Wealth Builder

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

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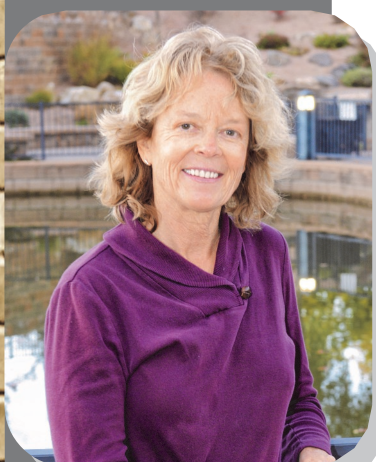

Glass Half-Full By Linda Eden, CFP®

I'm a glass half-full kind of gal. I discovered a long time ago it's the best way to live life if you want to be reasonably happy. As I look back over twenty-two years in this profession, I realize that a person who is not fairly optimistic would never make it in this business. I was a banker long before I was a financial advisor. About the time I left banking to start my own financial planning practice, a friend of mine in the banking industry did the same.

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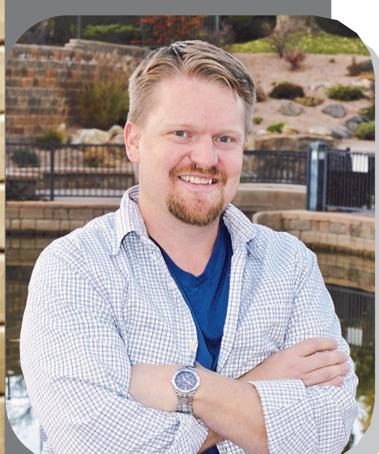

Climb Above It By Jeff Funderburk, CFP®

Interest rates are rising. We don't know how fast, or how high, but we all agree that they are going higher in the future if for no other reason than they can't realistically get much lower. As interest rates rise, the prices of bond investments fall – this is a fundamental concept of fixed-income investing known as interest rate risk.

If you're a fixed-income investor what are you to do when faced with those facts? How do you avoid the risk of falling bond prices if you need to invest in them for current income? Climb above it! How do you do that? The same way you climb above anything else, build a ladder. A bond ladder to be more specific.

A bond ladder is a fixed-income investment strategy that can help you avoid interest rate risk and volatility associated with equities, while at the same time provide you with current income, a level of principal protection, and predictable cash flows.

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GLASS HALF-FULL *Continued from p. 1*

He was an honest, very likable guy but he struggled with making any investment recommendations other than very short-term fixed income investments. Most of his investment experience had been in bank CDs. That's what he was comfortable with. He didn't have much confidence recommending other investments because, well they just bounced around too much. They made him nervous.

The reason optimism is an essential trait when it comes to investing is that fear makes a pretty poor investment strategy! Lifetime investment outcomes are influenced more by temperament than intellect. Successful investing requires an abiding faith in the future. Without that view why would you invest in the great companies of the world at all? I believe, as with any desirable goal, successful investing is directly attributable to a sense of optimism, even in the absence of any reason for that belief at the time. The result is *courage* to stay the course. This is not a pie-in-the-sky; the sun will come out tomorrow kind of attitude. I believe it's the emotional fortitude required to stay the course when the stock market and the world feel like pretty scary places to be.

"I believe successful investing is directly attributable to a sense of optimism, even in the absence of any reason for that belief at the time."

Why is that important? It's important because I believe the greatest risk we have as investors is not stock market volatility, but rather the risk of out-living our money. The best way we can help our money last as long as we do is to invest it in such a way that it grows at least as much as the cost of the things we need to buy and the taxes we must pay. For most of us, that will not happen if our money is invested in cash equivalents. The only thing those types of investments will assure us is the reality that as we age our money will buy less and less of the things we want and need.

So, until the day comes that I don't need to buy food, clothes, tires for my car or electricity to light my home, I will continue to invest in and remain optimistic about the future of the great companies of this world that produce the things I need. Because in the end, it is and always has been consumer spending that drives the market.

As your financial advisors our number one priority is helping you achieve your financial goals and helping you maintain perspective in the face of short-term distractions. ♦

Climb Above It *Continued from p. 1*

The concept is quite simple and best illustrated with an example. Let's say that you have $100,000 to invest and want to set up a 5 year bond ladder. To start you would invest $20,000 in each of 5 bonds ranging from 1 to 5 years in maturity. The 5 bonds would each represent 1 "rung" in the ladder. At the end of the first year after setting up the ladder, and for each of the four years after that, one bond would mature giving you back the principal that you invested in the bond. This is how ladders provide a certain level of principal protection; if you hold the bonds to maturity you get your principal back.

So you get predictable current income and some principal protection, but how does this ladder get you above the interest rate risk? Well, it's as you may have already guessed. As you reach each rung in the ladder (i.e., the nearest-term bond matures and pays your principal back to you) you are able to take that cash and invest it into new rung higher up on the ladder (i.e., a new bond with a new maturity date). Since rates have been rising, the new bond pays you a higher interest rate.

We all know that all ladders come with safety warnings, and bond ladders come with two very important ones. Market influences and interest rate changes will cause each bond's price to fluctuate up and down every day. If you have to sell prior to maturity, you could have to sell your bond at a loss and you lose your current income. But if the bond is held until maturity you don't really care about those fluctuations because you know you get your full principal back when each bond matures. Selling early is equivalent to dismantling a ladder while you're still standing on it – not a great idea. The safety lesson here is that you only construct a ladder with cash you can commit to leaving in the ladder until you climb the entire ladder. You don't want to find yourself stuck halfway up.

