FINANCIAL SYNERGIES®
ASSET MANAGEMENT

Q2 2014

INSIDE THIS ISSUE

- MONEY TRAIN 1
- MID-YEAR PORTFOLIO RECAP 2
- YOUR OUTSIDE ASSETS 3
- SCHWAB ESIGNATURE 3
- BEHAVIORAL BIAS 4

The Money Train

By **Mike Booker, CFP®, ChFC, CFS®**

As of this writing, the Dow Jones Industrial Average just crossed through 17,000 – another new record. Financial journalists portray that as a big deal. To me, it's certainly a good thing because it means things are up and moving in the right direction.

While I don't wish to throw a wet blanket on the celebration, I feel obligated to point out that the stock market is just one indicator of prosperity. Some other economic snags still remain, such as surging prices for critical goods and services, declining household income, unemployment/underemployment, and record low percent of participation in the labor force. These are just a few of some very stubborn economic challenges that persist.

Now, factor in the trillions of dollars that went to cash in early 2009 because things looked so dismal (but were actually beginning to turn historically bullish) and one can begin to understand that as the stock market passes through the 17,000 mark, the cheering may be somewhat subdued this time around. The combination of problematic economic conditions paired with a mountain of cash that never participated in the meteoric market recovery has created a nasty double whammy for many Americans.

A study published by the Investment Company Institute showed that in the five-year period following the Great Recession, outflows from equity mutual funds outpaced inflows in 30 out of the 60 months - showing money was being withdrawn at a fast rate, creating unprecedented amounts of cash in investor's accounts, and showing a lack of confidence in the markets.

The Consumer Confidence Index (CCI), which translates consumer sentiment into a usable numeric value, is still remarkably low given the fact we have been in recovery for over 4 years now. To put this in context, CCI currently sits at 85.2, whereas it sat at 144.7 in 1999. There is a logical reason the good news doesn't quite resonate with consumer confidence and investors, alike.

Charles Passy of MarketWatch calls it the "Great Disconnect" that has followed the Great Recession of 2008-2009. Passy writes, "They [advisors] say they're meeting with many first-time clients who have withdrawn large sums from IRA or traditional brokerage accounts during the past few years and have paid the price in returns as a result."

According to Greg McBride, senior financial analyst at Bankrate.com, "If someone saving for retirement was smart enough to stick with stocks through the past five years, they may be OK, other economic factors aside". But McBride is just not sure how many investors had the wisdom to do so. "The train may be back at the top of the mountain," says McBride, "but you're not there unless you stayed on the train."

Financial Synergies clients are not among those who went to cash in 2008/2009. They indeed turned out to be long-term investors. They didn't just talk the talk, as they say, they walked the walk as well. But this time around, it looks like our clients were the exception rather than the rule.

So, if your friends and neighbors seem noticeably underwhelmed by the media exhilaration of the Dow Jones hitting record highs of 17,000 and beyond, it could be that during the market crash of 2008/2009 they took an early exit from the train, disembarking at next available stop or even as it was moving, rather than just staying on the train. ■

Thank You for Your Feedback

Thanks to all of our clients who took the time to complete our Client Satisfaction Survey in June. We received an average rating of 9.29 out of 10 on our overall satisfaction question, "Based on your experience as a client, how willing would you be to refer Financial Synergies to a family member, friend, or colleague?" If you didn't have an opportunity to complete the survey and would like to submit feedback, please don't hesitate to email or call us. We are always open to your suggestions. Thank you for your continued trust and confidence! ■

"WE'RE HALFWAY THROUGH 2014"

Mid-Year Portfolio Recap

By **Mike Minter, CFP®, CFS®**

We're half-way through the year now, so I thought it would be a good time to recap what's been happening in the portfolios. All in all, it's been a good year for all the major asset classes we utilize. Even the current crisis in Iraq hasn't been able to derail the global markets; every fund in our portfolios is in positive territory for the year, as of June 30, 2014.

