In This Issue...

RAYMOND JAMES®

Joseph J. Ciaramitaro, CFP®
Senior Vice President, Investments
Managing Director
Anna Majeski
Registered Service Associate
325 N. Old Woodward, Suite 320
Birmingham, MI 48009-5309
248-540-3733 • 800-544-8754, Ext. 3938 Toll Free
248-540-4217 Fax
Joseph.Ciaramitaro@RaymondJames.com
Anna.Majeski@RaymondJames.com
www.joecthefinancialcoach.com

JOE'S FINANCIAL LETTER

JANUARY/FEBRUARY 2015

Five Steps to Creating an Investment Plan

Like anything in life, having a plan for your investments will help you reach your investment goals. Below are five steps for crafting your investment plan.

1. Determine Your Goal

Every good investment plan begins with a clear goal in mind. Ask yourself: "Why am I investing? What do I hope to do with the money I save and earn?" For example, you might invest to:

- Fund a child's college education
- Retire comfortably
- Buy a house
- Start a new business
- Leave a charitable bequest to a favorite cause
- Pay for a wedding

Write down your investment goals. Make them as specific as possible. Think about the kind of lifestyle you want in retirement, the cost of your dream vacation home, the cash you'll need to start your business, or the cost of tuition where your children might go to college. Write down a realistic estimate of how much you think you'll need. Making these estimates can be challenging, but it's an essential investment planning step. After all, if you don't know where you're going, you'll never get there.

2. Decide on Your Time Frame

After you outline your goals, you need to establish your time frame for investing. Typically, your goals will fall into one of three categories:

- **Short-term:** Short-term goals are those you expect to achieve in five years or less.
- **Medium-term:** Medium-term goals are those you expect to achieve in five to 10 years.
- **Long-term:** Long-term goals are those you expect to achieve in more than 10 years.

Your investing time frame has a direct relation to the investments you'll choose. Generally, the shorter your time horizon, the less risk you want to take. If you will need your money in three years to pay for your daughter's college education, then putting all your money in riskier investments is probably not wise, as the chances of losing money are greater. Instead, less risky investments like bonds will likely make up a larger portion of your portfolio. But if you're investing for the long haul (say, for a retirement that's 30 years away), you can invest in higher-risk investments, since you

Continued on page 2

Asset Allocation and Diversification

So, it's time to start selecting investments for your retirement account. You sit down at your desk, start looking over the list of investment options, and are quickly overwhelmed. How do you build your retirement portfolio (or any other investment portfolio)? What's right for you? The answer to those questions lies in two essential investing concepts: asset allocation and diversification.

Asset Allocation

Asset allocation sounds complicated, but it's actually a fairly simple concept. It involves selecting a variety of different types or categories of investments — called asset classes — for your portfolio as a way to hedge against risk. The asset classes the average investor is most likely to encounter include cash equivalents, stocks, and bonds. Other asset classes include commodities, real estate, and other investment alternatives.

Why invest in different asset classes? Because asset classes are affected differently by economic events and market factors, investing in a variety of asset classes is a way to reduce risk in your portfolio. For example, if stocks fall dramatically, the other asset classes will likely help mitigate your losses.

Diversification

Choosing your asset allocation

Continued on page 3

FR2014-0909-0001

Five Steps to Creating

Continued from page 1

will have more time to recover from a loss.

3. Evaluate Your Tolerance for Risk

All investments come with risk — the chance you could lose your money. But riskier investments also come with the possibility of greater return. As an investor, you must decide how much risk you're willing to accept. Your personal risk tolerance is closely related to your goals and your time frame, as well as your experience with investing and your feelings about the possibility of losing money.

4. Decide How Much You Want to Invest

Once you've considered your time horizon, goals, and risk tolerance, you can consider how much money you want to invest. You should keep a portion of your savings in a stable, easily accessible account to use for emergencies and other immediate needs.

