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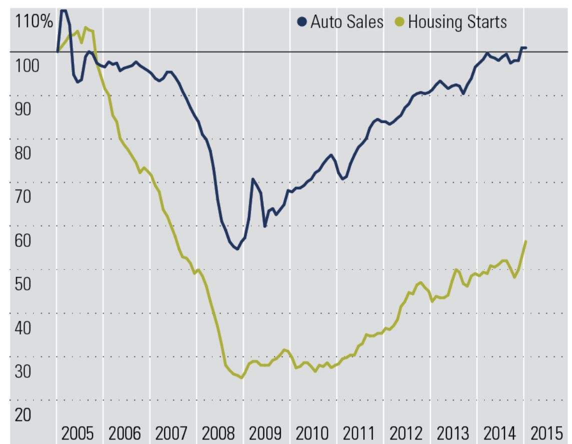
A Changing of the Guard for Auto

ITI Financial Management/Troy E. Kennedy

- 4650 S. National, Ste. A-1
- Springfield, MO 65810
- 417-889-2550
- 877-889-2660 toll free
- 417-889-2559 fax
- tkennedy@itifinancialmgt.com

Although the improvements in auto sales have greatly outstripped the housing recovery, that trend should flip in the coming years. The chart below is a tale of two recoveries: the recovery in the auto industry and the recovery in the housing industry. Both of these segments comprise about 3% of the GDP and have knock-on employment effects throughout the entire economy. The chart shows that both of these industries suffered from 2005-08--coming to a real crescendo when things collapsed in 2008. Since then, both segments have improved nicely. However, the auto industry has done far better. The auto industry is now at its previous high, meanwhile, the housing industry still has a long way to recover. Looking forward, Morningstar economists expect a changing of the guard where the housing industry continues to accelerate and the fully-recovered auto industry will continue to plateau.

Auto Sales and Housing Starts, Ratio from 2005 Level, 3-Month Average



Source: Bureau of Economic Analysis, Census Bureau, Morningstar.

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Troy E. Kennedy
Advisor/Principal

tkennedy@itifinancialmgt.com
417-889-2550

Advisor Corner

Mr. Kennedy's investment philosophy is the same that he has practiced over the last decade: securities markets are efficient and advisors primarily add value by coordinating the asset allocation for clients based upon risk tolerance, objectives, and time horizons. The firm has constructed 5 models for clients that vary in risk to meet the goals of each client. The firm primarily uses passive mutual funds in each model and uses select actively managed funds for bond, commodity, and real estate exposure. ITI uses several research resources, including many that were used over the last 20 years, to assist with the recommended asset allocation and the appropriate funds to utilize in each model. Mr. Kennedy is an Investment Advisor Representative of ITI Financial Management, LLC.

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Four Strategies For A Low Return Environment

ITI Financial Management/Troy E. Kennedy

- ITI Financial Management is a fee only, non commissioned registered investment advisory firm headquartered in Springfield, Missouri. We presently manage approximately $70 million for over 175 accounts. In November 2009, Springfield Trust & Investment Company sold to a large out of town bank holding company. After 17 years as a shareholder/executive vice president with Springfield Trust & Investment Company, Troy Kennedy founded ITI Financial Management to continue to provide the highest level of personalized investment management and financial planning services. There are no fees to hire ITI nor are there any fees to terminate the relationship. It is truly a partnership with each client.

