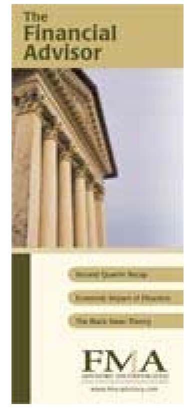
The Financial Advisor

A Quarterly Publication Of FMA Advisory, Inc.



FMA Advisory, Inc. is committed to our clients' needs, striving to keep them informed about conditions in the marketplace that impact their investment strategies. As a part of that commitment, we publish a quarterly newsletter, featuring articles on the latest marketplace investment strategies, market trends and conditions, and some of our insights into the opportunities that exist. We invite you to peruse the most recent edition of our newsletter below.

Current Issue - First Quarter 2014

Fourth Quarter Recap

2013 was a great year to be an equity investor, as markets finished strong with the S&P 500 closing with a gain of over 30%. Its best year since 1997 and third best in the past 25 years. This performance came in spite of a tepid economic recovery in the U.S. and Europe, both working through the recession. In 2013, the domestic equity market was supported by reasonable valuations, low interest rates and a slow, but steadily improving, economic landscape.

Looking ahead to 2014, there are broad expectations that the U.S. economy is on the right path. Private sector spending has more than offset the drop in government spending in the GDP equation, leading to faster paced economic growth. This trend is broadly expected to continue. Points of strength including the housing market, consumer spending and a resurgence in the manufacturing sector. However, primary risks remain including: the risk of another government shut-down or a second round of sequestration in Washington, since the debt ceiling debate remains an unresolved issue. Another risk is that the Federal Reserve might be unable to effectively withdraw quantitative easing.

Markets generated positive returns across most equity asset classes in the fourth quarter, while bond returns fell. The S&P 500 Index returned 10.47% during the quarter, up 32.04% for the year. During the quarter, the Dow Jones Industrial Average (DJIA) increased 10.18% and the NASDQ grew by 11.12%. The indexes were up 29.31% and 39.89% respectively for the year. International markets continued their climb higher during the fourth quarter. The MSCI EAFE Index of developed international markets increased 5.77% during the third quarter and finished the year up 23.12%. Bonds fell in the fourth quarter after a small positive return in the third quarter. The Barclays U.S. Aggregate Bond Index fell -1.69% during the quarter driving the year-to-date loss to 2.02%.

Capital Markets

Equity markets have recovered fully from their 37% collapse in 2008 and fixed income markets are beginning to show some signs of weakness, after seven years of consistent positive returns. Markets seem to be taking disruption in stride as the economic picture improves, but the risk remains that monetary fiscal policy matters could undermine emerging confidence.

Don't Reason Away Your Retirement
By Peter J. LaBella, CFP®

Anyone past a certain age knows that getting older can be challenging, but doing so without enough money is even worse. So, even if up to this point you have been the fabled, happy-go-lucky cricket, fiddling away your life, while the industrious ant saves up for the long winter – it’s not too late for you to prepare for your future and the goal of remaining economically flexible, while you take the opportunity to slow down.

Pay Yourself First

At the core of being successful in providing for your financial future is NOT how much you make, but rather managing what you spend. Many people sabotage their financial security because they fail to get into a habit of setting aside money each month – no matter how small.

It’s important to consistently “pay yourself first” by setting aside your investment funds BEFORE you pay the bills and other debts. Consider preparing for your future like a bill in your life that needs to be paid. It's OK to start small. Just keep at it until it becomes an ingrained habit.

Reasoning Away Your Retirement

Often the obstacles to financial security after retirement are self-imposed. Many investors who fail to adequately prepare for the future "reason away their retirement." Reasoning away your retirement sounds like any one of these all-too-familiar refrains: "We need to buy a flat screen TV." "Inflation is really cutting into our budget." We are all guilty of confusing material wants with real needs, much to our economic detriment. All of the reasons for short-term spending decisions - however valid they seem at the time - push you further away from your dreams and long-term goals.

Take A Deep Breath – It Will Pass

The third factor that interferes with successful investing is human nature. Investing is an anathema for investors. Stock market volatility is challenging for all investors to cope with.

