Cypress
Financial Planning, LLC

FOURTH QUARTER 2013

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Market Update

(all values as of 9.30.2013)

Stock Indices:	
Dow Jones	15,129
S&P 500	1,681
Nasdaq	3,771
Bond Sector Yields:	
2 Yr Treasury	0.33%
10 Yr Treasury	2.64%
10 Yr Municipal	2.56%
High Yield	6.37%
YTD Market Returns:	
Dow Jones	15.52%
S&P 500	18.05%
Nasdaq	25.21%
MSCI-EAFE	13.36%
MSCI-Europe	13.17%
MSCI-Pacific	13.88%
MSCI-Emg Mkt	-6.42%
US Agg Bond	-1.99%
US Corp Bond	-2.70%
US Gov't Bond	-2.43%
Commodity Prices:	
Gold	1,326
Silver	21.71
Oil (WTI)	102.33
Currencies:	
Dollar / Euro	1.35
Dollar / Pound	1.61
Yen / Dollar	98.22
Dollar / Canadian	.97

Risk? What Risk?

The US equity market, as measured by the S&P 500 index, now stands about 18% higher than where it started 2013. While the chart shows some choppy growth, June and August are the only two negative calendar month performances all year.

S&P 500 Index in 2013

Volatility has increased quite notably since the end of May. The largest peak-to-trough decline during 2013 occurred in May and June where the market declined just over 5.6% in about 33 days. In August, the S&P 500 declined about 4.5% over 25 days but remained up 14.3% for the year. Most investors easily digested the declines as the cumulative annual return during those two periods remained quite positive. But what happens when the S&P 500 and other asset classes go through a stretch of overwhelmingly negative months and longer periods of greater declines? As we hear so often, "what goes up must come down," so we thought this may be an opportune time to brush up on risk. Few terms in personal finance are as important, or used as frequently, as "risk." Nevertheless, few terms are as imprecisely defined. Most advisors focus risk discussions on the historical price volatility of the asset or investment under discussion. Advisors label an investment that has been prone to wild price gyrations in the past as aggressive or risky (e.g. stocks). Assets characterized by prices that historically have moved within a narrower range of peaks and valleys are considered more conservative (e.g. bonds). Unfortunately, this explanation is seldom offered, so it is often not clear that the volatility yardstick is being used to measure risk. Before exploring risk in more formal terms, a few observations are worthwhile. On a practical level, we can say that risk is the chance that your investment will provide lower returns than expected or even a loss of your entire investment. You probably also are concerned about the chance of not meeting your investment goals. After all, you are investing now so you can do something later (for example, pay for college or retire comfortably). Every investment carries some degree of risk, including the possible loss of principal, and there can be no guarantee that any investment strategy will be successful. That's why it makes sense to understand the kinds of risk as well as the extent of risk that you choose to take, and to learn ways to manage it. Even though you might never have thought about the subject, you're probably already familiar with many kinds of risk from life experiences. For example, it makes sense that a scandal or lawsuit that involves a particular company will likely cause a drop in the price of that company's stock, at least temporarily. An overall economic slowdown and stock market decline might hurt most companies and their stock prices. There are many different types of risk to be aware of. Volatility is a good place to begin as we examine the elements of risk in more detail. Suppose that you had invested $10,000 in each of two mutual funds 20 years ago, and that both funds produced average annual returns of 10 percent. Imagine further that one of these hypothetical funds, Steady Freddy, returned exactly 10 percent every single year. The annual return of the second fund, Jekyll & Hyde, alternated--5 percent one year, 15 percent the next, 5 percent again in the third year, and so on. What would these two investments be worth at the end of the 20 years? It seems obvious that if the average annual returns of two investments are identical, their final values will be, too. But this is a case where intuition is wrong. If you plot the 20-year investment returns in this example on a graph, you'll see that Steady Freddy's final value is over $2,000 more than that from the variable returns of Jekyll & Hyde. The shortfall gets much worse if you widen the annual variations (e.g., plus-or-minus 15 percent, instead of plus-or-minus 5 percent). This example illustrates one of the effects of investment price volatility: Short-term fluctuations in returns are a drag on long-term growth. (Note: This is a hypothetical example and does not reflect the performance of any specific investment. This example assumes the reinvestment of all earnings and does not consider taxes or transaction costs.) Although past performance is no guarantee of future results, historically the negative effect of short-term price fluctuations has been reduced by holding investments over longer periods. But counting on a longer holding period means that some additional planning is called for. You should not invest funds that will soon be needed into a volatile investment. Otherwise, you might be forced to sell the investment to raise cash at a time when the investment is at a loss.

