FINANCIAL SYNERGIES®
ASSET MANAGEMENT

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INSIDE THIS ISSUE

Greg Valliere Hits the Mark

"I HAVE LIVED TO THANK GOD THAT ALL MY PRAYERS HAVE *NOT* BEEN ANSWERED." ~ JEAN INGELOW

By **Mike Booker, CFP®, ChFC, CFS®**

On April 1st, we were pleased to host Greg Valliere as our featured speaker at our annual client appreciation event. Greg has over 30 years of experience covering Washington for institutional investors and is an exclusive commentator for CNBC, appearing regularly on network programs such as "Squawk Box," "Power Lunch," "The Closing Bell," and "lKudlow & Company."

Here is a summary by topic of his observations about what is going on in our nation's capital and what he thinks about it.

The Economy and Stock Market

· The Fed is still dovish and plan to keep interest rates low for quite some time, which should continue to support the economy and the markets.

· Even moderate increases in interest rates in the middle or latter part of 2015 should not have a material negative impact on the markets.

· Market headwinds caused by uncertainty over fiscal policy in Washington appear less likely as both Republicans and Democrats seem to be losing their appetite for market-roiling conflict.

· Gridlock in Congress is typically good for stock markets.

· The national debt, while still growing, is declining as a percentage of GDP.

Many thanks to Mr. Valliere. His take on Washington is always interesting and thought-provoking. ■

The Political Landscape

· The mood of fiscal restraint (reduced spending) seems to be well entrenched. Spending cuts as a result of "sequester" still have 7 years to go, and there is no indication that Congress has any plans to do away with it.

· Budget deficit pressures also continue to lessen as the economy slowly improves. The deficit as a percentage of GDP will get below 3% (the post-war average) in 2014. We may see 1 – 2% of GDP in 2016.

· Hilary Clinton will likely be the nominee for the Democrats in 2016, though age and other considerations make this less-than-certain.

· The frontrunners on the Republican side in 2016 appear to be Jeb Bush, Rand Paul and Marco Rubio.

· Midterm elections in 2014 are shaping up to go largely in favor of Republicans.

What Greg is Worried About

· Cybersecurity

· Social Security, Medicare and Medicaid reform continue to be kicked down the road

· Potential impact of Obamacare on job creation

· Regulatory headwinds

- o EPA and delayed energy projects
- o SEC and financial regulation overhang

High-Frequency Trading and Long-Term Investing

By **Mike Minter, CFP®, CFS®**

If you keep up with the financial news outlets, you’ve probably been exposed to the latest debates on high-frequency trading (HFT). In Michael Lewis’ new book, *“Flash Boys: A Wall Street Revolt,”* he says that the stock market is rigged. His reasoning for this incendiary statement is that high-frequency traders have the potential to see what trades are being placed and jump ahead of investors who placed the trades, profiting at their expense. To be clear, these high-frequency traders are not human beings, but computers utilized by HFT firms.

Before I get to some of the more detailed nuances of this heated debate, let’s get right to the point and ask the question: “*What impact does high-frequency trading have on long-term investors?*”

In my opinion, *almost none.*

It’s hard to tackle a subject like this without igniting strong emotions, no matter what side of the argument you’re on. HFT firms and their proponents argue that overall trading costs are being driven down and liquidity has dramatically increased because of their participation in the market. Opponents argue that HFT firms have an unfair advantage over most institutions and individual investors because of their superior speed and access to information.

Personally, I don’t like the idea of these firms having any advantage over the individual investor; but these arguments are not black and white. The global markets have become so complex and digital in nature that nobody has been able to provide a clear answer as to what actual impact HFT has had on investors. We know that HFT firms have speed advantages over the individual investor and even most institutions, pensions and endowments. They accomplish this speed in three ways:

1) Placing their computer servers next to those of the stock exchanges (expensive real estate)

2) Using ultra-fast digital pathways, including fiber-optic cables, microwave towers and even laser beams

3) Buying proprietary data feeds from the exchanges (not unique to HFT firms)

In *“Flash Boys,”* Lewis explains the effect of high-frequency trading by analogizing it with placing an order to buy concert tickets. In the example, he explains that there are four adjacent seats available on the concert ticket exchange, StubHub, at $20 a ticket. The concertgoer places the order to buy the four tickets for $20 a piece, but a confirmation comes back saying only two tickets have been purchased. At the same time, the price of the remaining seats has risen to $25. So, the insinuation is that the HFT firm has jumped in front of your stock order, thereby driving up the prices. Obviously this is an exaggerated example - the price differential in stocks will be pennies, not dollars in share prices. The HFT firm might get $25.01/share as opposed to $25.02/share.

HFT firms are looking to make moves in large trade blocks (like pension funds, banks, and endowments). An individual investor placing an order is not going to run into a HFT firm.

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HFT AND LONG-TERM INVESTING, CONTINUED...