Once you have the funds for your initial investment, you need to decide how much you want to invest on an ongoing basis. This number will be determined by your budget, your investment goals, and your time frame. For smaller, short-term goals, determining ongoing investment amounts is fairly easy. If you want to buy a home in five years, you might open an account with $2,000 you've already saved, and then invest $400 a month for the next five years.

Deciding how much to invest for longer-term goals can be more challenging. When saving for retirement, you need to consider how much yearly income you'll need, your anticipated investment returns, when you want to retire, how long you expect to live, the impact of inflation, and the money you'll receive from other sources like Social Security. It can be a complicated equation, which is why many people turn to a financial advisor for help running the numbers.

5. Choose Your Investments

Given the thousands of possible options, choosing investments can be overwhelming. But completing the first four investment planning steps should help you make those decisions. Again, your goals, risk tolerance, and time frame will point you in the right direction, such as toward target-date funds designed for retirees or college savers, or perhaps a money market fund for short-term goals. But if you're baffled by all the options, it's always a good idea to seek a second opinion. Please call if you'd like help with your investment plan.

Avoid These Investor Mistakes

Avoid these common investor mistakes:

- **Chasing performance.** Investors often move out of sectors that are not performing well, investing that money in high-performing investments. But the market is cyclical; and often those high performers are poised to underperform, while the sectors just sold are ready to outperform. Rather than trying to guess which sector is going to outperform, broadly diversify your portfolio.
- **Looking for get-rich-quick investments.** When your expectations are too high, you have a tendency to chase after high-risk investments. Your goal should be to earn reasonable returns over the long term, investing in high-quality investments.
- **Avoiding the sale of an investment with a loss.** When selling a stock with a loss, an investor must admit he/she made a mistake, something that is difficult to do. When evaluating your investments, objectively review the prospects of each one, making decisions to hold or sell on that basis.
- **Selecting investments that don't add diversification benefits to your portfolio.** Diversification helps reduce your portfolio's volatility, since various investments respond differently to economic events and market factors. Yet, it's common for investors to keep adding investments that are similar in nature. This does not add much in the way of diversification, while making the portfolio more difficult to monitor.
- **Not checking your portfolio's performance periodically.** While everyone likes to think their portfolio is beating the market, many investors simply don't know for sure. So analyze your portfolio's performance periodically.
- **Letting market predictions cause inaction.** No one has shown a consistent ability to predict where the market is headed in the future. So don't pay attention to either gloomy or optimistic predictions. Instead, approach investing with a plan.
- **Expecting the market to continue in its current direction.** Investors have a tendency to make investment decisions based on current trends in the market. However, there is a tendency for markets to revert back to the average return when they have an extended period of above- or below-average returns.
- **Not understanding that saving and investing are two different concepts.** Saving involves not spending current income, while investing requires you to take those savings and invest them to earn a return. Saving often becomes easier when separated from the choice of where to invest. Find ways to make saving as automatic as possible, then take your time to research and select specific investments.
- **Considering only pretax returns.** One of the most significant expenses that can erode your portfolio's value is income taxes. Thus, don't just consider your pretax returns, but look at after-tax returns. If too much of your portfolio is going to pay taxes, look at strategies that can help reduce those taxes.

Asset Allocation

Continued from page 1

is just the beginning. In order to minimize your risk, you also need to think about diversification. But if you just built a portfolio out of several different asset classes (say, stocks, cash, and bonds), aren't you already diversified? Not necessarily. In addition to diversifying among asset classes, you also need to diversify *within* asset classes.

Diversification is simply another way of saying, "Don't put all your eggs in one basket." If 60% of your portfolio is in stocks, 30% in bonds, and 10% in cash equivalents, you are diversified among asset classes. But if you only own two or three different stocks, you're not diversified within that asset class. If one of those stocks plummets in value, your portfolio could take a big hit.

