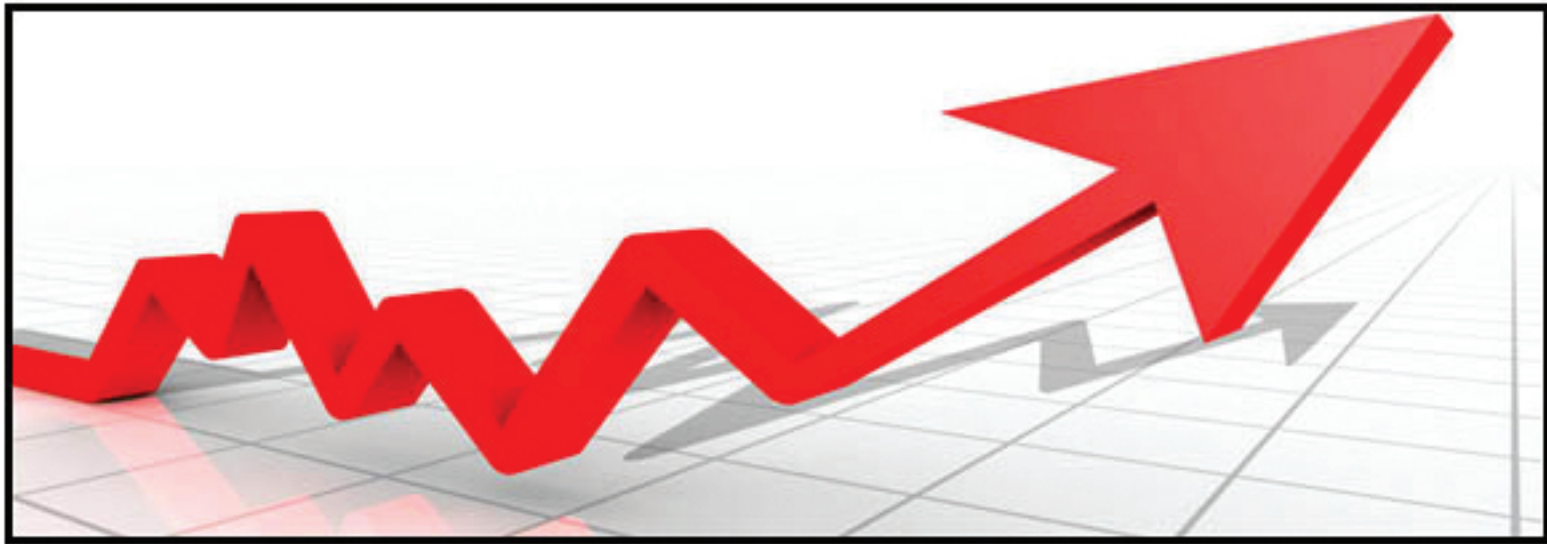


Marty's Musings: Getting Better All the Time



As most of you know, I really enjoy getting to know our clients and talking with you about different aspects of your lives. I've made it a point to ask many of you, as well as other friends and acquaintances, how your businesses are doing. It has been encouraging to hear the vast majority say that over the last three to four months, business has actually improved. Some have even told me that the past two years have been good to excellent!

Of course, during 2009-10, the responses were quite the contrary, so it seems from my limited survey that the economy is improving, slowly but surely. Regardless, many of those same people remain wary of the financial markets, especially the stock market.

But let's take a closer look. As bad as the stock markets of 2008 and 2009 were, the S&P 500 since then has risen over 100% from the low point. The reality is that the markets have done very well since the decline a few years ago.

Another intriguing statistic is the Wall Street Sentiment Indicator, which is a survey crafted in 1986; it measures the average exposure to stocks that Wall Street strategists recommend to clients. Right now the number is about 43%, the lowest reading in the history of the survey, showing that both investors and strategists alike are wary of the equity markets. With the memory of the markets crashing in '08 and early '09 indelibly imprinted in our minds, many remain very cautious of getting back into the game – one of the main factors in a bull market.

