Fountain Financial Associates

BUILDING LONG-TERM RELATIONSHIPS THROUGH KEEPING PROMISES

Vol. 15, Issue 1: Spring 2014

Correction Certainty: Winning Without Surprise

Vinton Fountain

As the 2014 Winter Olympics comes to a close, I am reminded of the "Miracle on Ice" in 1980 when the US Men's hockey team upset the heavily favored Soviet Union team. While not as political, or as extensively covered by the media, we defeated them again last Saturday. This time we did it without the element of surprise.

Last year's stock market increase of 30% was a bit of a surprise to most of us. This is an example of the upside volatility that we enjoy from time to time, usually when we least expect it. This year, we should not be surprised when we get a temporary pullback or market correction. This event should be viewed as a certainty and should not surprise even the Russians.

Historically, the market will experience a 10% correction once a year. These events last an average of 115 days and the last correction was in October 2011. We also experience more modest declines of 5% or so which tend to occur about three times a year. For example, this January we had a 5% pullback due to poor economic data in the emerging markets (China). These routine setbacks last an average of 47 days. Once every three years or so, we get a 20% or more decline with the length of the bear market at 338 days and the last time this occurred was March of 2009. I prefer not to revisit that crisis in this narrative, although the aftermath and subsequent results in your portfolio have worked out just as we thought.

The average long-term compound return for US Large Company stocks is 10% per year with dividends. In order to generate those returns, we endure some level of downside volatility in our portfolios. That certainty is the reason we get to capture the excess returns above inflation and taxes. This understanding of how markets function is essential to meeting your goals. We should not only accept the fact of volatility, we should embrace it with confidence.

© Steve Powell

So, as we move forward this year and into the future, know that market corrections are certain and normal. I like to think about these events as opportunities as opposed to surprises. One of the greatest investors of all time, Peter Lynch, said, "Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in corrections themselves." Like you, I'm not particularly fond of surprises, so I prefer to see these temporary market declines as a certainty. Once you expect and appreciate temporary declines, the element of surprise is marginalized.

see **Certainty**, page 3

Inside this issue:

Inherited Values

Buck Beam

It must have been my New Year's resolutions that got me thinking about the question of "How to raise financially savvy kids (or grandkids)." At Fountain Financial Associates, we have helped many parents and grandparents establish college savings plans and investment accounts for the benefit of their children and grandchildren, generally with great long-term results. However, teaching a child financial responsibility on their own is a whole different challenge. Especially when it's your own child.

I have instinctively known that establishing the right habits early on is key, but the time to figure out how was always a ways off. That is, until the last five years of my life flew by.

So what is the best way to teach children the value of a dollar or what a share of stock is worth? From my experience, I have found that most of the time, the apple falls very close to the tree. Most of the values and lessons my children will learn about money will be based on my own values and approach to personal finance and investing. No pressure, right?

Here are a few specific things that I think will help:

Don't assume

Remember that young children – and even teenagers – often don't grasp the cost of things, whether it's an everyday purchase or a big-ticket item. Chances are that a sizable gap exists between a child's definition of expensive and a parent's. Talk in specifics about the cost of that new toy, the latest iPhone, or their first car, and then relate those amounts to the effort required to earn them. That can quickly make an abstract concept real and reinforce the actual value of a dollar.

Find teachable moments

Childhood provides many opportunities to hone budgeting skills and cultivate impulse control. Before the next family vacation or a trip to the mall, talk to your children about how much money they will be allowed to spend. When it comes time to make a purchase, help them weigh the pros and cons of their decision — and remind them of the effect it will have on their budget. I have found this helps my impulse control also.

Create structure (and make it fun)

The majority of adults allocate their money to short-term, medium-term and long-term mental accounts or "buckets." Children should be encouraged to do the same. Sorting their savings into categories might make it easier for them to see how their money is growing and encourage them to save, even though they may not want to. Separate "accounts" can help encourage this behavior. Those could be bank savings accounts or simply shoeboxes under the bed, decorated with pictures and messages reflecting the child's goal for the money inside.

It's never too early

Einstein marveled at the miraculous effect of compounding interest and, when presented with its potential impact, children may too. When their piggy bank is full, why not take your child to the bank and help them open their own savings account? When your child is old enough to have an afterschool job, have them put a portion of their monthly earnings into a Roth IRA or 529 account (we can help). Consider matching their contributions for some period of time to help encourage and enforce the savings habit. You may even decide to schedule a meeting at our office to introduce your child to your advisor around the time of college graduation. This is always fun for us, and can be a great opportunity to help them understand and establish a savings plan in their first job.

