MPM WEALTH ADVISORS

Investment Update
3rd Quarter 2014

MARKET COMMENTARY

INSIDE THIS ISSUE:

POINTS OF INTEREST:

- US manufacturing doing incredibly well.
- Digital assets becoming part of estate planning.
- Spending rate is central to retirement viability.
- E-commerce growing as consumers are shopping online.

The U.S. market was up 4.19% in August after a modest pullback in July.

Some of the drivers of the stock market included monetary policy news from Europe as well a number of generally positive economic news out of the U.S. Europe: The ECB announced it was reducing several key lending rates and raising the amount it charges banks leaving reserve balances at the central bank. It also revealed that it would be purchasing some covered bonds and asset-based securities. The details on the new programs were sketchy as to timing and amount. Although these were significant and unexpected actions, the ECB did not make the full move to purchase government securities in the area (so-called quantitative easing, or QE). Indeed, by charter, it would be difficult if not impossible for the central bank to buy sovereign debt, a move Germany strongly opposes. In the short run, all of these moves could modestly help the European economy. However, our economists fail to see how moving interest rates that are already so near zero by small fractions is going to change much. Programs to encourage lending, to be implemented shortly, could help slightly more.

Employment: The August jobs report showed employment grew by a puny 142,000 workers compared with the 207,000 workers added on average for the prior 12 months. The figure was well below the consensus of 228,000 jobs and even below Morningstar economists' more modest forecast of 200,000 jobs. Our economists don't view these results as reflective of the current state of the economy and the August jobs report seems inconsistent with other improving labor market indicators. Year-over-year, there-month averaged employment data showed that the private sector employment continued to grow at 2.1%, which is the pace that is consistent with 2.0-2.5% full year GDP growth.

Manufacturing: An array of U.S. manufacturing indicators released in August has shown that the sector is doing incredibly well. Both industrial production and Markit PMI indicated strong growth. U.S. automakers, particularly, are showing signs of strength as both production and sales have risen to 12.85 and 17.50 million units annualized respectively. It is important to note that while manufacturing typically reflects the state of the overall economy, its direct effects on GDP and employment are unfortunately limited, as it is now just a small part of the U.S. economy.

Housing: August was a strong month for the U.S. housing market as starts, permits, existing sales, and pending sales all exceeded expectations. Those great numbers combined with the moderating home price increases (slowing to 8.1% year over year growth in June, according to S&P/Case-Shiller Index) show that the housing market is poised for a health recovery. The slowdown in the price increases is, in particular, a positive development as slowly rising prices help to recover some of the underwater mortgages without drastically ruining affordability. Because of the rapid price increases we experienced throughout 2013, Morningstar economists expect that the price growth moderation will continue at least through the end of 2014.

Retail sales: Consumption is a very important part of the GDP report (about 70%) and often sets the tone for overall economic activity. Retail sales make up about a third of consumption. Excluding the auto industry, which is measured from manufacturers data (and not dealer retail sales), retail sales grew just 0.1% month to month after growth of 0.2% the previous month. Expectations were for growth to accelerate given better employment data. In fact, the consensus, excluding autos, was for growth of 0.4%. Therefore, Morningstar economists are a little suspicious of the July numbers. Weather was good, employment was good, and weekly chain-store sales had shown a marked improvement. Therefore, it is suspected that the July numbers will be revised or August numbers will appear to be unusually strong.

Do you have a Plan for your Digital Estate?

Even people who think they've ticked off all of the usual boxes on their estate-planning to-do lists may have overlooked an increasingly important component of the process: ensuring the proper management and orderly transfer of their digital assets. Just as traditional estate-planning relates to the management and transfer of financial accounts and hard assets, digital estate-planning encompasses digital possessions, including data stored on tangible digital devices (computers and smartphones), data stored in the cloud, and online user accounts.

Digital estate planning is, in many respects, more complicated than traditional estate planning. The field of digital estate planning is evolving rapidly, as are digital providers' policies on what should happen to digital assets that are left behind. Digital assets are also governed by a complex web of rapidly evolving laws, both at the state and federal levels. Precisely because of all the potential complications, it's important to take a few minutes and get a plan in order. Here are several key steps to take.

1) Conduct a Digital 'Fire Drill.' A good first step in the digital estate-planning process is to conduct a digital fire drill, which tends to jog your memory about what digital assets you deem important. Consider the following questions. What valuable items would you lose if your computer was lost or stolen today? If you were in an accident, would your loved ones be able to gain access to your valuable or significant digital information while you were incapacitated? If you were to die today, to what valuable or significant digital property would you like your loved ones to have access?

2) Take an Inventory of Your Assets. The next must-do is to create an inventory of the digital assets you named during the fire drill. Document the item/account name as well as user names and passwords associated with that item. Among the items to document in your digital inventory are: digital devices such as computers and smartphones, data-storage devices or media, electronically stored data, including online financial records, whether stored in the cloud or on your device, user accounts, domain names, and intellectual property in electronic format. This document would be chock-full of sensitive information, so keeping it safe is crucial. A printed document should be stored in a safe or safe deposit box, and an electronic document should, of course, be password protected.

3) Back It Up. We've all been schooled on the importance of regularly backing up digital assets, and estate-planning considerations make it doubly important to do so. Even if a specific device malfunctions, storing digital assets on another storage device or in the cloud helps ensure the longevity of those assets. Moreover, online account service providers may voluntarily disclose the contents of electronic communications, but they're not compelled to do so. If you want to help ensure that your loved ones have access to the information in your online accounts, backing it up on your own device is a best practice.

