The Light

Summer 2015

A free quarterly publication of Lighthouse Wealth Management, Inc. Volume 5, Issue 3

Fiduciary — Clients First

By Tim Rowsey, CPA, Investment Advisor Rep.

Once again a debate is raging as to how financial professionals should represent their clients. In May of this year the Chairman of the Securities and Exchange Commission, Mary Jo White, stated that tighter standards are needed in the financial services industry. She was speaking out in favor of a uniform fiduciary standard that would apply to both brokers and investment advisors. Currently, there is a discrepancy as to how these groups interact with their clients. The Chairman supports a move to a uniform fiduciary standard for all financial professionals.

Is your advisor putting your best interest first?

The Fiduciary standard requires that financial firms and professionals act in the best interest of their clients. This includes the disclosure of how the financial advisor is to be compensated, and also disclosure of any conflicts of interest. This is the standard that we adhere to here at Lighthouse Wealth Management, and one which we believe, ideally, should apply to all in the financial services arena. Unfortunately, this is not the case.

Today, this standard only applies to a smaller section of the financial services industry. Many instead fall under the lower "suitability standard." This lower standard typically covers stock brokers and insurance agents and those who are employees of a broker dealer. These individuals do not need to disclose conflicts of interest or even tell a client of other options which might be more beneficial for the client. The suitability standard only requires that the investments must be within the clients' investing objectives, experience and time horizon. This can lead to a client

(continued on page 2)

Interest Rate Impact

By Tim Rowsey, CPA, Investment Advisor Rep.

At some point in the future, the Federal Reserve is going to raise interest rates. We have been anticipating this change for much of the last four years and continue to wait and wonder when the increase might happen. As we continue to wait and wonder, I thought it might be helpful to discuss the purpose of an interest rate increase and also the potential impact on investments and the overall economy.

The Federal Reserve has several purposes, but one of the most important, according to its own web site, is "conducting the nation's monetary policy by influencing money and credit conditions in the economy in the pursuit of full employment and stable prices." One of the major tools it uses to impact monetary policy is the setting of the federal funds rate. This is the rate that banks charge each other for overnight loans. By changing this rate, the Fed can influence money supply and also the interest rate that banks charge each other, and in turn, the rates banks charge customers.

The primary reason the Fed would increase rates is to slow the economy and combat inflation. However, if this is done too soon, it could actually cause the economy to stall and slow a recovery and even cause a recession. For this reason, the Fed has been extremely cautious about raising rates over the last few years.

When rates do go up, the impact on the economy will depend on the size and speed of rate increases. The potential impact is a slowing of business investments, slowing of residential investments, and a decrease in consumption of durable goods. A rate hike will also increase the interest cost on government debt. For more conservative investors a rate hike could finally see some small increase in CD rates which have

(continued on page 3)

Fiduciary (continued from page 1)

paying high commissions or loads and not getting the best investment options available to them.

Several years ago, I worked with a couple who were updating their wills and trusts with an out-of-town attorney. Those documents were prepared in a professional manner and the fee for their preparation was reasonable. However, the same attorney went on to suggest that the client place all of their retirement assets into a deferred annuity. It was claimed that this would protect those assets from future claims by a nursing home (which it will not). The attorney also failed to disclose to the client that the attorney would be paid a commission of over $25,000 if they were to place their investments into this annuity. Fortunately for them, they discussed this information with me before the transaction was completed. In this instance, the attorney was certainly not acting as a fiduciary for this client, and was not looking out for their best interest, but rather his own.

We also often see annuities purchased inside an IRA in accounts that are managed by a broker. This is effectively a tax shelter inside a tax shelter with no additional benefit to the client. This compounds the fees for the client and is rarely in the best interest of the client. There are other investment options that may be less costly and provide better benefit to the client; however, they do not pay out the same large commission to the broker. Whose interest is served here?

Since the passage of the Dodd-Frank law in 2010 the SEC has been given the power to require all investment professionals to move to the fiduciary standard. This would bring all brokers and insurance agents under the same requirements as independent investment advisors. Needless to say, large brokerage firms and others have lobbied heavily to keep from having to move to this higher, client-focused standard. As of this date, most insurance agents, brokers and brokerage firms still can operate under the suitability standard without being required to act in their clients' best interest, as they would under the fiduciary standard. (continued)

Ask questions! Know what commissions and fees you are paying. Most importantly, if you are unsure, get a second opinion!

It is important when making investment and financial decisions to be sure that your interest (as the client) is really being put first in all of the investment recommendations that you are receiving. Consider this when selecting an advisor and be sure to ask questions about any hidden fees or commissions or conflicts of interest. Is your advisor a fiduciary? Is your advisor a fee-only advisor or are they paid commissions to sell you a specific product? It is always a good idea to ask questions and make sure that you are working with someone you can trust and someone who is committed to putting your interest, and not his own, first.

In some cases, even when a client has been misinformed and/or misled and they think it is too late to undo what they have done, we have still been able to help them get their financial life back in order. If you would like a free no-obligation consultation, give us a call. ■

Let us help take the stress out of retirement planning

so you can focus on more important things.

