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I. Beware of Equity Indexed Annuities:

Recently the letters to the editor of "*The News Sentinel*," our local daily newspaper, contained the following letter from Mr. Jack Slaughter:

> It all begins when a very formal invitation arrives in the mail inviting the recipient to a scrumptious free meal at an upscale restaurant. The targeted group: seniors who have struggled for several years with almost nonexistent returns on the IRAs, who are extremely worried that they will outlive their financial resources, who are not well informed on financial matters and who will jump at almost any investment that offers well-above-average returns with a guarantee they will not lose any of their principal. If this sounds too good to be true, that is because it is just that.
>
> The true purpose of the invitation is usually masked with some informational offerings such as tips for a worry-free retirement or little-known benefits available to veterans, but the real purpose is the hard sell of a product that is anything but in the best interests of the guests.
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> The product is equity indexed annuities ["EIAs"], which, according to Malcolm Berko, a financial writer for the *Herald Sun*, 'have more working parts that a Swiss watch, but most of those parts are made in China.' Burko goes on to state that 70% of all complaints received by state securities regulators involve EIAs.
>
> Anapol Schwartz, an attorney who specializes in national Association of Securities Dealers class-action lawsuits notes: 'Sales abuses are rampant because EIAs generate enormous commissions and are not regulated by the investment industry.'
>
> For an elderly population…the last thing they need is the loss of their hard-earned pension assets. Yet, EIAs continue to be sold, and according to Barbara Roper, director of investor protection for the Consumer Federation of America, these products are 'one of the most abusively sold products on the market today.'

Smartt comment: It's tough to turn down a free meal. Remember there is no relief from either small investment returns or fluctuations in the value of our investment capital without the payment of a price. The price may be very high costs, often found in annuities, as well as sales commissions on product sales.

II. What Are OUR and THEIR Asset Allocations?

Each of us has a different ability to live with uncertainty (risk) and so our investments will be different:

As of March 31, 2014	Clients	The Smartts
Money Market Funds	1.8	0.7%
Bond Funds	26.2	4.1%
Stock Funds	72.0	95.2%
Totals	100.0%	100.0%

Remember each of us has different goals and needs and our asset allocation should fit us and our family.

Over long years stock investments generally perform much better than bonds. But when the financial news is bad we can be afraid to purchase stock investments, and when the news is good, stocks are so high in price that they may not be quite as good an investment.

If you have questions about your asset allocation, or your retirement plan investments, I'd be pleased to assist.

III. Vanguard Rates of Return (through Latest Quarter End)

Performance percentages are per ***Morningstar.*** Amounts in parentheses are percentile rankings (1= best and 100= worst) within category.

Periods ended March 31, 2014	Yr.-to-date		5 Years		10 Years	
Total Stock Market Index Admiral	**2.0%**	(32)	**22.1%**	(12)	**8.1%**	(16)
Tax-Managed Capital Appreciation Admiral	**2.1%**	(29)	**21.8%**	(15)	**8.0%**	(18)
Tax-Managed Small Capitalization	**1.2%**	(51)	**26.1%**	(21)	**10.1%**	(17)
REIT Index Admiral	**10.0%**	(21)	**28.7%**	(18)	**8.4%**	(33)
Tax-Managed International Admiral	**0.5%**	(41)	**16.0%**	(30)	**6.7%**	(40)
Balanced Index Admiral	**2.0%**	(32)	**15.2%**	(35)	**7.0%**	(16)
Total Bond Market Index Admiral	**1.9%**	(56)	**4.7%**	(82)	**4.4%**	(44)
Interim-Term Investment-Grade Bond	**2.4%**	(80)	**9.1%**	(81)	**5.2%**	(56)
High–Yield Corporate Bond	**2.7%**	(49)	**14.5%**	(79)	**6.9%**	(68)

For comparison, here are several stock and bond benchmarks:

Periods ended March 31, 2014	Yr.-to-date	5 Years	10 Years
S & P 500 (large stocks)	**1.8%**	**21.2%**	**7.4%**
Russell 2000 (small stocks)	**1.1%**	**24.3%**	**8.5%**
MSCI World Index	**1.3%**	**18.3%**	**6.8%**
Barclays Aggregate Bond Index	**1.8%**	**4.8%**	**4.5%**
BofAML US High Yield Master II TR (bond index)	**3.0%**	**18.2%**	**8.5%**

Vanguard mutual funds and ETFs (exchange-traded funds) continue to perform as expected. I expect each Vanguard fund or ETF, for each ten-year period to be in the top 1/3 before taxes based on low cost, and they ought to be in the top 1/4 (stock funds) after income taxes.