Stocks

Our stock positions have performed well thus far, both on the domestic and foreign side. After a phenomenal year for stocks in 2013, it's great to see they saved some gains for us in 2014. A couple standouts on the stock side this year:

· T. Rowe Price Institutional Large-Cap Value +8.15%

· Harbor International Institutional +4.44%

Bonds

It's been a good year for bonds as well - our positions are up across the board. We haven't had any major interest rate surprises this year, and the Fed has handled its gradual "tapering" program well. Two standouts on the bond side worth mentioning:

· PIMCO Income Institutional +6.45%

· BlackRock Strategic Income Institutional +3.35%

Hard Assets

The hard assets category has been the rock star this year. Real estate (Cohen & Steers Realty Institutional) is up +17.26%. And, commodities (PIMCO Commodities Institutional) is clocking in at +8.99% for the year. We'd love to see some more of that!

Alternative Strategies

And finally our alternative positions. This is an asset class that can be frustrating at times because it can behave so differently than the rest of the portfolio, which is precisely why they're needed. This year our alternatives are firing on all cylinders. Our three alternative positions:

· BlackRock Global Allocation Institutional +3.69%

· Merger Fund +2.87%

· PIMCO All Asset All Authority Institutional +6.31%

So that's how things are looking so far. Hopefully the second half of the year will be just as kind as the first!

I hope everyone is having a great summer. ■

4265 San Felipe, Suite 1450 | Houston, TX 77027 | PH: (713-623-6600) | http://finsyn.com

Are your outside assets getting the attention they deserve?

In today's fast paced world it's easy to neglect outside accounts like your 401(k) or deferred compensation plan. We are pleased to announce that we now have the ability to help you manage your 401(k) (or any investment account) held outside of Charles Schwab for a nominal fee. We believe that a comprehensive understanding of our client's financial lives is essential when providing sound advice. We've always offered our clients asset allocation recommendations for these "held-away" accounts. However, only now do we have the technology in place to help our clients with the ongoing management of accounts held outside of Charles Schwab & Co.

In addition to making investment recommendations, we can also provide detailed performance reporting, assistance with trading and rebalancing, daily account monitoring, and online access through finsyn.com, just as we do now for your managed Schwab accounts.

We strive to provide our clients with cutting edge service offerings. If you would like ongoing professional guidance with your 401(k), 403(b) or any other account held outside of Charles Schwab & Co., please feel free to give us a call. ■

Schwab eSignature

DocuSign®

By **Marie Villard**

Last month, Schwab launched a new online request tool known as eSignature. This service is open to all of our clients, requires Schwab Alliance online setup, and is backed by DocuSign®, the leading provider of digital signature integrity. eSignature will allow you to sign documents on the go, as well as approve money movements. I'll go into the two new enhancements below:

Electronic Approvals

Have you ever had a situation where you've been out of town and unable to get to a fax machine or printer while you're trying to facilitate a wire, check, moneylink, or journal request with us? With Schwab's new eSignature service, all you need is access to a computer or a mobile phone, and you can verify your transaction with Schwab directly.

How it works: We will setup the request for you, like we normally do, but we will set it up for "Electronic Approval". Once it is setup, you will get an email notification (or notification on your phone if you have the Schwab Mobile App), letting you know that there is a money movement waiting for your approval. You then follow a link/prompt to sign into Schwab Alliance, where you will then review the request and click a button if you "approve" the transaction. Once that happens, the request is on its way for processing!

There are some limitations for certain types of money movement, so if you are interested be sure to check with us prior to needing the transfer. Also, occasionally Schwab will have to call you, depending on the size of the request, frequency, etc., so we will be doing an audit of your contact information on file with Schwab to make sure it reflects what we have in office.

eSignature of Documents

We now have the capability to send you documents through Schwab Alliance, where you can review them and sign them with an electronic signature. This is especially great if you travel often, do not have access to a fax or printer, or prefer a paperless lifestyle.

How it works: Say you want to open a new account and will need a few other supplemental forms. Rather than us emailing them, dropping them in the client portal, or mailing them to you, we will send them to you in a packet via DocuSign® through Schwab Alliance.

This method allows you to setup a custom signature that is secure and only associated with your Schwab Alliance login. You will then have the ability to scan through the document as a PDF and apply your unique digital signature to the "Sign & Date Here" areas. Once you apply your signature, you then submit it back to us with the click of a button, we review it, and then send it on to Schwab for processing.

