Simmons Wealth Advisory

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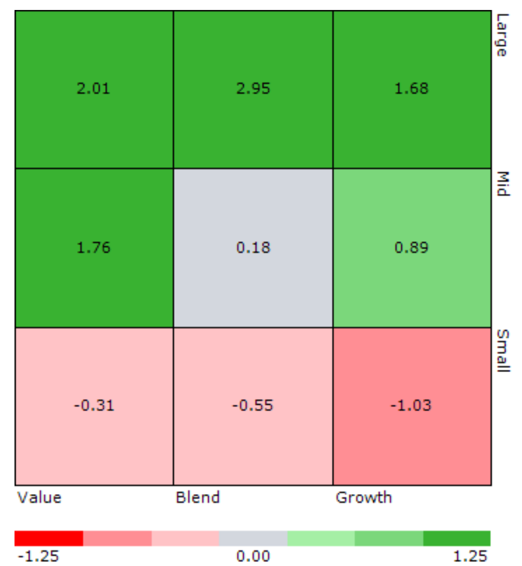
Monthly Market Barometer



1 Month, ending April 30, 2013. The U.S. Market returned 1.74% (YTD 12.94%).

The Morningstar Market Barometer provides a visualization of the performance of various stock market indexes. The color scale (red for losses and green for gains) allows you to assess which areas of the market performed strongly and which areas showed weakness for the time period analyzed. The nine-square grid represents stocks classified by size (vertical axis) and style (horizontal axis). There are three investment styles for each size category: small, mid and large. Two of the three style categories are "value" and "growth" while the central column represents the core style (neither value nor growth characteristics dominate). Large-caps account for the top 70% of the capitalization; mid-caps represent the next 20%; and small-caps represent the balance.

Advisor Corner

MARK SIMMONS
President

Mark@SimmonsStrategy.com
(225)612-2442
www.SimmonsStrategy.com

A veteran in the industry, albeit a young one, Mark has developed a distinguished reputation for his approach to financial planning and portfolio management, which have become the foundation of the firm's core philosophy. He has received wide publicity for his investment insight and has been featured in numerous business publications.

A native of Baton Rouge, Mark received a B.S. in Business and Finance from Centenary College of Louisiana. Prior to founding Simmons Asset Management, he maintained positions such as Vice President, Portfolio Manager and Chief Compliance Officer as well as acquiring the Series 7, 24 and 66 licenses.

Mark made the decision to transform a lifelong career into helping people maximize their financial condition by reducing costly mistakes. He formulated Simmons Asset Management, a wealth management firm, whose main goals are to look out for the best interest of investors, while educating them at the same time.

Monthly Market Commentary

Economic data, corporate earnings, and corporate forecasts continued to be a mixed bag even as the S&P 500 rallied past 1,600 in April. Markets reacted favorably when central banks made announcements to address some of the market weaknesses (European bankers reduced their target interest rate and the Fed affirmed that it had no plans to reduce its interventions in the near future). Markets did crash on April 23 in a matter of minutes, albeit briefly and temporarily, when the AP's Twitter account was hacked and sent a fake tweet, causing a swift drop reminiscent of the 2010 flash crash. Overall, Morningstar economists believe that the U.S. economy is neither booming nor busting. Nothing in the numbers would indicate that much has changed when looked at from a year-over-year, averaged basis—the underlying 2% growth rate continues to be largely unchanged.

GDP: First-quarter real GDP in 2013 grew by 2.5%, well below the 3%-plus expectation that many economists had, but still much better compared with an abysmal fourth-quarter growth of 0.4% in 2012. GDP growth was mostly dragged down by continued poor government spending and a larger-than-expected trade deficit. Unfortunately, the worst of the government impact may still be ahead of us, since the first-quarter numbers do not include any impact from the sequester.

Employment: April's total non-farm payroll growth beat expectations, with 165,000 jobs added. More importantly, sharp revisions in the March and February employment numbers saw an impressive net positive revision of 114,000 jobs. Despite all this good news, careful analysis shows more of the same slow and unsatisfying growth, stuck between 1.9% and 2.1% (three-month year-over-year average) for nine consecutive months. The unemployment rate in April edged down slightly to 7.5% from 7.6% the month before.

Housing: On a year-over-year basis, all 20 markets in the Case-Shiller Index saw price appreciation in February, although the growth was not evenly distributed across cities. Phoenix, San Francisco, Las Vegas, and Atlanta all grew by more than 15%, while other cities such as New York, Chicago, and Boston grew by less than 5%. Inventories are still very tight at a time when demand is up because of an improved economy, leading to higher home prices. Higher prices should continue to bring more houses on to the market and bolster consumer confidence. In addition, higher home prices have caused more homeowners to step up their remodeling expenditures, and should also allow more potential employees to move to new cities for employment opportunities.

Manufacturing: According to data from Markit, a worldwide research firm, manufacturing in April declined in the U.S., China, and Europe. The data showed monthly acceleration and improvement through January 2013, after which three months of decline brought it back to where it started in November. Morningstar economists believe that seasonality and a slumping commodities cycle are responsible for the softness worldwide, and not the all-important consumer-demand factor, which drives manufacturing. However, the impact of manufacturing on the macroeconomic picture tends to be strongest in extreme boom-or-bust situations. The U.S. economy is currently doing neither at the moment.

