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Wealth Builder

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LEGACY WEALTH MANAGEMENT, LLC
THE BERRY-EDEN GROUP

The End is Near

By Linda Eden, CFP®

As I write this, Serenity and I are sitting in the San Antonio airport waiting for our flight back to Grand Junction. We have just finished an intensive 1½ day meeting with the bond traders and portfolio analysts at "Advisor Asset Management" (AAM). AAM is an investment company that our broker/dealer Cambridge Investment Research has affiliated with to provide us access to experts in the fixed income market. These are the folks who spend their days on the bond trading room floor and are the people we turn to when shopping the best bonds to buy for our clients. They also employ bond analysts who study the risks involved in fixed income investing such as credit and interest rate risk to name a few. Why, as the stock market is taking off and the economy is finally showing some signs of life are we so interested in bonds?

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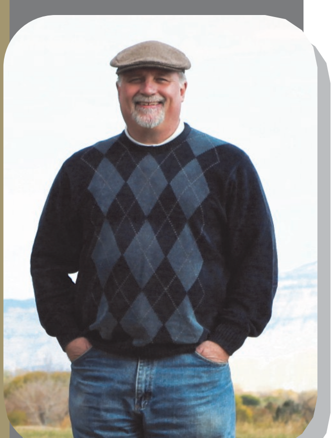
It's About Life

By Mike Berry, CFP®



Having begun my 27th year as a financial advisor, I spent some time reflecting on many of you. There are many of you who have been with me 20 to 25 years of the 27 I've been doing this. I've been blessed to be able to hear about so many wonderful things that have happened to you over the years as well as many of the tragic ones. I've met many of your children and even some grandchildren (or at the very least been shown pictures of your grandchildren). You've often called and said it was time to invade the college fund and that you were shipping one of the kids off to college. I've heard about your trips and seen pictures of places you have been. I've been able to see many of you "retire." For some, that meant going from one profession to a different one.

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> *"The Federal Reserve has been feverishly administering medicine in the form of historically low interest rates."*

The End is Near *Continued from p.1*

The answer is because many of you invest in them and one of our jobs is to pass our knowledge on to you. In this article I hope to help you see that, "the end is near!"

Now I'm not saying the Mayans were right and the world really IS ending. No, I'm talking about the end of a secular bull market in bonds. The stock market has experienced a decade of money moving out of stocks into bonds, cash and gold in an effort to find safety. Bonds are more popular now than tech stocks were in 1999 (think '.com' bubble). The bond experts we listened to believe over the next few years we will experience a reversal of that trend, or what they are calling "The Great Rotation." Why do they believe this? Because investors generally won't stay in places where they're not rewarded for the risk they're taking. At no time since 1790 have interest rates been this low for this long. Bond prices have been bid up by investors seeking safety which has driven the yield down. Bonds are now trading at the highest price and lowest yield in history. In other words, in many cases bond investors are no longer being adequately rewarded for the risk they're taking.

After the Great Recession brought our economy to its knees, the Federal Reserve has been feverishly administering medicine in the form of historically low interest rates. That was followed by more medicine called QE1, QE2 and for good measure, most recently QE3. QE stands for "quantitative easing," a process through which the Fed has been buying U.S. Treasuries and government agency mortgage bonds from banks in an effort to put more money into the market and encourage the banks to lend.

All this quantitative easing was designed to drive bond prices even higher by taking some of the supply out of the market. It's a supply and demand thing, more dollars chasing fewer bonds drives their price up. When bond prices go up their yields go down making them less attractive. The Fed is attempting to make U.S. debt (bonds) less attractive than other types of investments – such as stocks. They are essentially trying to create some inflation and a reasonable amount of inflation is a good thing. As the price of our homes go up we feel better about our net worth. As stocks go up we feel even better about our retirement accounts. When investors feel more confident about their finances, they are more willing to spend money. Which is important, as consumer spending accounts for about 70% of the growth of our economy.

What does all this mean for bond investors?

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It's About Life *Continued from p.1*

For others of you, it was just not working as much. You have allowed me into your life to help you with the death of a spouse, or worse, the death of a child. I've talked through your struggles as you wrestled with having to put a parent into a nursing home. I've seen many of you hit milestones, such as 50th wedding anniversaries. That's the beauty of the job I have. It's not always about dollars and cents, it's about life, and I've been able to share it with you.

So now, I'm going to share a little bit of my life with all of you. I know you are going to find this hard to believe, what, considering how young I look and act, but Deb and I are going to be grandparents for the very first time! Our son, Jason and his wife Colleen are expecting and due sometime around the end of August or early September. If children are a blessing from God, then grandchildren are the grand prize! Honestly, Deb and I weren't sure that this day would ever come. Jason and Colleen seemed to enjoy each other and the freedom that comes from not having children. They love to travel and have been to Egypt, Argentina and Belize together since getting married. It seemed like their dog, Watson, was going to be our grandchild. Nothing against Watson, but once we heard the news, Deb, Kayla and I were fist pumping and high fiving around the house for the better part of the day!