By contrast, when investors start getting that feeling of excitement about the stock market, stock prices will be driven higher, indicating the desire and euphoria that precede a bear market. Since fear and apprehension are still the dominant feelings today, it is unlikely we are near the market top. Instead, it seems that stock prices are climbing the wall of worry fueled by the Federal Reserve pouring \$40-80 billion per month into buying mortgage-backed securities, keeping interest rates artificially low. The old adage "Don't fight the Fed" is one that K-L learned many years ago. As a result, your account has probably done better overall in comparison to the average portfolio.

As we look out for your financial best interests, we remain cautious, always expecting and preparing for a choppy ride in the markets – so that your ride will be a little smoother. We base our plans for you on you, always considering your individual needs and goals. Please contact us any time you would like to discuss, re-evaluate or modify your financial goals, or if you have any questions about the articles in our newsletters. We're always glad to hear from you!

Marty's Musings:

Common Threads

At Kelman-Lazarov, we like to get to know each of you as individuals, and we enjoy speaking with you about your plans for the future. We recognize everyone is unique; however, we've found there are some common threads when it comes to financial planning.

First, Kelman-Lazarov does not time the market. A recently published Dalbar study (under the rather frightening title, "Average Investor 20 Year Return Astoundingly Awful") illustrates this point. Over the 20-year period ending 12/31/2011, the average investor earned 2.1%, while the S&P returned 7.8% and Barclay's U.S. Aggregate Bond Index returned 6.5%. The "average investor" did not profit from timing the market or following the herd. Our advice to you will be based on a long-term perspective, rather than following the crowd to the next trendy "sure thing." With over 34 years of experience, we have learned our most important mission is to assess your needs, as well as determine the level of risk you are able to endure for the volatility that will certainly occur. At Kelman-Lazarov we make objective rather than emotional decisions, based on sound research and proven financial strategies.

To keep your emotions from dictating your decisions, consider the following excerpt from "Why Average Investors Earn Below Average Market Returns: Investor Overreactions Cause Poor Historical Returns:"

4 Truths to Follow To Increase your Market Returns

When it comes to your investments, if you feel your emotions are getting the best of you, come back to the following truths:

1. **Do nothing.** A conscious and thoughtful decision to do nothing is still a form of action.
2. **Your money is like soap.** To quote Gene Fama, Jr., a famed economist, "Your money is like soap. The more you handle it, the less you'll have."
3. **Never sell equities in a down market.** If your funds are allocated correctly, you should never have a need to sell equities during a down market cycle. This holds true even if you are taking income. Just as you wouldn't run out and put a for sale sign on your home when the housing market turns south, don't be rash to sell equities when the stock market goes through a bear cycle. Wait it out.
4. **Science works.** It's been academically proven that a disciplined approach to investing delivers higher market returns. Yeah, it's boring; but it works.

Second, focus on risk management. Planning for catastrophes is key. You need to be prepared to meet any risk in order to protect you and your loved ones from financial struggles in the event of adversity. Disability, long-term care, and accidents can happen when least expected. Ideally, we plan for you to have enough assets or income to handle the risks, and then we aim to keep premiums to a reasonable level commensurate with the protection needed.

Third, a comprehensive and current estate plan is invaluable. A clear and well-thought-out plan for providing for your heirs can save them heartache and trouble. For example, we have had productive discussions with some of you about whether your beneficiaries, executors, and trustees are ready to handle financial responsibility. We've also helped some of you determine a plan in the event that a beneficiary predeceases you – you may choose to have the money go to the beneficiary's heirs, or you may want it to be split among your remaining beneficiaries. We are also happy to help ensure the continuity of investment philosophy for your legacy by meeting with your heirs, and we can even be named in your will or trust as the recommended investment advisor. Over time there will be changes in the federal and state estate planning tax laws, as well as your family's situation. It is important to not only have a plan, but to periodically meet with an estate planning attorney to verify your plan is current.