For the past several years, sober market watchers have been telling investors to brace for more modest returns from their portfolios. Just as trees don't grow to the sky, nor do extended market rallies go on forever. If the market provides less of a helping hand in the future than it has in the past, that means that investors will need to do more of the heavy lifting to make their plans work. There are several steps investors can take to help improve their portfolios' potential returns and, in turn, improve the viability of their plans. Strategy 1: Revisit Key AssumptionsThe S&P 500 has returned about 20% on an annualized basis since the market bottomed in March 2009. But stocks' long-term returns have averaged less than half of that, and it's reasonable to assume that returns over the next decade could be even lower than that due to lofty valuations. To help factor in a less-forgiving market environment, it's a good time to revisit the key assumptions underpinning your retirement plan. For example, you might assume that bonds will return 2% and stocks will return only 6%. If these lower return projections point to a shortfall in your retirement plan, you can push back your retirement start date, or reduce your in-retirement withdrawals. Strategy 2: Assess Your Asset AllocationIt's difficult to predict the future returns of stocks. On the other hand, starting yields on Treasury bonds have explained much of their performance over the subsequent decade. That means that with yields as low as they are, an investor who hunkers down in bonds and forsakes stocks could well be locking herself into a very low return. Investors who maintain higher equity positions won't necessarily get rich, but they will at least have a fighting chance of outrunning inflation over time. That's not to suggest that you throw standard asset-allocation guidance out the window: Individuals who expect to draw money from their portfolios in the near term will need cash and bonds. But it does suggest that the safety of cash and bonds could prove illusory over longer time frames. Strategy 3: Watch Investment Costs Like a HawkLower returns also mean that efforts to control a portfolio's cost can be even more beneficial than in a higher-returning environment. After all, paying a 1% expense ratio on a balanced portfolio that earns 10% on an annualized basis--as the typical balanced portfolio has during the past five years--takes a 10% bite out of that return; if balanced funds return just 6%, as they have during the past decade, that 1% expense ratio translates into a 17% levy on the portfolio's return. Given those numbers, investors' stampede into various types of inexpensive passively managed products, looks quite rational. Strategy 4: Aim to Reduce the Drag of TaxesIn a similar vein, lower returns mean that taxes take a bigger bite of your portfolio's value, on a percentage basis, than in a more flush return environment. Lower absolute returns can enhance the tax-saving features of vehicle like IRAs, company retirement plans, and 529 college-savings plans; once their tax benefits are factored in, even subpar versions of these accounts usually trump investing in a taxable account and paying taxes on dividends and capital gains on a year-in, year-out basis. That said, investors who are in a position to invest in their taxable accounts alongside tax-sheltered vehicles can take steps to reduce the drag of taxes on an ongoing basis: Favoring exchange-traded funds and index funds, individual stocks, and municipal bonds, as well as limiting trading, can go a long way toward reducing annual tax bills.

Disclosure: This is for informational purposes only and should not be considered tax or financial planning advice. This article contains certain forward-looking statements which involve known and unknown risks, uncertainties, and other factors that may cause the actual results to differ materially from any future results expressed or implied by those projected statements. Past performance does not guarantee future results.This article contributed by Christine Benz, Director of Personal Finance with Morningstar.

The Impact of Foreign-Currency Movements on Equity Portfolios

ITI Financial Management/Troy E. Kennedy

- The firm's investment philosophy is the same that Mr. Kennedy practiced at Springfield Trust & Investment Company, that the securities markets are efficient and that advisors primarily add value by coordinating the asset allocation for clients based upon risk tolerance, objectives, and time horizons. The firm has constructed 5 models for clients that vary in risk to meet the goals of each client. The firm primarily uses passive mutual funds in each model and uses select actively managed funds for bond, commodity, and real estate exposure. ITI uses several research resources, including many that were used over the last 18 years, to assist with the recommended asset allocation and the appropriate funds to utilize in each model.

The U.S. dollar has staged an impressive rally over the past year. Although it has taken a bit of a breather recently, there are reasons to expect the dollar to remain strong, at least over the next year or two. The U.S. Federal Reserve is likely to raise rates in the next 12 months, which would be the first increase since 2006. The Bank of Japan and the European Central Bank, on the other hand, plan to maintain extremely low interest rates in their countries for the foreseeable future. These measures should support a stronger dollar, at least relative to the yen and euro.