Diversification may sound fairly simple, but it can be more complicated than many realize. For example, you may think you're well diversified by investing in eight or nine different stocks. But if each of those stocks is in the same industry, they'll each have roughly the same performance. To better diversify, you might want to select nine stocks in nine different industries. Another big diversification error people make is investing too much in their employer's stock. No matter how confident you feel about the future of your company, it's rarely smart to place too much of your assets there — if the business goes under, you could be out of a job and much of your savings.

Asset Allocation and Diversification in Practice

How do you determine the right asset allocation or diversification for your portfolio? It depends on your investment goals and time frame. If you are young and investing for retirement, you can afford to have a significant portion of your assets in equities, with the goal of maximizing your investment return. As your retirement date nears, you'll likely want to shift to a more conservative portfolio with a smaller allocation to stocks, so that you can better protect the wealth you've already accumulated.

In the intervening years, you will periodically tweak your asset allocation so that it changes with your situation. You will also monitor your specific holdings in each portfolio, making occasional adjustments so that you are properly diversified. The ultimate result is a portfolio that evolves with you and the current market situation, so you are prepared for whatever economic weather comes your way. However, please note that asset allocation and diversification do not assure a profit or protect against loss in declining financial markets. Please call if you'd like to discuss asset allocation and diversification in more detail.

Harness the Power of Compounding

In the world of investing, among a seemingly endless variety of complicated systems, stands one simple but powerful concept. It's one that when mastered and correctly applied can contribute more to creating wealth for the average investor than perhaps any other: the power of compounding.

The secret to the power of compounding is instead of growing arithmetically it grows *exponentially*, as long as you do one very important thing: instead of spending the returns on your money, reinvest all of it. It works like this: say you invest in a bond that pays 5% a year with $10,000. At the end of 12 months, the bond matures with a value of $10,500. If you spend the $500, you're left with $10,000 to roll over into another bond at the same rate. But if you roll over the entire amount, at the end of the year, that $10,500 bond will have earned $530 and grown in value to $11,030. In the third year, rolled over at 5% again, earns $550.

Zoom forward 20 years, with the bond earning 5% every year. By rolling over principal and interest, your investment will have more than doubled in value to $26,530, without ever contributing any more money. You've collected $6,350 more in interest than the saver who spent all the interest he earned each year.

Danger: Suffering Big Losses

Although the advantage of compound returns was illustrated with an interest-bearing investment, the same applies to a stock portfolio by reinvesting any dividends or realized capital gains. But when it comes to investments like stocks whose prices fluctuate, it's essential to avoid large losses if you want to maximize the power of compounding.

Whenever an investment position loses money, you need a larger gain than the percentage lost to return to its prior value. The chart below makes this clear:

% loss	% gain needed to recover loss
1%	1.01%
5%	5.26%
10%	11.11%
20%	25.00%
30%	42.86%
50%	100.00%

When an investment (or a portfolio) loses less than 5% in a year, it doesn't take very long to recover your losses, because on average, stocks return between 9% and 10% a year. As a result, you can expect to wait for as long as several years or even more to recover from losses that are greater than 20%. And since compounding gathers power over time, such delays can be costly.

What's more, big losses can tempt you to try to recover more quickly by choosing higher-risk investments, which exposes you to the possibility of further and deeper losses. The moral of the story is, the less volatile your portfolio returns are over time, the more you will benefit from the power of compounding through the reinvestment of your returns.