The second safety warning is that because each rung in the ladder consists of one bond of one individual corporation vs. hundreds of corporations' bonds in a bond mutual fund, bond ladders expose you to more credit risk (the risk that the corporation can't pay back the bond as promised). For this reason bond ladders should always be constructed with bonds of corporations with solid credit ratings.

Bond ladders are not appropriate for all fixed-income investors, but they are a very successful strategy when used for the right investor, at the right time, while abiding by all safety guidelines. If it seems like it may be appropriate for you let's discuss it and see how high you may want to climb your ladder. ♦

*Fixed income investments are subject to various risks including changes in interest rates, credit quality, inflation risk, market valuations, prepayments, corporate events, tax ramifications and other factors.

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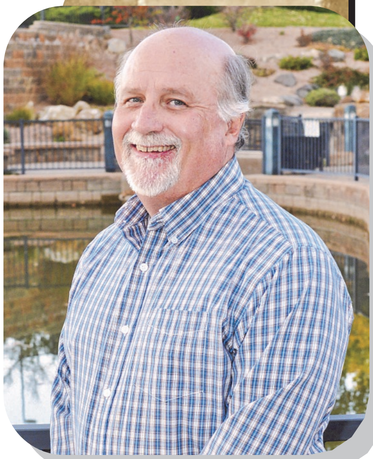

VOLATILITY By Mike Berry, CFP®

"We've certainly seen a fair amount of volatility in the markets lately." I hear that comment a lot from people these days. They are generally referring to the movement up and down of the financial markets. But what is volatility, really?

The word is from the Latin word "volatilis," meaning fleeting or transitory. In chemistry it is used to describe the speed at which a substance turns from solid to liquid, from liquid to vapor and so on. In my profession, volatility is a statistical measure of the dispersion of returns for a given security or market index. It can be measured by standard deviation or beta.

Really all that fancy talk means is that when you are an investor, you are subjected to returns that aren't fixed. Over time you can measure the average annual return of a particular investment, but rarely does it hit that average in any given year. Some years it may return more, and some years it may return less. By tracking these annual returns, you can find prices that seem to be a floor (meaning the price rarely goes below this figure) and ceilings (price levels that it rarely goes above). The spread between the floor and ceiling is the volatility of that particular investment.

"As investors, we are compensated for assuming this volatility in the form of higher average returns."

As investors, we are compensated for assuming this volatility in the form of higher average returns. In the 30 years I've been a financial advisor, I've seen the S&P 500 Index gain over 30% in a year and I've seen it lose over 30% in a year. Since 1928 the average annual return of the S&P 500 Index is roughly 10%. Treasury bonds are much lower in volatility, and currently the 10 year Treasury bond yield as of March 7, 2016 is 1.91%. So, which would you rather have? How you answer that determines whether you are an investor or a saver.

Volatility comes from many sources. It can come from either good or bad earnings of a company or leadership change in a company. It can come from good or bad trends in the particular industry of the security or from broader economic trends around the globe. We, as investors can't control it and we can't predict it. But without it, we wouldn't have any reason to expect higher returns.

All we can do is prepare for it and remember that over the long run we are being compensated for assuming volatility. ♦

Beanie Baby Phenomenon By Serenity Melnick, CFP®

I admit it; I have two (ok, ok it's three) large totes filled to the brim with beanie babies hiding under my bed. The expression on your face is I'm sure similar to the look on my husband's face when we got married and merged all of our earthly belongings—a look of horror and bemused sadness. Oh and eye rolling. There was a lot of eye rolling and heavy sighing.

Yes, I succumbed to the beanie baby craze of the 1990's. I loved those things. But more than the love of collecting and hoarding the little guys, I honestly believed I was making an investment in my future. My 10 year old self was convinced that I would someday cash in on my fortune. Sure I might have to wait it out, 10 maybe 20 years. But soon I would be a part of long-term thinking few who would surrender their mint condition collection and reap the fortune we had waited for. "Someday this will be my retirement," I routinely told acquaintances. How cool was I?! While other 10 year olds were playing sports and enjoying their childhood I was planning for retirement. There was even a beanie baby handbook, stating how much they were currently worth and how much they could be worth in the future. It was practically a no brainer.

Now, while this is all hilarious and even a little sad now, it's really no different than any other mania investors have succumbed to over the past decades. Anyone remember technology stocks in the late 1990's? Buying Gold at $1800 an ounce in 2011 or going to cash during the Great Recession. I call it the *Beanie Baby Phenomenon.*

"We as humans are really good at getting sucked into mania."

We as humans are really good at getting sucked into mania. And most investors do the very opposite of what we know we *should* do. Financial wisdom says to buy low, sell high. However, we are usually pretty amazing at buying high and then selling really, depressingly low; my beloved beanie babies are currently selling on eBay for around $2.

Here's a good rule of thumb, by the time any investment or craze has reached the mania point, steer clear. When it seems like everyone is talking about buying a specific investment whether it's gold, silver, oil or a specific stock; steer clear. It's too late. When everyone is panicking and selling and you're tempted to liquidate your entire 401k, hold on. A price bounce is likely eminent.

The best thing you can do for your investment portfolio and your own sanity is to consult with a financial advisor you trust, prioritize your goals, make a plan to reach those goals and then simply hold the course. Pay no attention to the mania raging around you or you just might find yourself the proud owner of a few hundred worthless Beanie Babies. ♦

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