Contrary to what's been said in the media, the speed advantage alone is not enough for HFT firms. Their software and algorithms don't "know" for certain that the share blocks will be bought at an exact price, but they are essentially making a bet based on their information. They win some, they lose some. Inevitably some HFT firms are much more successful than others.

One of the most controversial arguments is that high-frequency trading is a form of insider trading in the digital age. Insider trading means having access to material, non-public information before it reaches the rest of the market; like the announcement of a new product or acquisition. This argument has merit, although their advantage seems to come more from networking speed rather than inside company information.

I am not in any way defending HFT firms; I think that their practices and ethics should be investigated extensively. There is so much that we don't understand, and until we do, practical regulation is not possible.

So, now that we've waded through the weeds of high-frequency trading let me get back to my main point. As long-term investors should we be concerned with HFT firms and their impact on the markets? Only to the extent that they are found doing something illegal or unethical, just as a company executive engaged in insider trading would be convicted under the law. Other than that it should have zero impact on a long-term investing strategy.

I'm not concerned in the least with fractions of seconds or $0.01/share price discrepancies. I guess if I were an active trader jumping in and out of stocks all day maybe I'd be concerned. But day trading was a loser's game for most who attempted it before the advent of high-frequency trading, and the odds are probably even worse now for the individual investor.

I think Michael Lewis' assertion (that the stock market is rigged) is ridiculous. I know he's trying to sell books, but that kind of statement could lead to uninformed investors abandoning the market altogether and missing out on long-term gains unlikely to be matched with other investments. Since the bottom of the market in March 2009 stocks (S&P 500) are up over 200%. That's a pretty big payday for anyone investing in the so-called "rigged market." I'm confident that any young investor today could put money in a good stock mutual fund, fall asleep for twenty years, and wake up much wealthier. And yes, in some form or other HFT firms will exist.

The market is just a vehicle to buy and sell shares in companies. Good companies will always persevere over the long-term and reward patient investors, regardless of the exact share price you paid for it. ■

Russia Annexes Crimea: Should Investors Respond?

By **Bryan Zschiesche, CFP®, MS, MBA**

A prerequisite for investing is optimism about the future. After all, if you don't believe that things will be better tomorrow than they are today, there would be no reason to squirrel away your money. It can be difficult at times to be optimistic, especially in the face of global unrest.

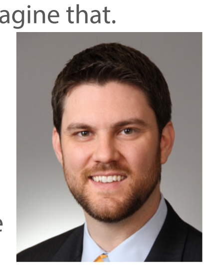
The secession of the Crimea region from Ukraine is the latest example of such geopolitical commotion. At the height of the chaos during the week of March 10 – 14, the stock market as measured by the S&P 500 declined by about 1.9% as the likelihood of all-out war was being priced into the market. On March 17 and 18, the S&P 500 rose 0.7% even as Russia annexed Crimea, a move which Western countries have condemned. This shift in investor sentiment illustrates how quickly the news about a developing "crisis" can pull investors in one direction or another over the short run.

Of course, this situation is far from being resolved. Does the annexation of Crimea suggest that Russia may attempt to gain more territory in the region? How would the West respond should Putin's territory grab spread? Of course, the answers to these questions are unknowable. Uncertainty, as we've said so often, is detested by investors even more than bad news itself.

So, as investors, how should we react to the uncertainty caused by Russia's actions? The answer is simple. We shouldn't. Here's why: Reacting to world events by "repositioning" a portfolio almost always works against you. You have to get two outcomes right. First, you have to predict how an event will unfold, which is impossible. Second, you have to predict how the market will react to that outcome, which is equally impossible.

Even more important than these considerations is that in the not-too-distant future, these events will likely have little bearing on the market. This may seem difficult to believe, but consider a study by Ned Davis Research which looked at the 28 biggest crises between 1940 and 1998, including Pearl Harbor, the Oklahoma City bombing, and the assassination of John F. Kennedy. The stock market, on average, was 2.3% higher a half-year after the outbreak of those crises. In only 9 of the 28 events evaluated was the market lower six months later.

Here's another way of looking at the impact of crises on the market. Researchers from Harvard and MIT published a now-famous study in the 1989 Journal of Portfolio Management which focused on the 50 worst stock market days over the period from 1947 to 1987. They looked for news that could have explained those drastic market moves. Unsuccessful, they observed that "on several of these days, The New York Times actually reported that there were no apparent explanations for the market's rise or decline." Imagine that.



To thoroughly beat this horse to death: a study by Munder evaluated 50 crisis events spanning from 1907 through 2009. Not surprisingly, Munder reaches a similar conclusion. "While each crisis is unique and the magnitude of events varies, the market has repeatedly proven its resiliency over the long-term." In only ¼ of the events was the Dow Jones Industrial Average lower 8 months following the crisis. The average return of the market 8 months later was 14% on the nose.

