

# Financial Perspective

## What is Your Vision of Financial Independence?

One of the financial advisory industry's leading thought leaders, Michael Kitces, writes that the term "retirement" should be banned from financial advisors' vocabularies in lieu of the term "financial independence." In his words, the "point of financial independence is simply to recognize that, once sufficient assets are accumulated, the decision about whether, where, and how much to work, can be made independent of the financial ramifications of the work itself."

However, it goes beyond just what you will do in that retirement phase of life. It is a transition of replacing income from work with cash flows from assets and other sources. This opens the door to having a part-time or lower-paying "financial independence" job you enjoy that still generates retirement cash flow and adds meaning to your life. This may mean needing a smaller amount of financial assets than the "cold turkey" model of conventional retirement thinking.

**So what does financial independence with good retirement cash flows mean to you?** To answer that question, you need to ask some really tough questions, some of which are excerpted here from Ron's book, *The Confident Retirement Journey—Your Personal & Financial Road Map*.

### 1. Why do I want to retire?

Retirement is built on the assumption that leisure is more fulfilling than work. For many people, especially those who enjoyed their careers, that assumption goes against their need to be productive. That is why we see financially comfortable people working well into their seventies and beyond. Work can also provide important mental stimulation and a social outlet with a network of friends, colleagues, and patients. Others see it as part of their identity. When asked what they do for a living, they answer with a verb: "I am a (doctor, lawyer, teacher, etc.)." It could very well be that your idea

of a fulfilling retirement is some work or volunteer activity—not because you have to, but because you want to.

Some people view retirement as a solution to their unhappiness at work. They are running away from something instead of to something. If this is your situation, make a list of what you like and don't like and why. It might be that you have more likes than dislikes, but your dislikes overshadow the good parts. In that case, how can you change your work situation so that it is more sustainable and enjoyable? Not everybody has the luxury of this option, but if you do, give it some serious thought.

### 2. What are the most important things I want to accomplish between now and retirement?

Do you have an unpublished paper? Do you want to mentor your successors? Do you have a major project you want to see through to completion? Whatever it is, you can't launch into retirement on good terms with yourself and those you are leaving behind without a sense of closure.

### 3. What are the most important things I want to accomplish between retirement and the end of my life?

This is the BIG question, the big white board, the big map across the kitchen table. The answers might be so exciting that they dwarf the first two questions. The best way to tackle this is to start with the end in mind, then break it down into bite-size benchmarks. Think of it as a multidimensional bucket list that includes not only money and the proverbial notches in your belt, but the kind of person you wanted to be. **Imagine that near the end, you are looking back on your life. What are the key things that would lead you to say, "I had a good life?"**

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Providing Fee-Only Wealth Management and Creative Planning for Your Family, Business and Estate

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# The ABCs of Currencies

A stronger US dollar has been in the news lately, particularly as it relates to the financial markets and the global economy. How does a strong US dollar affect US businesses and your portfolio? What gives a currency value? Why are some weak and why are others strong? What causes them to fluctuate?

## What is a currency?

Currencies are forms of money issued by a government (except for the relatively new bitcoins ) and circulated within an economy. Paper money was invented in China during the 10th Century, but Genghis Khan is credited for its making it common in order to expand his vast commercial empire. In fact, he made rejecting paper currency a capital offense!

Open your wallet and take out a dollar bill. What is so special about it? Beyond George's picture and some fancy printing on special paper, you can conveniently trade it for a one-third gallon of gas, a cheap cup of coffee, or a can of beans. If you have more just like it in a bank account, you can wire them from your bank to someone across the globe. It is worth only what it can purchase and if other people will accept it. ***In short, a currency is a convenient store of value to facilitate trade.*** Without a currency we would be a barter—and very primitive—economy.

## Safe-haven currencies

Safe-haven currencies are sought during times of international trouble. They are typically the U.S. dollar, Japanese yen, British pound, Swiss franc and, possibly, the euro. (Gold is a safe-haven commodity, not a currency.) What makes them a safe haven? In a word, trust. This trust comes from:

- stable political systems
- rule of law
- consistent fiscal/central bank policies
- lower debt-to-GDP levels
- stable/low inflation and interest rates
- large and relatively affluent populations
- military power directly or through alliances
- history of repaying debts.

## What is a weak currency?

Countries with weak currencies tend to have the opposite traits as those above, and often large amounts of corruption and direct manipulation of currency prices by the government. There is a perceived lack of confidence and trust. Emerging market countries have historically had weak currencies, but that can change as they make progress in legal and economic development.