If you would like to discuss any of these important topics with us, or have other concerns or questions, we are always glad to hear from you.

Marty's Musings:

State of Kelman-Lazarov



This year marks a milestone for Kelman-Lazarov: we are celebrating 35 years of serving you. To mark the occasion, we are running a series of articles this year about the way we were back then...both the way the world looked, and the way Ron and I looked as well! We hope you enjoy a glance back at 1979 as much as we did.

As I reflect back on 35 years, a few thoughts come to mind. First of all, all of us at K-L are so grateful for each of you, our clients. We would not have lasted one year, much less 35, without your loyalty and trust. We pledge to continue to earn your trust the K-L way – through our philosophy and culture of placing our clients' needs first and foremost.

Secondly, Ron and I are pleased that the staff we have hired over the years have the values that fit in so well with our customer-centric philosophy and the diverse skill sets needed to enhance our services to you. Over the past few years, Kelman-Lazarov has been building our financial planning/client services team, our investment management team, and our administrative team to meet the needs of our growing number of clients. In fact, each of our teams strives to exceed your expectations, as we continually evaluate what we do well and what areas need improvement.

Going forward, we will always look for ways to upgrade the technology we use and keep our operating systems up-to-date. Of course, in 35 years, technology has changed beyond what we thought was possible! Information is available at the touch of a key or screen, our new and improved technology allows us to keep our finger on the pulse of the market, and our response time to any new opportunity is now almost instantaneous.

The years have not always been easy ones, but we have weathered each hardship – most recently the intense credit crisis of 2008-09 – with our company and our values intact. Although we still feel the effects of the economy's downturn, we remain hopeful for the future. Our optimism is supported by a few market facts:

- The split between "up" and "down" days for the S&P 500 over the last 50 years (from 1964-2013) is 53% up days and 47% down. The split during calendar year 2013 was even better than that: 58% up and 42% down.
- As of January 5, 2014, the S&P 500 has gone 825 calendar days (from 10/03/11 through 1/05/14) without a 10% or greater drop in the index, the 5th longest stretch without a double-digit pullback in the last 50 years.
- The S&P 500 stock index has gained an average of +10.0% per year total return over the last 50 years (1964-2013), as realized by investors. No single calendar year actually gained +10.0% in the last half century, but we came close in 1993 when the stock index gained +10.1% for the year.

(Source: BTN Research).

So the state of Kelman-Lazarov is the best it has ever been: the best clientele any firm could ever expect to serve; the highest amount of assets under management (over \$300 million); and a talented staff ready, willing, and able to lead K-L in the future.

We truly feel blessed to be in this position after 35 years and look forward to the next 35 years working with you, your families, and friends. Thank you for allowing us to serve you!

Marty's Musings:

It's a Wonderful Life

As I reflect on the past year, and look forward to 2015, I am struck by the realization of how blessed we all are – certainly in comparison to other parts of the world, but even when we consider the situations of others right here in the United States. Sometimes I think the vicissitudes of life keep us from appreciating how lucky we are, as the pressures all around us can keep us from finding joy as we go through the routines of our jobs, caretaking responsibilities, and commitments. But it is important for us to rediscover that joy as we go about our lives.

I started this line of thinking when I watched my favorite movie, *It's a Wonderful Life*, as I do every year around Christmas time. I am not one who cries very often, but I always do during this movie. And it usually occurs toward the end when George Bailey has been



given the special gift of seeing what would have happened to his community and loved ones if he had never been born. Then he races home in the snow, knowing that the bank examiner and law enforcement officer are at his home to arrest him because his absent-minded uncle has accidentally given the bank deposit to villainous Mr. Potter. But just when all seems lost we see George's friends and family come to his rescue. "Auld Lang Syne" is sung by all (including me), a bell on the Christmas tree rings, and George's daughter Zuzu says that an angel just got his wings, which makes George wink and acknowledge his guardian angel, Clarence. Maybe *It's a Wonderful Life* is sentimental and corny, but the insights at its core are loving, practical, and true.