The 24-hour business news cycle exacerbates the challenge since negative prognostications are constantly featured and believed by investors. When markets are good, as they have been in 2013, with the S&P 500 index up 32%, we are conditioned to ask "how long this can last?" When markets are falling, as they were in 2008, we are again conditioned to believe the setback is permanent.

In all of these situations, where we want to preserve capital, three decisions must be made. 1.) When to sell, 2.) Where to place the proceeds, and 3.) When to return to my investments. It is extremely difficult to be right all three times. Staying the course is difficult; emotions tend to override our game plan. The stock market pays us for living with and experiencing volatility which is very difficult.

Let's keep in mind guarantees have a cost, higher returns come with higher risk. Currently we are in a low interest rate environment and cash and interest bearing instruments are currently losing spending power to inflation.

Compounding Builds Wealth

There is an urban legend that Albert Einstein once said compounding interest is the most powerful force in the universe. Einstein may not have said this, but it's certainly true, especially if we expand that to include both interest and dividends. Upon his death in 1790, Benjamin Franklin provided 1,000 pounds, equivalent to $4,444 today, to fund two trusts for the cities of Philadelphia and Boston. When distributed in 1990, the Philadelphia trust was worth $2,256,952 and the Boston trust, which was never invaded for interest, was worth nearly $5,000,000.

What is compounding and why is it such a powerful investing tool? Compounding is when interest or dividends are reinvested in order to generate their own earnings. Put simply, your money makes more money. It is a simple and effective way of building wealth. The trick is that you need to leave the money alone and let it grow. Compounding has a snowball effect on your investments; provided that you let the accumulated funds grow.

The other enemy that torpedoes building a substantial retirement portfolio is procrastination. When you delay in adding money to your portfolio, you forfeit the number one wealth building tool – compounding. If you have no investments, you can't benefit from the compounding factor that helps increase the value of your portfolio exponentially over the years.

Compounding helps increase the value of any portfolio – even during declines and the recent recession. Investing is about having patience, despite the obstacles that may hinder your expectations about the rate that your portfolio will appreciate. Some investment obstacles are out of your hands. But the vast majority of factors are within your control, so start taking steps to make sure your future is secure today.

The Importance Of An Annual Portfolio Review

Whether you are a just a beginner or an experienced investor, one of the keys to successful investing is an annual portfolio review. Reviewing your portfolio on a regular basis serves several purposes, but is especially important during times of market volatility.

There are a few important things to consider when reviewing your portfolio:

Have you had significant life changes?
Marriage, divorce, birth and death are the four major life events that can impact investing plans. An annual review will allow you to make sure that your plan reflects your current family status and financial situation. A review will also help take care of minor modifications such as changing beneficiaries.

Has your tax bracket changed?
Boost your after-tax returns by employing tax-efficient strategies that can help reduce your tax liability. You may be able to take advantage of some of these strategies, including contributing to more tax-advantaged investments (401(k) plans or deferred annuities), tax-exempt bonds or tax-managed mutual funds. It may also be important to consider the impact of any changes in the federal estate tax law.

Have your investment goals changed?
Your investments should reflect your priorities, whether planning for a new home or impending college tuition. An annual review will help you adjust your investments according to changes in your goals and ensure that you are on track.

What is the current market condition?
This is also a good time to look at specific investments. From mutual funds to individual stocks and bonds, evaluate if they continue to have a role in your portfolio based on the past year's performance and any changes in your objectives.

Does your plan reflect your current financial situation?
Your strategies must reflect your priorities, and since your lifestyle and financial needs change, so should your investment strategies. Does your portfolio now need to generate income?

Most investors establish plans to generate income that is sufficient to cover essential expenses, but many factors can change the expenses you have, including marital status and health concerns. Any new or unexpected expenses should be assessed during the annual review.

Likewise, your portfolio income may need to be adjusted. More aggressive strategies that were appropriate earlier in your career may not be appropriate as you near retirement. An annual review can point out how to structure your portfolio to provide the income level you need and identify shortfalls that need to be adjusted.

A portfolio that is regularly reviewed and adjusted to meet your changing life and needs will be more effective in providing the results you and your family need as life progresses. Let the professional advisors at FMA work with you to conduct an annual review of your assets and adjust your holdings accordingly to maximize the effectiveness of your portfolio.