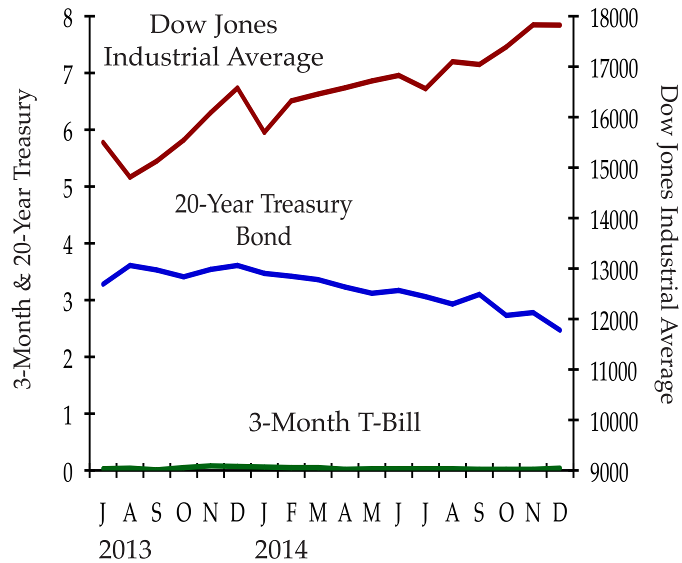
Business Data

Indicator	Oct-14	Nov-14	Dec-14	Dec-13	Dec-12
	Month-end				
Prime rate	3.25	3.25	3.25	3.25	3.25
3-month T-bill yield	0.02	0.02	0.04	0.07	0.09
10-year T-note yield	2.25	2.33	2.14	2.89	1.80
20-year T-bond yield	2.73	2.78	2.47	3.61	2.56
Dow Jones Corp.	2.88	2.89	3.08	3.11	2.70
GDP (adj. annual rate)#	-2.10	+4.60	+5.00	+2.60	+0.40

	Month-end			% Change	
Indicator	Oct-14	Nov-14	Dec-14	2014	2013
Dow Jones Industrials	17390.52	17828.24	17823.07	7.5%	26.5%
Standard & Poor's 500	2018.05	2067.56	2058.90	11.4%	29.6%
Nasdaq Composite	4630.74	4791.63	4736.05	13.4%	38.3%
Gold	1164.25	1182.75	1199.25	-0.2%	-27.7%
Unemployment rate@	5.90	5.80	5.80	-17.1%	-10.3%
Consumer price index@	238.00	237.40	236.20	1.3%	1.3%
Index of leading ind.@	104.30	104.90	105.50	7.3%	5.2%

— 1st, 2nd, 3rd quarter @ — Sep, Oct, Nov Sources: *Barron's*, *Wall Street Journal*
Past performance is not a guarantee of future results.

18-Month Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield
July 2013 to December 2014



News and Announcements

The Greatest Compliment

A great deal of personal and professional satisfaction comes from helping my clients work toward their financial goals. My career would not be as enjoyable without my wonderful clients. I appreciate the faith you place in me by allowing me to assist you with your financial objectives.

In today's busy world, we often forget to express our gratitude and appreciation to those who made our success possible. I would like to take a moment to thank all of my clients for your business and continued support. I truly appreciate the loyalty you have placed in me over the years.

I would also like to express a special thank you to those who referred friends and colleagues to me. Your referrals allow me to offer more personalized services. I understand these referrals represent your trust in me, and I am honored you feel comfortable enough to make referrals. Be assured I will always treat referrals with the same respect I give you.

A referral is the greatest compliment that I could ever receive. If you have friends, relatives, or coworkers who you think could benefit from my services, please tell me about them when we next meet.

Joe Ciaramitaro provides a variety of financial services to his clients through the Raymond James & Associates, Inc. office in Birmingham, Michigan. Joe specializes in retirement plans and serving the needs of high-net-worth business owners and individuals. Joe, a Certified Financial Planner™ professional, is well versed in the areas of tax-advantaged investing, retirement planning, personal financial planning, pension plan review and analysis, and professional money management.

Joe has been in the financial services industry for over 25 years, and moved his Financial Planning practice to Raymond James in 2003. Joe came into the financial services industry after obtaining a degree in accounting with an emphasis in Tax from Michigan State University. Joe is the youngest of nine children and is married (Elaine), has one daughter (Jacqueline), and two sons (Charlie and Robert).