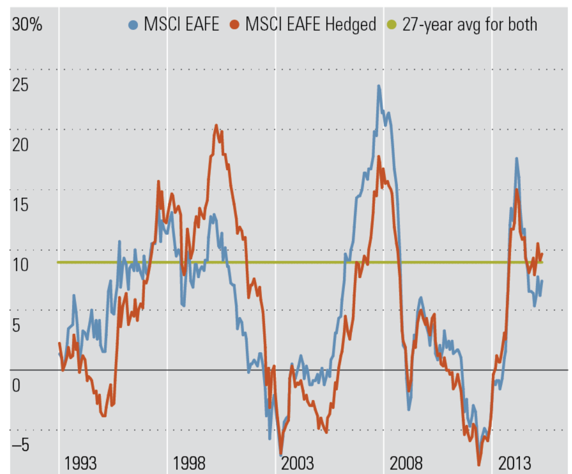
With the U.S. dollar's recent rise, many investors are taking a closer look at their portfolios' currency exposures. Most international-equity funds do not hedge their foreign-currency exposure, which means that their performance reflects both equity market performance and currency movements relative to the U.S. dollar. When the U.S. dollar rises against foreign currencies (or when foreign currencies weaken against the U.S. dollar), the performance of unhedged international-equity funds is negatively impacted by exchange-rate translation effects. The use of currency hedges in an international-equity fund, on the other hand, can mitigate negative, as well as positive, exchange-rate translation effects.

A 2015 Morningstar research paper examined the history of the U.S. dollar's performance over the past 40 years, discussed the impact of foreign-currency movements on international-equity portfolios, and evaluated the historical risk-adjusted returns of using either a currency-hedged or unhedged international-equity strategy within a diversified portfolio.

The analysis results suggest there is no significant difference in long-term risk-adjusted returns between portfolios that use a currency-hedged international-equity strategy and portfolios that use an unhedged international-equity strategy. As such, long-term investors may want to focus on choosing well-run, low -cost international-equity funds for their portfolios and may not be as concerned about whether or not the funds hedge their currency exposure.

Disclosure: The investment return and principal value of mutual funds will fluctuate and shares, when sold, may be worth more or less than their original cost. Mutual funds are sold by prospectus, which can be obtained from your financial professional or the company and which contains complete information, including investment objectives, risks, charges and expenses. Investors should be read the prospectus and consider this information carefully before investing or sending money.International investments involve special risks such as fluctuations in currency, foreign taxation, economic and political risks, liquidity risks, and differences in accounting and financial standards.

Annualized 5-Year Returns



Source: "The Impact of Foreign-Currency Movements on Equity Portfolios," Morningstar research paper, June 2015.

Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index.

Small-Business Compensation Plans Prove to Be a Growing Dilemma

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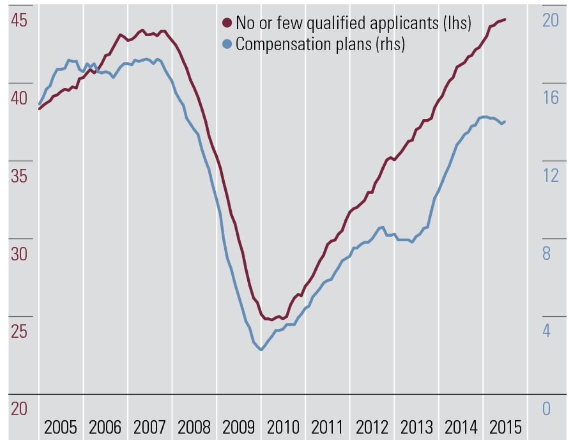
The NFIB Small Business Survey is a metric that tracks economic sentiment among small-business owners. The employment portion of the survey is a particularly valuable indicator as small businesses hire almost half of all U.S. employees. The chart below represents results from the August 2015 survey. The results are mixed. The chart shows that small-business owners have an increasingly harder time finding skilled labor, yet they are not quick to raise wages. The gap between the difficulty to hire and the plans for increased compensation is now the highest it's been in a few years, but the discrepancy between the two metrics can grow only so wide before converging back again. Given the current high demand for skilled and semi-skilled labor, it will be just a matter of time before workers realize that their leverage to demand higher pay is now the highest it's been in many years.

NFIB Small Business Survey, Percent of Small Business Reponses, 12-Month Average



Source: National Federation of Independent Business

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