Other types of risk

Here are a few of the many different types of risk:

- Market risk: This refers to the possibility that an investment will lose value because of a general decline in financial markets, due to economic, political, or other factors.
- Concentration risk: This refers to the possibility that a single investment contributes a disproportionate amount of market risk to a broader portfolio (e.g. single stock).
- Inflation risk: This refers to the possibility that prices will rise in the economy as a whole, so your ability to purchase goods and services would decline. Inflation risk is often overlooked by fixed income investors who shun the volatility of stocks.
- Interest rate risk: This relates to increases or decreases in prevailing interest rates and the resulting price fluctuation of an investment, particularly bonds.
- Reinvestment rate risk: This refers to the possibility that funds might have to be reinvested at a lower rate of return than that offered by the original investment.
- Default risk (credit risk): This refers to the risk that a bond issuer will not be able to pay its bondholders interest or repay principal.
- Liquidity risk: This refers to how easily your investments can be converted to cash without significant loss of principal.
- Political risk: This refers to the possibility that new legislation or changes in foreign governments will adversely affect financial markets overseas.
- Currency risk (for those making international investments): This refers to the possibility that the fluctuating rates of exchange between U.S. and foreign currencies will negatively affect the value of your foreign investment, as measured in U.S. dollars.

The concept of risk tolerance is twofold. First, it refers to your personal desire to assume risk and your comfort level with doing so. If you find that you can't sleep at night because you're worrying about your investments, you may have assumed too much risk. Second, your risk tolerance is affected by your financial ability to cope with the possibility of loss, which is influenced by your age, stage in life, how soon you'll need the money, your investment objectives, and your financial goals. If you're investing for retirement and you're 35 years old, you may be able to endure more risk than someone who is 10 years into retirement.

Dealing with risk

- Diversify: forces in the markets do not normally influence all types or classes of investment assets at the same time or in the same way.
- Time: Focus on long-term investing goals, not on day-to-day returns. Don't overestimate the effect of short-term price fluctuations on your portfolio. Time horizon is critical and crunching numbers can help define horizon and appropriate asset allocations.
- Slow Down: Do not make quick emotional decisions and refrain from pulling out when markets decline quick (assuming you have properly considered your time horizon when you initially developed the portfolio). If you move most or all of your investment dollars into conservative investments after a big decline, you've not only locked in any losses you might have, but you've also sacrificed the potential for higher returns.
- Buy Low: Defy the crowd and consider opportunities to buy assets at lower prices or during market turmoil. Prices can continue to fall so understand fundamentals or seek advice.
- Sell High: The right approach during all kinds of markets is to be realistic. Have a plan, stick with it, and strike a comfortable balance between risk and return – and do take gains by rebalancing consistently.

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Total Outstanding U.S. Debt As Of September 30th = $16.738 Trillion

Current Environment - Macro Overview

The Fed unexpectedly made no move to taper, as the markets had anticipated, leaving lingering uncertainties as to when the Fed will actually reduce stimulus.

Reminiscent of the December 2012 fiscal cliff and the debt ceiling debate in 2011, members of the House and Senate once again grappled over the federal budget and an increase to the nation's debt limit.

With the conclusion of the government's fiscal year on September 30th, the impasse in Washington materialized into a partial government shut down. The Treasury is expected to exhaust its ability to borrow funds on October 17th, unless a statutory debt limit increase is decided on by then. Even though the debt limit currently stands at $16.699 trillion, total outstanding U.S. debt as of September 30th is $16.738 trillion.

A proposal to repeal the popular federal tax deduction for state and local taxes is being considered in Washington. Claimed by 46.6 million Americans in 2011, the deduction reduced U.S. tax revenues that year by an estimated $42 billion, making it one of the largest tax breaks in the code.

Lawrence Summer's decision not to pursue the Fed chairman position becoming available in February brings into question as to how this additional uncertainty could affect monetary policy. Economists believe that an extended period of indecision may have an affect on the Fed's ability to conduct monetary policy. As the market expects and looks for "forward guidance" from the Fed, the effectiveness of monetary policy is hindered by the indecision for a new Fed chairman.

The 10-year Treasury note touched the psychologically important 3% level for the first time since the middle of 2011. The 10-year Treasury has jumped from a 1.6% yield to a 3% yield from early May to early September.

A slight appreciation in mortgage rates has primarily been felt by first-time homebuyers who are usually most constrained by monthly payments. Demand for homes however remain intact, as existing home sales in August surpassed a 6 ½ year high as buyers rushed to close on purchases in anticipation of higher mortgage rates. Demand for limited inventories also elevated home prices to their highest levels in 7 years.

Sources: Fed, Commerce Dept., Labor Dept., Bloomberg

Debt Limit Debate - Fiscal Policy Review

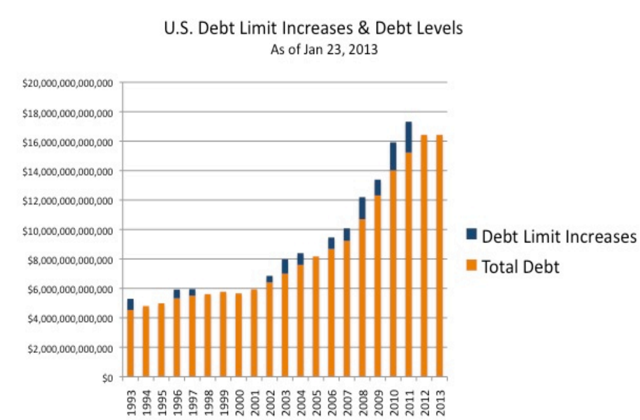
U.S. Treasury Secretary Jacob J. Lew stepped up pressure on Congress to avert a potential default, telling lawmakers in a letter that measures to avoid breaching the debt ceiling will be exhausted on October 17th.

