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the official newsletter of sigma investment counselors

April 2006

## Beyond Investment Management

We began 2006 at Sigma Investment Counselors with new marketing materials, including a revised brochure and website. *Thoughtful Investment Management*, the headline theme of the new materials, sounds great, but what does this mean for our clients? In part, it means that we are thinking about our clients, and bringing to bear all our skill and training to help them meet their goals. This means much more than picking stocks and bonds. As one client of ours often says, "You go way beyond investment management." We thought it important to expand on this, by reviewing some of the services and expertise we offer our clients, beyond investment management.

Understanding our clients starts with financial profiling and planning. We spend the time and effort needed to learn each client's unique circumstances. "How much do you have?" "How much can you save?" "How much will you need?" These are some of the many questions we ask to fill in the details. Once we know these details, we build a financial model for each client using proprietary software that we developed at Sigma. This software (which we will discuss in more detail in a future publication) helps the client to understand their financial risks, and aids us in developing their investment program.

When we work with our clients, we investigate their entire balance sheet, including investments held outside of Sigma. We regularly help our clients make choices in investing 401Ks, for which we often do not receive a fee. In general, we want to consider all relevant assets and liabilities when we develop a financial plan, and we will monitor these outside investments and suggest changes to

ensure that asset allocation and diversification targets are achieved.

The financial planning process inevitably leads to other areas of inquiry, such as insurance. We do not sell insurance at Sigma, but we will counsel our clients on what insurance coverage is appropriate for them, and how much they need. We have investigated long-term care, disability and life insurance for our clients, and can apply our research as the need arises. Additionally, through our network of other professional advisors, we can call upon experts in the various insurance areas to fill in the details for each situation.

We frequently touch on other areas of financial interest while working with our clients. Some clients may have complex compensation packages from their employers. We have developed models for analyzing the components of executive compensation. In some cases this is beneficial to the financial planning process, as it helps us to understand the client's likely savings and earnings power. Also, by analyzing option-based compensation, we can help clients maximize their take-home while minimizing their taxes.

We often counsel our clients on real estate matters, both utilitarian and investment. Some of the items we address include: fixed or variable rate mortgages, home equity lines vs. refinancing vs. spending down savings, affordability of a second residence, and paying down a mortgage. If a client owns rental property, we

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may work through the consequences of a 1031 property exchange, or compare likely returns from income property with the expected returns from stocks and bonds.

It is impossible to have a meaningful discussion about financial planning without discussing estate planning. At Sigma, we don't write wills or estate plans. However, we have learned enough in this area to ask the basic questions, such as "Do you have a will?" and "Why don't you have a trust?" We help our clients understand the importance of an estate plan, and of having existing plans reviewed periodically. Also, once a trust has been established, we will work with the client's attorney to ensure that the trust has been funded properly.

Similarly, no financial plan can be complete without tax planning. One of the simple questions we ask is "Do you have any tax loss carry-forwards, or gains or losses this year from other investments?" This information enables us to manage our clients' taxes through harvesting of losses or gains in their portfolios.

We will also discuss the benefits of Roth and Contributory IRAs, so that taxes may be deferred until retirement. For clients who own businesses, we will raise the issues of the various savings vehicles available to them, such as 401K and profit sharing plans. Here we can draw on our contacts with attorneys who are experts in the area to get the discussion started, and we can further help our clients by making referrals – to attorneys and to plan administrators - when appropriate.

We have focused on our financial planning-related counseling thus far, but Sigma also extends itself into what we might call the operational aspects of our client's financial lives. This includes making sure that annual IRA contributions are made, and that annual IRA minimum distributions are taken. For many of our clients, we actively manage the amount of cash in their accounts, so that their liquidity needs are met. We setup and monitor monthly distributions to their checking accounts, and also wire money on demand so that funds for special needs can be made available quickly.

This article has primarily discussed the analytical services we provide to our clients. As our colleague, Bob Bilkie, discussed in the January 2005 Sigma Summaries, for many clients, we act as counselors as well, providing a sounding board for financial questions that may not have a single numerical answer. We help families reach consensus on their money issues. Additionally, we may help clients determine what type of retirement suits them – "What would be the perfect retirement?" is one question that our colleague, Chris Kress, often asks. These conversations help our clients articulate their financial goals, and help us to plan their investments accordingly.

We set out in this article to discuss some of the services we provide our clients, beyond the selection and monitoring of investments. Clearly, much of what we do is driven by the planning dialogue, while a good portion of it may be considered counseling. The overarching theme that we come back to is Thoughtful Investing: Thinking about our clients, so we can help them meet their financial goals. We invite you, our clients and friends of Sigma, to take advantage of these services, and push us to offer you additional value in the future.

Kenneth M. Bernard, CFA

# The Economic and Market Environment

**In Sum:** In spite of growing geo-political strife, the global economy remains on a growth track. Major central banks around the world are either raising interest rates, or signaling their intention to do so. Coming to agreement in Washington continues to be an exercise in futility. In spite of all of this, the equity markets generally provided reasonable investment returns for the first 15 weeks of the year, and interest rates, while rising, are not proving economically punitive.

**Geo-political:** Two issues dominate the geo-political stage at present: nuclear weapons and global trade imbalances. Iran announced, to their cheering citizenry, that they had successfully enriched uranium, to the consternation of much of the rest of the world. China receives the lions share of protectionist attention from certain members of Congress even though the merchandise trade deficit with the European Union, Canada and Mexico are also quite material. To date, there has been no credible mention of military action against Iran, and no legislative action on stifling trade. These two issues bear watching.

**Economic:** Broad based, geographically diverse global economic growth shows no signs of abating. The exception countries remain as those that continue to be plagued by either political corruption, civil strife, or religious fanaticism. In the US, job growth has continued for 31 consecutive months, averaging gains of about 167,000 according to the Schwab Center for Investment Research. Producer prices have risen smartly, particularly commodities, but consumer prices, excluding energy, have generally remained subdued.

**Monetary:** In response to strengthening commodity prices and vibrant economic growth, The Federal Reserve Board raised the federal funds rate to 4.75% in late March. The European Central Bank has been signaling its intent to raise interest rates as has the Bank of Japan when it began to manipulate interest rates higher in early March. In concert, these moves are designed to rein in global inflationary pressures, but an overshoot risks imperiling global growth.

**Fiscal Policy:** With President Bush's approval ratings dropping to new lows almost daily, balanced federal budgets look to become increasingly difficult. Compromise between the Bush led republican party and the democratic party are unlikely due to the growing rancor between the two. Historically, crises have precipitated constructive action and it would appear that such a catalyst may be the only path to resolution again for this issue.

**Equity markets:** Common stocks have provided positive returns, year to date. With a dearth of pre-announced earnings shortfalls for the first quarter of 2006, it would appear that the equity markets in general are on a fairly firm fundamental foundation.

**Fixed income markets:** Interest rates are virtually the same across the maturity spectrum. A resumption of a normal, upward sloping yield curve is expected.