I'm so much looking forward to the opportunity to be Grandpa Mike. I had wonderful grandparents and my memory is full of good times spent with them. Riding on a tractor and plowing wheat fields in Northwest Kansas with my Grandpa Fred. Playing dominos and getting soundly trounced by my Grandpa Clyde though he did let me win every once in a while, just so I would keep coming back and playing more. Shucking corn just picked from the garden, early in the morning with Grandma Bessie and then eating those big fresh ears of corn for lunch. Grandma Ella taught me to bowl! I never could beat her at it until she got to be about 90 years old. Our kids have been blessed the same way with wonderful grandparents, though we lost Nana Pat much too soon in 2011.

So, as I begin this new "grand" era of my life, I need to warn all of you that you will have to endure pictures and even likely some more pictures. Our meetings might last a bit longer as I regale you with stories about my grandchild. I might even be out of the office a bit more as we sneak down to Phoenix to watch our grandchild while mom and dad slip away for a break. But then, it's not always about dollars and cents, it's about life! ♦

"If children are a blessing from God, then grandchildren are the grand prize!"

Debbie, Linda, Jason, Kayla, Colleen and Mike

> "The best time to invest is when you have the money to invest. Trying to time the market inevitably leads to frustration and errors."

Top 5 Investing Myths

By Serenity Melnick, *Associate Financial Advisor*

Last week I was at a networking group where we were each asked to share the biggest myth about our industry. While it was a hard question for many people, it's a concept I'm very familiar with. For me, this is one of the main challenges of being in this industry; there are SO MANY misconceptions about investing! No matter where I go or what age group I'm talking to, there are always a number of investing "myths" that seem to come up in conversation. Below are the five most common myths about investing:

1. You have to have a lot of money to invest.

It doesn't take much to start an investment account. Many accounts can be funded with as little as $250-$1,000. The important thing is to just start. I run into people all the time who believe you have to be wealthy before you can begin investing. The truth is it's pretty hard to build real wealth *without* investing.

2. The stock market is too risky, I'm better off stashing my money under my mattress.

By stashing money under your mattress, you are essentially losing 4% per year to inflation. Inflation robs us of our purchasing power, meaning that it takes more money in the future to buy the same things we purchased today. The classic example of inflation is the postage stamp. In 1980 a First Class stamp cost $0.15; today that same stamp costs $0.46. The truth is you cannot build long term wealth by stashing your money in the ground. At the very minimum your money has to keep pace with inflation, and historically the best way to beat inflation is through investing.

3. I can't afford to save for retirement.

You can't afford NOT to save for retirement. As the US Government continues to spend at rates it has no hope of funding, you can be sure that programs like Social Security will see major overhauls in the future. The specifics are unclear but it's certain that future generations will be more and more responsible for their own retirement. The sooner you start saving for retirement, the better off you will be.

4. I'm waiting for the best time to invest.

The best time to invest is when you have the money to invest. Trying to time the market inevitably leads to frustration and errors. The best strategy is to invest consistently over a long period of time, no matter what the market is doing.

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The End is Near *Continued from p.2*

First of all, realize this process may take years to unfold. Secondly, we should expect lower returns from bonds in the future. As the economy recovers, the Fed will eventually raise interest rates which will cause bond values to drop. I'm not saying it's time to dump all your bonds.

There will always be a place for fixed income in a well diversified portfolio. I'm just saying it's important to understand how a recovering economy and rising interest rates will affect bond values. To be sure, bonds are no longer the slam dunk investment they once were. As the fundamentals of the economy change, Mike, Serenity and I seek to understand how those changes will affect your investment returns. As we review your investments this year, one thing we will focus on is reducing risk in the fixed income portion of your portfolio. We have lots of ideas on how to do this and look forward to talking with you about it. ♦

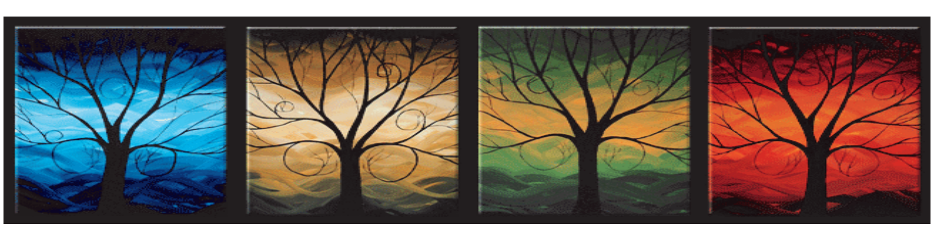
Serenity and Linda visiting The Alamo while in San Antonio!

Top 5 Investing Myths *Continued from p.4*

If the market is down, your contribution will buy you more shares. We buy clothes and food and big screen TV's on sale, why wouldn't we want to buy our shares on sale too?

5. Financial Advisors are expensive; I'm probably getting charged lots of hidden fees.

There are two main ways financial advisors get paid; through a commission when you purchase something or as a percentage of assets under management. You can either pay a commission up front, or pay a yearly fee based upon your account value. Either way, we will always tell you the complete cost up front before you make any decisions. We want our relationship with you to be based upon trust and mutual understanding, not trickery or fancy sales lingo—I'm no good at sales lingo anyway. ♦



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372 Ridges Boulevard • Grand Junction • Colorado • 81507 • (970) 241-5143 • www.legacywealthgj.com

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