Disclosure Statement

A copy of our Part 2 of Form ADV: Firm Brochure, which provides information about the qualifications and business practices of Lighthouse Wealth Management is available upon request. To request a copy contact Cheri Smeltzer at:

(419)496-0016 or csmeltzer@lightwealth.com

Impact (continued from page 1)

been at historic lows. All of this impact is directly related to how much and how fast the rate increase might be. If increases are slow and only minimal, the impact might be negligible.

For holders of bonds, the impact on interest rate hikes has a varied impact depending on the maturity of the bond being held by the investor. In general, when interest rates increase, there is a loss in value of financial assets. For example a holder of a $1,000 bond which is paying 2% would see the potential sales value of his bond drop as interest rates rise. This would not impact him if he holds the bond to maturity, but the daily value of the bond to a purchaser would decrease as interest rates rise. This impact is felt most significantly by holders of longer term bonds. A holder of a bond that matures in 6 months would be impacted much less than a holder of a bond that matures in 20 years. The shorter term bond holder only has to wait a few months to cash in for full value. The longer term bond holder would have to settle for a reduced value if he wants to sell prior to maturity as interest rates rise.

When we understand how fragile our economy has been and the potential impact of a sudden increase in rates, it is not a surprise that the Fed has continued to be patient and delay interest rate hikes. The time will come when they feel the potential for inflation outweighs the risk of an economic slowdown, but until then we may have a continued low interest rate environment for investing.

In anticipation of the Fed raising rates at some time in the future, we are only recommending short term to intermediate term bond holdings to clients at this time. We believe there is too much risk in holding longer term bonds due to the uncertain timing of interest rate increases. ■

Market Recap

How the major indices performed in the 2nd Quarter 2015

DOW JONES INDUSTRIAL AVERAGE
2nd Quarter return -0.9% YTD return -1.1%

S & P 500 COMPOSITE
2nd Quarter return -0.2% YTD return 0.2%

RUSSELL 2000
2nd Quarter return 0.1% YTD return 4.1%

BARCLAYS AGGREGATE BOND
2nd Quarter return -1.7% YTD return -0.1%

Market Update

By Tim Rowsey, CPA
Investment Advisor Rep.

The second quarter of 2015 was volatile and ultimately down for equities.

Equities showed a large amount of volatility with the Dow Jones Industrials flipping between positive and negative positions from day to day, nineteen times in the quarter. A strong rally in May temporarily took the Dow over 18,000 once again. The last few days of June saw a significant decline as the financial crisis in Greece shook the equity markets. For the quarter, the Dow Jones Industrial Average decreased by 0.9%. This was the second consecutive down quarter for the Dow. The broader market, as represented by the S & P 500, also declined by 0.2%. Small cap stocks, as represented by the Russell 2000, were also flat with a 0.1% gain.

Bonds were also down for the quarter.

The Barclays aggregate Bond index decreased by 1.7% for the quarter. The Federal Reserve continued to discuss the timing of a potential rate increases. The financial crisis in Greece may become a factor in the Fed's rate increase timing and may actually delay any increase into 2016.

Volatility has been a constant in 2015 and we expect more of the same.

The low interest rate environment has been good for businesses; however the Fed may be changing rates in the next year. Mixed and varied forces are impacting the overall markets. Strong earnings in many companies continue to drive individual stock values higher. The impact of any Greece settlement still is an open question. Typically, world events such as this have a temporary negative impact, but then the markets and economy often quickly recover and life moves on. ■

Lighthouse Wealth Management
1078 Commerce Parkway
Ashland, Ohio 44805

Tim Rowsey, CPA
President
Investment Advisor Representative
Cell: 567-215-3015
trowsey@lightwealth.com

Aaron Rowsey
Vice President
Cell: 419-606-5239
arowsey@lightwealth.com

Greg Emmons
Investment Advisor Representative
Cell: 419-651-1507
gemmons@lightwealth.com

Cheri Smeltzer
Office Manager
csmeltzer@lightwealth.com

Phone: 419-496-0016
Fax: 419-496-0054
www.lightwealth.com

ASHLAND AREA CHAMBER of COMMERCE

The Light is published quarterly by Lighthouse Wealth Management, Inc.

Subscriptions are free. Paperless delivery is available upon request. Call Cheri Smeltzer at 419-496-0016 or email her at csmeltzer@lightwealth.com to be added to our list or to change your subscription.

At Lighthouse Wealth Management, we want to help our clients reach their financial goals and have plenty of peace of mind along the way. We offer a holistic, full service approach. We start by getting to know and understand our clients' wants, needs, and dreams. We partner with them to help them navigate all the financial challenges of life. We can help answer financial questions, help with tax planning and preparation, and guide our clients with their investments to help them reach their ultimate financial goals.

Just as a Lighthouse provides guidance to passing ships, Lighthouse Wealth Management provides our clients with solid, trusted, conscientious guidance to help them navigate risks and lead them to their financial goals.

Lighthouse Wealth Management believes in giving back. We give 10% of our profits to charities, including CURE, International. **www.cure.org**

Our Services

- Investment Advisory Services
- Individual Portfolio Management
- Retirement Planning
- 401(k) Rollovers
- Financial guidance in all areas

Helping individuals navigate their financial lives.