By modeling good habits and fostering a structured and fun approach to saving, I plan to play a crucial role in guiding my children to a healthy financial future. One day we may decide that leaving an inheritance for our boys is an important goal. Regardless, over the coming years, I will work to make sure that my kids inherit the values that will start them on a path of financial responsibility and success in life.

Buck

Due Diligence and Client Success

Chris Riley, CFP®

During December and January, we engage in our most exhaustive evaluation of the components that make up our client portfolios. The process is grounded in a rigorous set of criteria that measures the quality, consistency and risk of each investment made in comparison to the thousands of other available options and market indices. As an independent firm, we are not influenced by proprietary products, and thus our universe of options begins with a very large number that we cull down to a select group. The providers range from sizable institutions to small boutique firms who excel in specific investment areas. When the goal is to attain the best risk-adjusted return possible over the course of decades for clients, performance is not simply a one-year portfolio return advertised in a magazine. Long-term success requires much more careful research and measurement.

> *"Skate to where the puck is going to be, not where it has been."*
> WAYNE GRETZKY

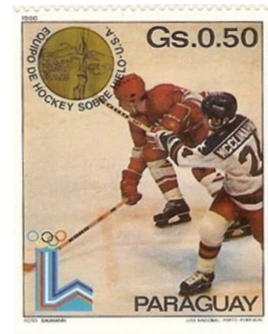
Performance, investment process, stewardship, volatility (in rising and falling markets), and expenses are just a few of the criteria brought to bear in this process. Investments are monitored regularly throughout the year. One of the primary benefits of conducting these evaluations alongside a group of successful peers is the opportunity to learn through questioning and clarifying the foundation upon which sound investments are rooted. Due diligence and history tell us that chasing the "investment du jour," such as partnerships, non-traded REITS, hedge funds, sector-specific investments, index annuities, long/short mandates, and countless others ultimately leads to many questions with few clear answers. It is tempting to believe there is always something better or smarter to give us an edge over traditional investments, but the long-term results often fall short – and waste time to boot. This is why we are so focused on quality, sustainability and transparency. The open, regulated nature of the investments we own holds the managers accountable to us as investors. Fortunately, there are many excellent professionals who are laser-focused on achieving success while measuring themselves in much the same way that we do.

> *"Courage is what it takes to stand up and speak; courage is also what it takes to sit down and listen."*
> WINSTON CHURCHILL

To keep our promises to you, it is our responsibility to avoid making rash decisions based on short-term news. We must seek what creates sustained success, and understand that the evolving nature of markets and media can divert our attention when process and focus are needed most. Ultimately, this is where performance and a better life are achieved.

Certainty

continued from page 1



As a sidebar, the S&P 500 was at 106 coming into 1980 and now stands somewhere north of 1800. That measure of increasing prosperity seems like a miracle in itself, except for the fact that the value of the world's best businesses have historically increased over time.

Do you think the Russian hockey team will be surprised the next time we win? I doubt it. I suggest we recognize that market corrections are not surprising, either – and should be viewed as a certainty. We are here to support you.

Keeping Promises

Questions to Ask Your CPA at Tax Time

1. Will a planned life event or major purchase in 2014 affect my taxes?
2. What will my tax bracket be in 2014?
3. Do I have any remaining loss/carry forwards going into 2014? If so, let us know.
4. Should I increase my retirement plan contributions?
5. Do you have any recommendations for reducing my 2014 taxes? What about 2015 and beyond?

Latest FFA Happenings

SAVE THE DATE

Saturday, May 10, 2014
9am - 12pm

At the offices of Fountain Financial Associates

Buck Beam is pictured accepting a check from AT&T on behalf of Communities in Schools of Cape Fear. Buck is a board member and the current chair of Resource Development for CIS. AT&T sponsored a job-shadow program for local at-risk youth with this contribution.

From left: Marrio Jeter, CIS; Buck; NC Representative Rick Catlin; John Lyon, AT&T.

FOUNTAIN FINANCIAL
ASSOCIATES

1209 Culbreth Drive, Suite 100
Wilmington, NC 28405
Phone: (910) 256-8882
Fax: (910) 256-3688
www.fountainfinancial.net

Investment Advisor Representatives

Vinton E. Fountain, III
Buck Beam
Chris Riley, CFP®

Client Service Associates

Tracy Brown, CFP®
Matt Dennis
Susie Kempf
Debbie White
Clayton Fountain