lifestyle that allows for *breathing room*. This is the type of margin that allows you avoid panic if you get laid off because you have an adequate emergency fund. This type of margin allows for a broader peace of mind and confidence in the midst of day-to-day stressors that constantly bombard us. This margin gives us the freedom to not worry about the short-term fluctuations of the stock market (and believe me, we've seen plenty of that recently – did you read the *Avoid the Noise* article?)

Breathing room margin doesn't happen on accident. To achieve this type of margin one must live intentionally. But how do we achieve this type of margin, specifically in our finances? I think it boils down to five foundational principles that should drive our financial behavior:

1. **Spend less than you earn**
2. **Avoid the use of debt**
3. **Build liquidity**
4. **Set long-term goals**
5. **Be generous**

None of these principles are new or groundbreaking (except potentially "being generous" – more to come on that in future blogs and newsletters). However, if we have the discipline to follow these principles it will have a profound effect on our lives.

"Money, much like fire or water, makes a wonderful servant and a horrible master."

Money, much like fire or water, makes a wonderful servant and a horrible master. If we live by these principles we would soon find ourselves controlling our money instead of our money controlling us. We would learn the value of postponed gratification, which creates margin in our immediate life, but also increases the joy we experience when we finally do achieve what we wanted.

So, margin or margin? Should we reach for excessive returns by leveraging ourselves and increasing our stress levels, or should we live in such a way that creates breathing room in our lives? As for me and my household: we choose the latter. ♦

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