NORTHWEST ASSET MANAGEMENT

Chuck Jones & Associates, Inc.

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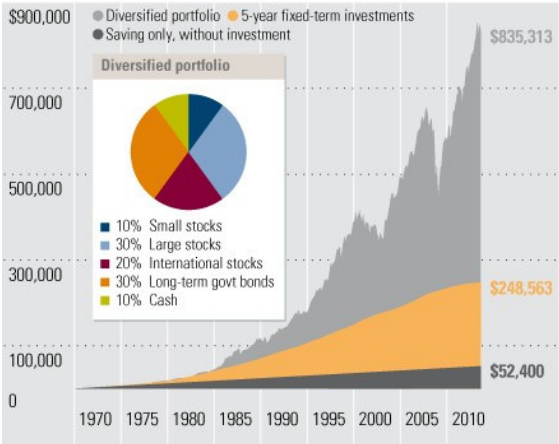
Quote of the Month:

Money is better than poverty, if only for financial reasons.
Woody Allen, director, writer, actor

Saving Is Not Enough

After two financial crises occurring almost back to back during the "lost decade," investors have every right to be risk-averse, hesitant, angry, or distrustful. The problem with not investing at all, however, is that you may not have sufficient money to achieve your financial goals. An individual saving $100 per month, without investing, would have put away only $52,400 since 1970. By placing that money in five-year fixed-term investments, the investor would have been able to end up with almost five times that amount. And if invested in a diversified portfolio, our investor's savings would have grown to $835,313. It's true that any investment involves varying levels of risk. But, as the image illustrates, even if you have low risk tolerance, you can find a suitable investment for your needs that may still be much better than no investment at all.

Two Types of Investments Versus Saving Without Investment, Jan 1970–Aug 2013



Past performance is no guarantee of future results. This hypothetical example is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. Holding a portfolio of securities for the long term does not ensure a profitable outcome and investing in securities always involves risk of loss. The diversified portfolio was created for illustrative purposes only; it is neither a recommendation, nor an actual portfolio. Government bonds are guaranteed by the full faith and credit of the United States government as to the timely payment of principal and interest, while stocks are not guaranteed and have been more volatile than bonds. International investments involve special risks such as fluctuations in currency, foreign taxation, economic and political risks, and differences in accounting and financial standards. Diversification does not eliminate the risk of experiencing investment losses. The data assumes reinvestment of income and does not account for taxes or transaction costs.

Source: Small stocks—Ibbotson® Small Company Stock Index. Large stocks—Standard & Poor's 500®, an unmanaged group of securities considered to be representative of the U.S. stock market. International stocks—Morgan Stanley Capital International Europe, Australasia, and Far East (EAFE®) index. Long-term government bonds—20-year U.S. government bond. 5-year fixed-term investments—yield on a 5-year U.S. government bond. Cash—30-day U.S. Treasury bill.

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Do You Have a Job-Loss Safety Net?

"What are the chances that I'll lose my job?" Unless you're a retiree, a tenured college professor, or the owner of a business, that question has probably passed through your mind at least a few times over the recent years. Even if you're confident about the security of your current position, it never hurts to put in place a good safety net. Some of the primary steps are outlined below.

1) Build Up Your Emergency Fund

Having an emergency fund in place can help if you suddenly find yourself unemployed. Moreover, an emergency fund can also be helpful for unexpected and unreimbursed medical expenses, big-ticket auto and home repairs, etc. Conventional financial-planning wisdom has long held that you should keep three to six months' worth of living expenses in highly liquid accounts like checking or savings accounts, certificates of deposit (CDs), money market accounts or money-market mutual funds, but the recent financial crisis illustrates that figure is probably too low. Wouldn't you like to have more than three months to find a new job if you lost yours?