Lew's letter marks the first time he has set a specific deadline and gives lawmakers a target for raising the $16.7 trillion debt limit. Lew and the President have said they won't negotiate on the limit, which is tied to payments and bills the U.S. has already agreed to make. Members in Congress want spending cuts to be part of the debt-limit debate.

Without a debt limit increase by October 17th, Treasury Secretary Jack Lew has warned that the United States would have a difficult time paying creditors and operating the government.

Formally known as the statutory debt limit, the United States debt ceiling or debt limit is a legislative restriction on the amount of national debt that can be issued by the Treasury. The debt limit has been raised 79 times since its creation in 1917, with 17 of these increases occurring over the past 20 years, and the most recent increase passed in August 2011.

The United States has had some sort of legislative restriction on debt since 1917. To control the amount of total debt outstanding, Congress has placed restrictions on Federal debt issuance since the passing of the Second Liberty Bond Act of 1917, which eventually evolved into a general debt



limit in 1939. The Second Liberty Bond Act of 1917 helped finance the United States' entry into World War I, which allowed the Treasury to issue long-term Liberty Bonds. Periodically, a political dispute arises over legislation to raise the debt ceiling. Until the debt ceiling is raised, the Trea-

Over 15% Of The U.S. Population Remains Without Healthcare Coverage

sury undertakes what is termed as "extraordinary measures", which essentially buys more time for the ceiling to be raised.

The United States has never reached the point of default, where the Treasury is unable to pay its obligations. In 2011 the United States reached a point of near default, which in turn triggered the first downgrade of U.S. debt by credit rating agencies.

The debt ceiling at the beginning of 2013 was $16.394 trillion with the limit being reset to reflect cumulative borrowing through May 18th. Even though the debt limit now stands at $16.699 trillion, total outstanding U.S. debt as of September 30th is $16.738 trillion.

Sources: Congressional Research Service, Treasury

Brief History of Health Insurance Benefits & Coverage - Demograhics

Employment-based health benefit programs have existed in the United States for more than 100 years, evolving from growth in industry and population. Some of the initial industries to offer medical services to their employees included railroad and mining. Medical services began as companies hired doctors that were made available to employees.

Before any type of medical or health services were available, most people lived in rural farming areas distant from cities and towns. Doctor "house calls" were the norm as medical attention came to the patient. As the population shifted from rural areas to urban centers, families lived in smaller homes with less room to care for the sick, thus creating a need for visits to medical service facilities.

Prior to World War II, few Americans had health insurance, and most policies covered only hospital room, board, and ancillary services. Employer-sponsored health insurance plans dramatically expanded as a direct result of wage controls imposed by the federal government during World War II.

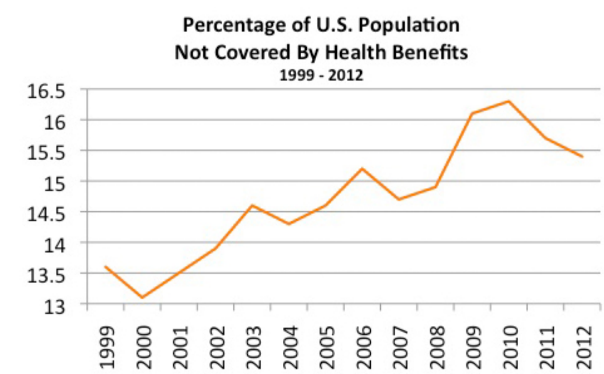
Before the development of medical insurance benefits, patients were expected to pay all health care costs out of their own pockets, under what is known as the fee-for-service business model. Under the current tax code, health insurance premiums paid by employers are deductible for employers as a business expense, and are excluded, without limit, from workers' taxable income.

In 1910, Montgomery Ward & Co. was one of the first companies to sponsor health benefits for its employees. By 1968, Firestone Tire and Rubber Co. began to self-fund health benefits, which other large companies with numerous employees eventually implemented.

In 1965, Congress created Medicare under Title XVIII of the Social Security Act to provide health insurance to people age 65 and older, regardless of income or medical history. Before Medicare's creation, only half of older adults had health insurance, with coverage often unavailable or unaffordable to the other half, because older adults had half as much income as younger people and paid nearly three times as much for health insurance. Medicare also spurred the racial integration of thousands of waiting rooms, hospital floors, and physician practices by making payments to health care providers conditional on desegregation.

The most recent piece of legislation for healthcare is the Affordable Care Act, which became effective October 1st, allowing individuals to sign up for insurance via healthcare exchanges.

The past twelve years has seen a gradual decrease in healthcare coverage, with over 15% of the U.S. population without healthcare coverage as of December 2012.



Sources: EBRI Health Benefits Databook, CBO