Don't have a Schwab Alliance login or online mobile app? Don't worry, we can get you setup. If you are interested, please contact any of us via phone and we can get you setup for doing online approvals and eSignature for documents. Also, if you are concerned about online safety, we direct you to demos and documentation about the how-tos and secure nature of this new service as well as give you a few tips about how to be secure online and on your mobile phone. ■

Understanding Behavioral Bias

By **Heath Hightower, CFP®** and **Bryan Zschiesche, CFP®, MS, MBA**

People are fascinating. You'd think that over thousands of years, the human brain would have evolved to become capable of making unbiased decisions as a means for survival, but based on James Montier's book Behavioral Investing, our brains simply aren't there yet.

In the book, Montier surveyed 300 professional portfolio managers to illustrate behavior biases. He asked them to go through the following exercise. We invite you to try it out:

1) Take out a piece of paper. Write down the last 4 digits of your phone number. (Or say the number out loud like "four thousand three hundred eighty five.")

2) Now, do you think the total number of doctors in London is more or less than that number? Think about it for a second and then say out loud "more" or "less."

3) Finally, write down what you think the actual number of doctors in London is.

Of course, a phone number is completely unrelated to the number of doctors in London, but did you let it influence your decision? Mr. Montier's survey found that it almost always does. He found that when a person's phone number was less than 3,000, the average answer given was about 4,000 doctors. When their phone number was 7,000 or higher, the average answer was 8,000 doctors. (In case you are curious, the number of doctors in London is about 37,000.)

The reason for this phenomenon is an effect called anchoring. Even when the "anchor" is irrelevant, you tend to move slightly toward the correct answer, but not nearly enough. Another example is the Joseph A. Bank 70%-OFF sale. Retailers are masters at anchoring! By marking a suit up to $1,000 and then "discounting" it back down to $300 you feel like you're getting a bargain. In reality, you're just getting a $300 suit.

Behavioral biases affect essentially every decision that we make. Unfortunately, investment decisions are no exception to the rule. Investors have the tendency to hold on to bad investments because they are anchored to their original purchase price, even if the investment has no hope of returning to that level and should be sold. Clearly, this behavioral bias has the potential to hurt the investor if not recognized.

In addition to anchoring, investors are also susceptible to hindsight bias. Hindsight bias occurs when a person believes, with the benefit of hindsight, that a past event was predictable and obvious, even though the event could not, in fact, have been reasonably predicted. The most vivid example is the 2008 financial crisis. Today, you will hear your golfing buddies and market pundits alike claim that they "saw it coming," but the Chairman of the Federal Reserve, the Treasury Secretary and the CEOs of virtually every major bank in the country didn't anticipate the magnitude of the '08 financial crisis. With hindsight, everything is 20/20.

Hindsight bias is attributed by psychologists to our need to see order and patterns in a chaotic world. We want to simplify the world around us by finding links between cause and effect. The problem is that if those links are based on hindsight bias (and are, therefore, erroneous), they may lead to yet another bias: overconfidence.

Overconfidence is overestimating our ability to perform a particular task. Ask a room full of people how many consider themselves better-than-average drivers. Well over half of the people in the room will raise their hands, but we know that only 50% of the drivers can be better than average.

In the world of investing, overconfidence can cause investors to trade more frequently (based on the "patterns" they've identified due to hindsight bias) and make buys or sells based on the belief that they are better than the average investor at picking investments. In reality, research suggests that people who trade more frequently earn, on average, less than the market.

Avoiding behavioral biases like anchoring, hindsight bias, and overconfidence is critical to successful long-term investing. Much of the value we hope to create in any client relationship is to help them identify when they may be falling prey to these types of biases and avoid making investment decisions that they may later regret. ■

Sources: Behavior Investing by James Montier; Morningstar's Jason Stipp online interview of Raife Giovinazzo; The Legacy Financial Group's August newsletter

4265 San Felipe, Suite 1450 | Houston, TX 77027 | PH: (713-623-6600) | http://finsyn.com