2) Consider a Roth IRA for Retirement Savings

You can't put your life—and your long-term financial goals—on hold just because you're worried about job loss. But you can be strategic about what you sink your money into, and that means focusing on those investments with the fewest strings attached in case you need to make a withdrawal. Rather than saving within the confines of your company retirement plan or a traditional IRA, where you'll pay taxes and penalties if you need to withdraw your assets prematurely, consider deploying fresh retirement dollars into a Roth IRA instead. With a Roth IRA you can withdraw your contributions tax-free at any time (the early withdrawal penalty, however, may still apply). And because you're contributing aftertax dollars, you won't have to pay taxes on your earnings from year to year or upon withdrawal during retirement. Please keep in mind that income limits do apply—talk to your financial advisor to see if you're eligible.

3) Pay Down Costly Forms of Debt

If you already have expensive types of debt such as credit cards and are concerned about job security, the first thing to do is to reduce that burden as soon as you possibly can. Credit card companies are the last folks you want to mess around with if you find yourself in a financial bind, as they're able to raise your rates if you're late on a payment.

4) Be a Commitment-Phobe

While service providers—particularly purveyors of cable TV, Internet, and telephone service—will offer you a lower rate if you sign a contract of a year or more, be sure to weigh those lower rates against the risk that you'll lose your job. If you're concerned about job security, read the fine print on any contracts to see what it would cost you to get out of the agreement in a pinch.

5) Contemplate Refinancing

If you haven't refinanced your primary mortgage to take advantage of currently low rates, it's time to have someone run the numbers. As with any type of financing, it's better to shop for a mortgage while you're employed than when you are not.

6) Take Advantage of the Perks You Have

Have you had a physical lately? Do you need new glasses or contacts? Are you overdue for a visit to the dentist? If so, it's time to make some appointments. Chances are you're paying decent-sized premiums for the insurance you have through your employer, so it pays to take advantage of all your perks while you still have them.

Five Lessons from the Three-Year Market Rally

...now a four-year market rally, but the lessons are still relevant. 1) The turning point is not always obvious. In hindsight, it seems like it should have been dead obvious that stocks were cheap four years ago. But, because of their inability to clearly identify market bottoms, investors may be better off sticking with a strategic asset-allocation plan. 2) Don't let past performance control your portfolio. To the extent that you can, let your strategic asset-allocation framework be a key driver of where you deploy new cash. 3) To help maximize participation, make a little room for the risky stuff. Even though higher-quality stocks tend to hold up better during downturns, the opposite tends to be true during recoveries. Investors may want to maintain exposure to both types of companies: high-quality, wide-moat dividend payers and economically sensitive small- and mid-caps. 4) But there are also chicken ways to play. You don't need to pile on the risk to generate robust gains in absolute terms. Investors who have shorter time horizons or are simply more comfortable with lower-risk stocks can reasonably allocate more toward such stocks without completely ceding their upside potential. 5) There will be bumps (and buying opportunities) along the way. The movement hasn't always been upward since the market bottomed. If your portfolio is light on stocks at the outset of a rally, periodic sell-offs may provide opportunities even at a later time.

Diversification and asset allocation do not eliminate the risk of investment losses. Stocks are not guaranteed and have been more volatile than other asset classes. Small stocks are more volatile than large stocks, are subject to significant price fluctuations and business risks, and are thinly traded. This should not be considered financial planning advice. Please consult a financial professional for advice specific to your individual circumstances.

The Risks of Over-Allocated Funds

Exposure to concentrated investments may increase the overall risk of a portfolio. As a rule of thumb, if a fund holds more than 30% of assets in one sector, you may be putting all those eggs in one basket. Take, for example, the dot-com bubble. Investors who loaded up on rapidly growing Internet investments probably lost a considerable amount of money when the bubble burst.

It is also important to consider the extent a fund is vested in its top investments. For example, if 25% of its assets are in the top three holdings, or a fund consists of 40 or fewer holdings, the fund could be a higher risk. Funds with investments concentrated in one country can be a risky proposition as well. A fund manager not only must pick good investments but also runs the risk of a souring economy. Country-specific risks become even more prominent when a fund involves investments in emerging markets. These economies are generally subject to a variety of risks that can drive holdings southbound.