Auto: Auto sales in April dropped modestly to 14.9 million units from 15.25 million units in March 2013, but this was still better than the 14.1 million units from April 2012. Morningstar's auto sector analysts are not overly concerned with the sequential decline as fluctuations are normal, and there are still plenty of reasons to buy a new vehicle, such as low interest rates and a recovering housing market. They continue to maintain full-year sales expectations of 15.2 to 15.5 million units.

Gamma Factor: Dynamic Withdrawal

A recent Morningstar research paper went beyond traditional alpha and beta metrics to introduce the concept of gamma, designed to quantify the additional expected retirement income achieved by an individual investor from making more intelligent financial planning decisions. The paper examined five such decisions and their impact on gamma: a total wealth framework to determine the optimal asset allocation, a dynamic withdrawal strategy, incorporating guaranteed income products (i.e., annuities), tax-efficient decisions, and liability-relative asset allocation optimization.

While gamma is difficult to quantify, simply put, it is the return an investor experiences as a result of optimal financial decision making. Each of the five gamma components is intended to create value for retirees and therefore achieve a potential increase in portfolio efficiency. Based on various formulas and different scenarios that took into account these five variables, the study performed Monte Carlo simulations in order to quantify the value added by each of these five strategies. Let's take a closer look at a dynamic withdrawal strategy in retirement.

Financial advisors may provide a value-add to their clients by planning out their withdrawal strategies in retirement. A static withdrawal method may be used, where the annual withdrawal during retirement is based on the initial account balance at retirement, adjusted annually for inflation. Thus, the commonly used "4% rule" would result in a retiree taking a 4% withdrawal of the initial portfolio value and continue withdrawing that amount each year, adjusted for inflation. A problem with this approach is that the withdrawal amount is not altered based on factors such as market performance or expected investor longevity.

An alternative to the static withdrawal method is dynamic withdrawal. This withdrawal strategy allows the withdrawal percentage of the portfolio to vary in a given year based on the assumed remaining life expectancy of the retiree and the portfolio's equity allocation. Based on a dynamic withdrawal table, the retiree is able to adjust withdrawals based on external events, such as a sudden decline in financial markets or changes in life expectancy. From the table it is evident that a retiree's portfolio, valued at $100,000 with an equity allocation of 40% and a remaining life expectancy of 20 years, would result in a 5.9% withdrawal (higher compared to the static 4%). This withdrawal percentage continually changes based on the factors analyzed.

Morningstar's analysis also revealed that a portfolio using a dynamic withdrawal strategy could potentially achieve an additional 9 cents for every $1 dollar generated in retirement income, when compared with a portfolio using a static withdrawal method. Keep in mind that this is just one of several potential gamma factors that can help a retiree's portfolio significantly.

Withdrawal Percentage for a Dynamic Withdrawal Strategy Portfolio

			Equity Allocation		
# Years Remaining	20%	30%	40%	50%	60%
5	20.0%	19.9%	19.9%	19.8%	19.9%
10	10.4%	10.4%	10.5%	10.4%	10.5%
15	7.2%	7.3%	7.4%	7.4%	7.5%
20	5.7%	5.8%	5.9%	6.0%	6.0%
25	4.8%	4.9%	5.0%	5.1%	5.2%
30	4.2%	4.4%	4.5%	4.6%	4.7%
35	3.8%	3.9%	4.1%	4.2%	4.3%
40	3.5%	3.6%	3.8%	3.9%	4.0%

Probability of failure for Dynamic Withdrawal Strategy Portfolio assumed to be 25%

Source: David Blanchett, CFA, CFP & Paul Kaplan, Ph.D., CFA. Alpha, Beta, and Now…Gamma, Morningstar Whitepaper, September 8, 2012

The Fake Tweet Mini-Crash

On April 23rd, 2013, the Associated Press' (AP) Twitter account was hacked, sending a message that the president was injured in an explosion at the White House. This fake tweet resulted in a rapid decline of roughly 1% in the financial markets, fueling speculation that high-frequency trading was the main culprit. Although the market recovered quickly following the hoax, it reminded investors of the flash crash from May 2010 or Knight Capital Group's computer glitch in 2012. In the end, this mini-crash had little to no effect on the long-term investor. While a mini-crash like this raises questions about repeat occurrences in the future, making it hard for investors to overlook, ignoring short-term price fluctuations and focusing on the value of investments may be the best policy for long-term investors.

Examples of Crashes

Name	Date	Cause & Consequences
Fake Tweet Mini-Crash	April 23, 2013	Fake tweet sent by AP's hacked Twitter account, announcing explosion at White House. Markets fell, but recovered almost immediately.
Knight Capital Group	August 1, 2012	Technology issues led the company to accidentally buy and sell millions of shares, causing significant price disruptions to 140 stocks listed on NYSE.
BATS Global Markets	March 23, 2012	Software glitch with disastrous consequences affected stocks with tickers from A to BF, including the company's own stock on the very day of its (failed) IPO.
The Flash Crash	May 6, 2010	Sudden (and difficult to explain) lack of liquidity in the markets caused 8,000 securities to decline and recover in a matter of minutes. Circuit breakers (limits that automatically halt trading) were implemented as a result.

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MARK SIMMONS
President

SIMMONS ASSET MANAGEMENT
2431 S. Acadian Thwy, Ste. 240
Baton Rouge, Louisiana 70808

Mark@SimmonsStrategy.com
www.SimmonsStrategy.com

Tel:(225)612-2442