While past performance doesn't guarantee future results, it is clear that even in the face of crisis, the choice to be optimistic has been rewarded over and over again. ■

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How to Safeguard Your Online Identity

By **Marie Villard**

Through the Looking Glass

We are living in a time where our existence is more exposed than we've ever known. Our emails, names, phone numbers, personal pictures, and other personal data are associated with everything we do; from banking to baking, we use that information to create profiles of our identities out there in cyberspace, for the world to find and seek. Often times, putting ourselves out there leads to good, if not great, things: we reconnect with loved ones across the globe, we find old acquaintances, high school sweethearts (and rivals), as well as connecting us in the business world to customers, businesses, and new ventures.

With exposure comes risk, and with risk comes both reward and responsibility. While many of these sites (banking websites, social networks, online shopping hubs) have added security measures, there is still a responsibility on our part to be saavy consumers, safeguarding our every move on the internet.

In General

Remember, what goes online stays online forever, regardless of whether you delete it or not. That also goes for all of the places you travel to, because your computer will store that history and any cookies that come along with the websites you view. Some of these cookies can be malicious and steal information such as passwords, credit card numbers, and social security numbers. To make sure you are the safest you can be while perusing your favorite sites on your home PC, laptop, or tablet, make sure that you have adequate anti-spyware software and a firewall installed and enabled.

One thing that can really save you is creating a password that has a mixture of letters, numbers, and characters. The more complicated the password, the harder it will be to hack. Also, try to keep the password as something you will remember easily, but if not – create a secured document or note on your phone where you can write all of your passwords down. There are also some great programs known as "keychains" or "keepers" that you can use to save your passwords.

When you're done using your computer, delete your cookies and history, and any other temporary internet files. Most computers have an auto setting to do this when you power off. Which brings me to another point: when not using your computer, turn it off. Keeping it on and connected to the internet opens it up for cyber-attacks.

Your Finances Online

Over the past few years, the FBI has reported that the major growth in financial-related fraud is due to hostile email account takeover. Someone who can get access to your email can also get access to your personal conversations with financial advisors, attorneys, and family, and use that in attempts to impersonate you. They can also use the email hack as an opportunity to find out details about how to view your accounts online.

If you follow the general internet safety measures mentioned above, you will be less likely to fall victim to an email takeover situation. There are additional measures that Schwab offers, including setting up a PIN number and/or a Passcode to access your accounts over the phone, or a security token generator which gives you a different 6-digit number to add your password each time you log in. We also offer an in-house Secure Client Portal, which we can setup for you to receive statements and other financial information.

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Social Networks

The estimated number of spammer Facebook accounts is roughly 140 million, and over 150,000 new people sign up for accounts every day. These users can spam you through messaging, wall posts, tweets, phony pictures, phony ads, and links that lead you to phishing sites.

If you use your personal email or phone number on your social media account, make sure that you edit your privacy settings to hide them from the public. This will limit the contact from those spammers, but won't inhibit your ability to be searched, and those who know you can still search for you by your email or phone number. You can also create a social-network specific email account on Yahoo or Google, if you want to avoid using your real one.

Make sure that your public profile is private or locked. This will allow you to screen who you add to your network (and hopefully you're adding only people you know!). When accessing social networks, try to access only from home or a secured network.

Another great feature is that you can connect your phone to your social networks, and set your security to require an additional passcode to login, or get notified when there is an attempt to access your account. ■

If you have any questions about ways to safeguard your accounts, privacy settings, or are thinking about traveling and are worried about safety abroad, feel free to reach out to anyone of us at Financial Synergies. We want you to feel secure knowing that we are working together with you to combat cyber crime.

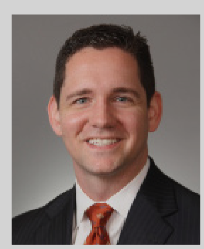
Want Higher Yields on Your Savings Accounts? Go Online

By **Heath Hightower, CFP®**

According to bankrate.com, the average savings account earns a disappointing 0.06%. But many online savings accounts are paying closer to 1% which is over 10 times the national average. That might not sound like much to get excited about, but it could make a big difference. For instance, moving $100,000 to an account with a 1% rate would yield $1,000 each year, versus only $10 from an account yielding 0.01%.

As financial advisors, our clients often ask us how they can get a higher yield from their cash accounts. Most traditional banks pay very little interest (if any) so we often recommend online savings accounts. They are very similar to traditional savings accounts and are offered by some of the most reputable companies in the world like American Express, GE Capital, Barclays, and Sallie Mae. All four of these banks have online savings accounts with yields around 0.90%, low minimums & no monthly fee. 2 And of course, they're all FDIC insured (meaning your money is insured if the bank were to fail).

The minimum balance required is usually quite low (typically just $1 to $5), but you can often find even higher yielding savings accounts with higher minimum balance requirements. They generally don't have ongoing fees and they make it surprisingly simple to make deposits & withdrawals by linking to your checking account electronically. I've found bankrate.com to be a great resource to sort through the various savings accounts available.



Opening and maintaining an online savings account is easy but it may not be the way to go for everyone. Some people are more comfortable walking into a brick & mortar bank to work with someone face to face. But, if maximizing the yield on your savings account is your ultimate goal, an online savings account may be the right solution for you. ■