Concentrated investing is not for the casual or risk-averse. You can be exposed to substantially greater losses than those in the overall market, so be sure to evaluate a fund's holdings to determine the level of risk inherent when investing.

Keep in mind that diversification does not eliminate the risk of experiencing investment losses. International investments involve special risks such as fluctuations in currency, foreign taxation, economic and political risks, and differences in accounting and financial standards. Keep in mind that concentrated investments are narrowly focused investments that typically exhibit higher volatility than the market in general. These investments will fluctuate with current market conditions and may be worth more or less than the original cost upon liquidation.

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CHUCK'S TIPS:

DO YOU MANAGE PART OF YOUR INVESTMENT PORTFOLIO YOURSELF? NOTE: Be sure to tell your financial advisor. We typically allocate assets based on the assumption that we have all of your investment funds. Therefore, if you have self-managed accounts this can throw the asset allocation off. Please let us know so we can balance your overall allocation.

CONTEMPLATING A DIVORCE (OR JUST WENT THROUGH ONE) – Change beneficiaries of your investment accounts, retirement accounts, life insurance policies and annuities and do this before filing since you may not be allowed to change them after the process is begun. According to Eric Manterfield, an attorney specializing in estate planning with Krieg DeVault of Indianapolis writing for Bottom Line, you should also update your health care and financial powers of attorney and don't forget changing wills, living trusts and check irrevocable trusts for the possibility of making changes. Consult with a divorce or estate planning attorney to sidestep future problems.

THE FAMILY PET: Do you travel with your pet? Where do you stay or put the pet? Now you can find Pet-friendly motels through www.petscanstay.com and www.petswelcome.com and there are now sites that show local homes that take boarders http://dogvacancy.com .
Who will care for your cat or dog if something happens to you? If you read this column you know I frequently discuss pet care especially if something happens to you. Well recently, I talked to employees of "Hannah The Pet Society" www.hannahsociety.com , locations in Clackamas Town Center Mall, Washington Square Mall and Outreach Plaza 205. They offer Lifetime matching and total care. You pay a fixed monthly fee (varies depending on size of the dog or cat) and get not only your pet but all-inclusive veterinary care, customized pet food delivered to your door, all medications, vaccinations, and other supplies as well as training. And, if anything happens to you your pet will be given to a well matched family.

USEFUL WEB SITES:
Pet Protection: (I know you are saying – not more on pets – but I am concerned about your pet's future.) A pet protection agreement may be all you need and you can complete a Pet Protection Agreement at www.legalzoom.com , there is a cost of $39-$79.
Deleting accounts: This might be difficult so if you are not sure how to delete an account, try www.deleteyouraccount.com or www.accountkiller.com .
These sites have compiled deletion info for many Web sites including Facebook, Skype, Twitter, etc.

WHAT DO YOU KNOW ABOUT THE CHARITY YOU HAVE DONATED DOLLARS TO? We now have copies of the Charity Rating Guide and Watchdog Report by Charity Watch (formerly American Institute of Philanthropy) and can tell you the rating of many Charities. You can get your own copy by going to their web site www.charitywatch.org and subscribe for one year $50 for 4 quarterly reports. Or contact us and we'll tell you what we find. For example: Mercy Corps is A- rated and spends $17 to raise $100.

HELP YOUR PERSONAL "BOTTOM LINE": Seniors (just over 55 in most cases) get many discounts, in many cases – if you ask! We have an extensive list of discounts and would be happy to send you a copy, just give us a call. For example: Budget Rental Cars gives up to 40% discount and if you are an AARP member (which I hope you are not – check out AMAC) 50%; Best Western hotels 40%; Alaska Airlines 50% and many, many more.

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