4) Put Your Plan in Writing. Experts also recommend formalizing your digital estate plan. That means naming a digital executor—someone who can ensure that your digital assets are managed or disposed of in accordance with your wishes after you're gone. If your primary executor is savvy with technology, there's probably no need to name a separate digital executor. But if not, or if you have particularly valuable or special digital property, such as intellectual property, experts advise a separate fiduciary/executor for digital assets. Depending on the type of property, the fiduciary may also need special powers and authorizations to deal with specific assets.

What happens to "digital assets" and accounts when you pass away?

Concerned About Longevity?

Longevity is often cheered as an achievement, but the downside of living well beyond one's average life expectancy is that it can strain (or worse, completely deplete) an individual's financial resources. The first step in addressing longevity risk is to evaluate just how great the odds are that either you or your spouse will have a much longer-than-average life span. Health considerations, family longevity history, employment choices, and income level may all be factors. If you've assessed these considerations and are concerned about longevity risk--or if you've determined that you'd simply rather be safe than sorry--here are three key mistakes to avoid.

Mistake 1:

Holding a Too-Conservative Portfolio. When investors think about reducing risk in their portfolios, they often set their sights on curtailing short-term volatility—the risk that their portfolios will lose 10% or even 20% in a given year. But a too-conservative portfolio (one that emphasizes cash and bonds at the expense of stocks) can actually enhance shortfall risk while keeping a lid on short-term volatility. But, right now, interest rates have much more room to move up than they do down, which may reduce the opportunity for bond-price appreciation during the next decade. With such low returns, retirees with too-safe portfolios may not even out earn the inflation rate over time.

Mistake 2:

Not Delaying Social Security Filing.* Because it provides an inflation-adjusted income stream for the rest of your life, Social Security is designed to provide you with at least some money coming in the door even if your investment portfolio runs low (or out) during your later years. If you file early (you're eligible to do so as early as age 62), you permanently reduce your annual benefit from the program.

Delayed filing, on the other hand, has the opposite effect, amping up the value of your hedge. Not only will your benefits last as long as you do, but they'll be higher, perhaps even substantially so, as well. Those who delay filing until age 70 may receive an annual benefit that's more than 30% higher than what they would have received had they filed at full retirement age (currently 66) and more than 50% higher than their benefit had they filed at age 62.

Mistake 3:

Not Adjusting Withdrawal-Rate Assumptions. Just as savings rates are the main determinant of success during the accumulation years (much more than investment selection, in fact), spending rate is one of the central determinants of retirement plans' viability.

The 4% rule, which indicates that you can withdraw 4% of your total portfolio balance in year 1 of retirement, then annually inflation-adjust that dollar amount to determine each subsequent year's portfolio payout, is a decent starting point in the sustainable withdrawal-rate discussion. But it's important to tweak your withdrawal rate based on your own situation. If you have a sparkling health record and it looks likely that you'll be retired longer than the 30-year withdrawal period that underpins the 4% rule, you may be better off starting a bit lower.

In a similar vein, it's important to not set and forget your retirement-plan variables, such as your spending rate and your asset allocation, because retirement progresses and new information becomes available about your health and potential longevity, market valuations, and so forth.

*Source: Social Security Administration.

Fall time treats. Enjoying the harvest .

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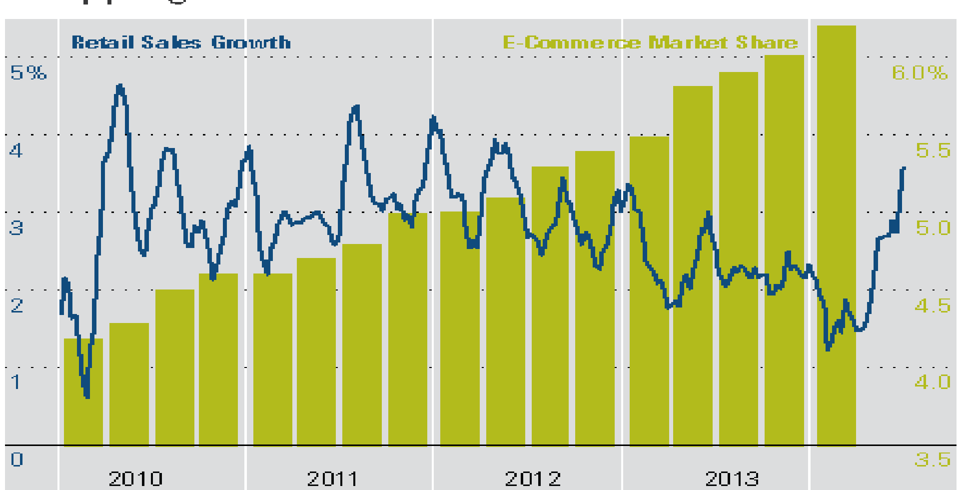
Shopping Center Sales Fall as E-Commerce Grows

The secular trend in shopping center retail sales has been faltering for some time. Recent weather and e-commerce trends are two factors that can explain this general decline. E-commerce has been growing as a percentage of all retail sales, as more and more consumers are shopping online.

Though year-over-year growth in same-store sales has been showing lower highs and lower lows since 2012, weekly sales growth has generally fallen in the 2%–4% range. After poor weather conditions in the first quarter of 2014, sales growth fell below that range, approaching 1%. However, brick-and-mortar retailers appear to have finally found a way to attract more customers into their stores. Mall retail sales saw rapidly accelerating growth in the second quarter, reaching 4.6% on a year-over-year, 5-week average basis.

Shopping Center Versus E-Commerce Sales



Source: Census Bureau, International Council of Shopping Centers.