Within a few days of watching the movie, my son introduced Dale and me to a TED talk by David Brooks discussing the difference between our "resume virtues" and our "eulogy virtues." Resume virtues are those that show our credentials and work accomplishments; eulogy virtues are the ones that identify who you are – our depth, relationships, lovingness, and dependability. I think we'd all agree that the more important of the two are the eulogy virtues, but I am sad to say that most of us, including me, think of the resume virtues much more often.

Brooks mentions Rabbi Joseph Soloveitchik, author of a philosophical essay called "The Lonely Man of Faith" published in 1965. Soloveitchik postulated two sides of our natures, which he called Adam One and Adam Two. Adam One is the worldly, ambitious, practical side of our nature. He wants to build, create, and innovate. Adam Two is the humble side of our nature – he wants not only to do good but to be good, to live in a way that honors God. Adam One wants to conquer the world; Adam Two wants to hear a calling and serve the world. Adam One's motto is "success." Adam Two's motto is "love, redemption, and return." Both Adams are important – the struggle is to maintain a healthy balance. As we start a new year, is it time to shift some of our energies to the eulogy virtues, exemplified by the Adam Two side of our natures?

On a closing note we received a sweet card in December that included the following paragraph: "We would also like to thank you for looking after our investments for so many years. I realize as I've gotten older that my goal was never wealth, but security. Thanks to you, I feel wealthy!"

So, thank you to that message-writer and to all of our clients from all of us at Kelman-Lazarov. In an industry that too often extols only the practical virtues of Adam One, we at K-L know that what you desire most are the Adam Two values – the eulogy virtues – such as feelings of safety and security and the relief that comes with a financial independence that allows you to focus on the things that truly make your life worth living. In other words, it's "the human side of wealth management." We are honored and blessed to serve you and your family.

Marty's Musings: Changes



Life is full of changes – in fact, sometimes changes come so quickly and cause such complications that we understandably want to avoid any change at all! And sometimes our life is so nice as it is that we don't want to leave our comfort zones to try new things or prepare for whatever lies ahead.

On the flip side of that, I believe that change just for change's sake is not a very good plan either. I have enjoyed having the same wife and the same business partner for over 35 years. Our office has been at Clark Tower for over 35 years, and Dale and I have lived in our home for over 20 years. But for each of these circumstances, there has been internal change. Every relationship needs adjustments (I'm listening, Dale) as each person's needs and attitudes may alter independently of the other. We may keep the same house or office, but the structure may serve us better with renovations and updates.

At Kelman-Lazarov, we feel blessed that we have been around since 1979. We have adapted to changing economic times, cutting edge technology, a growing client base, and new regulations. Though we stand ready to make the modifications necessary to provide the best possible service to you, we strongly agree on one thing that will not change: our principles and value system. With this in mind, we have assembled and developed a team of experienced, intelligent, ethical employees who share our values and vision. Ron and I are so proud of our current team and anticipate adding brilliant new members who will enhance our services as we grow.

In preparation for the future, we hired a consulting firm with experience in assisting companies like K-L that have grown and want to maintain a high level of client service. We are currently working on a restructure of our organizational chart, as we refine our roles and responsibilities and review our systems and processes. In addition to thoughtfully defining our job descriptions, we have invested significantly in technology with powerful software to support financial planning, portfolio management, and operational processes.

We feel that K-L is always in metamorphosis as we strive for excellence, and we are on the lookout for ways to better serve you as you experience life's changes, both big and small. You may be facing a change in income, expenses, or living situation – and of course there are outside factors such as the change in political leadership and in world conditions that may cause you uncertainty. We are here to advise and consult, and help you develop or modify a plan to meet your goals, no matter what transitions you face today or what challenges are on the horizon. We are always happy to assist you – another aspect of K-L that will not change!