The Vanguard High Yield Corporate Bond fund takes significantly less risk that the average "high yield" (also known as "junk bond") fund. When junk bonds are doing well, the Vanguard fund doesn't compare as well. I continue to recommend it as an additional diversification from good quality bonds and am satisfied with its absolute performance exactly because it takes significantly less risk than the average high-yield fund.

For the last several years, in an atmosphere of very low interest rates, the managers of many actively managed bond mutual funds have been betting that higher risk bonds will have higher returns. This has increased both the relative return of their funds, as well as the risk. Vanguard bond funds have a reasonably narrow range of investments and are both lower cost and more predictable as to rate of return.

If you have questions about your investment asset allocation, please contact me.

IV. IRA Mistakes—Not Contributing Later In Life:

This is from the April, 2014 issue of the *Morningstar FundInvestor*:

> It is true that as you get older, any investment contributions will benefit less from compounding that would contributions you made earlier in your investment career. We've all see examples showing how the individual who starts at age 22 has $7 million at age 60, whereas the person who waited until age 40 to start investing has about $12,000. (OK, I'm exaggerating.) In a related vein, IRA contributions made later in life will benefit less from tax-free (Roth) or tax-deferred (Traditional IRA) compounding than will contributions made earlier in life.
>
> That's not to say you should forget IRA contributions in the years leading up to and during retirement, however. For one thing, you may have 20 years or more of tax-advantaged compounding left."

V. Other News and Notes:

Here are other items of interest noted in a quarter full of reading:

Smartt noted in *Barron's*, "More Taxing Times Ahead" (March 1, 2014):

> "For many financial advisors, the solution is buying low-turnover index funds. Advisor John Smartt, Jr. of Financial Counseling & Administration in Knoxville, Tenn. bought his first index fund, the Vanguard 500 (VFINX) in 1989 and hasn't looked back. Now he favors the Vanguard Total Stock Market Index ETF (VTI), which basically buys and holds every U.S. stock forever, so no gains are distributed."

TDAmeritrade reports on the "Heartbleed" security flaw (April 11, 2014):

> "We would like to take this opportunity to reassure you with respect to your clients' security at TD Ameritrade. TDAmeritrade's websites and mobile applications do not utilize versions of OpenSSL that are susceptible to the Heartbleed vulnerability, and have never used them.
>
> We are actively monitoring the situation, and we are working with our business partners to confirm that they are secure as well.
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> Protecting…clients' privacy and the confidentiality of their personal information has always been fundamental to us.
>
> In addition, TDAmeritrade accounts are protected by our Asset Protection Guarantee which protects clients form unauthorized account activity, subject to a few limitations."

Investment News, "Vanguard Takes In Most 1Q ETF Money", April 7, 2014:

> The Vanguard Group, Inc., the third-biggest provider of exchange-traded funds, has gained ground on larger competitors this year after gathering more than seven times as much money into its ETFs than the rest of the U.S. industry combined.
>
> Vanguard attracted $13.1 billion, or almost 90% of the money gathered by all U.S. ETFs in the first quarter, according to data compiled by Bloomberg.
>
> Vanguard, started in 1975 by John C. Bogle, has been able to attract steady deposits from savers by offering low-cost funds, a strategy that helped it become the largest mutual fund provider. A latecomer to ETFs, in part because he was opposed to them, the firm has been narrowing the gap with BlackRock Inc. and State Street, whose products are popular among fickle institutional investors such as hedge funds that seek ways to trade in and out of markets quickly.
>
> Vanguard's ETFs carry an average annual expense ratio of 0.14%, less than half the 0.4% for BlackRock and 0.36% for State Street, according to data compiled by Bloomberg.

Financial Advisor Magazine, "Best Retirement Countries (No, They're Not Tropical)", April, 2014

Looking for a great place to retire? Go to Europe. Specifically, the Nordic countries and German-speaking nations. Or maybe Down Under. According to the Natixis CoreData Global Retirement Index, the highest-ranked nations for retirees are Switzerland, Norway, Austria, Sweden, Australia, Denmark, Germany, Finland, New Zealand and Luxembourg. The U.S. ranks 19.

…Natixis and… CoreData teamed up for their second annual global look at how well countries are meeting the retirement expectations and needs of their citizens.

The retirement index comprises 20 performance indicators grouped into four thematic sub-indexes focused on welfare in retirement: having good health and access to quality health services; having enough material means to live a comfortable life; having access to quality financial services (including preserving the value of savings) and living in a clean and healthy environment.

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