## What else can affect a currency's value?

Many other forces can affect a currency's value, such as commodity prices. The so-called-commodity currencies (Australia, Canada, and Russia, to name a few) are those of heavy exporters of natural resources. Their trade balances, GDP and fiscal deficits/surpluses are greatly influenced by commodity prices.

A country's inflation and interest rates also drive the price of a currency. If currency traders can get a higher real (after-inflation) return in dollars they will move from, say, euros. This demand drives the price of the euro down and the dollar up.

## The US dollar

The dollar's recent strength may be due to our higher interest rates, and a stronger economy. Bond traders might reason, "Why buy a euro or yen bond in sluggish economies when I can buy an American bond that pays more interest?"

A strong dollar improves our purchasing power when buying foreign goods like oil, Airbuses, and consumer goods. However, it also makes our exported goods more expensive to sell abroad. This is why we hear our political leaders complain about currency manipulation by export-driven economies like China that try to keep their currency prices artificially low, making the cost of their exports to us cheap and our imports to them expensive.

## Currency cycles

Like so many other things in the world of finance, currencies have cycles. Broader US dollar cycles have been 5-10 years in duration, but it varies. These cycles have had their inflection points, often during periods of peak greed or fear. We are in one of those upward inflection points right now due to international events.

## Currency prices and your portfolio

Portfolio holdings are priced in U.S. dollars, so a stronger U.S. dollar automatically results in foreign holdings lagging when they're translated over to dollar terms. However, it cuts both ways so that a stronger foreign currency can essentially provide a 'free' return on top of whatever is earned in local currency terms.

We don't try to time currency movements on a short-term basis. These fluctuations can be fickle, and active hedging against them on an ongoing basis can add significant costs to a portfolio. However, we find that a small addition of the foreign bond asset class can often serve as a good hedge and diversifier against the currency risk of multinational corporations in a portfolio. ***So, while it is prudent to have at least some foreign exposure in a portfolio, don't let the currency tail wag the investment dog.***

As we count our blessings during this season of gratitude, we wish to thank all of you for your loyalty, referrals, kind words, and business. We wish you all the best for the holidays and the year ahead.

FROM ALL OF US AT  
THE H GROUP, INC.

<sup>1</sup> We have previously discussed Bitcoins in our blog and they have been the subject of many media articles. This article is about widely used, government-issued global currencies.

# Portfolio Allocations for a Changing World

Whenever we find ourselves in a period of heightened international tensions, such as the one in which we are today, we get questions about the appropriateness of investing abroad. Indeed, the United States is a safe-haven and currently our economy is doing better than many other countries. However, there are very sound reasons to look beyond the headlines and invest globally.

The world is changing. Demographics, political systems, financial markets, technology, communications, you name it. In the words of journalist and author Thomas Friedman, the world is flat. You can bemoan the loss of the “good old days,” or you can take advantage of it.

## The World is Catching Up

Since the end of WWII the US has enjoyed a period of prosperity unparalleled in the history of the world.

While the political and physical infrastructures of Europe and Asia were devastated by the war, our soldiers came home to an intact country and promptly set about educating themselves and converting the US and its abundant natural resources into an economic powerhouse. We had little global competition. Our share of the world’s GDP grew, our currency became the default for the world, and our companies helped to create new industrial, medical, and information technologies.

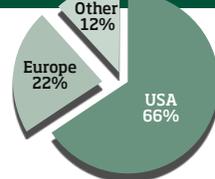
**We are among the safest, most liquid, transparent, and diversified markets in the world. We still have world class companies, high quality bonds, and many small rapidly growing companies. But now, the rest of the world is finally catching up.**

Over the past two decades, information technology, the Internet, greater economic sophistication, scientific breakthroughs, and political freedoms in many parts of the world have raised the standard of living and aspirations of billions of people.

## A World of Opportunity

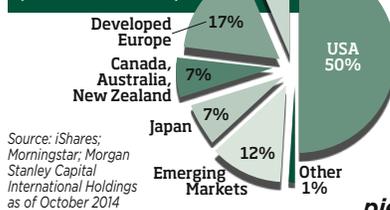
Jumpstarted by exports, but increasingly able to serve their own citizens, many of the world’s economies look remarkably like our own did in the late 1800’s and early 1900’s. This presents exciting growth opportunities over the decades to come. Their populations are younger and the GDP growth rates in some countries are higher than ours. The economies of many other countries will likely grow significantly faster than our own over the next decades.

Global Equity Market Capitalization 1970



Source: International Finance Corporation; Emerging Markets Factbook 1998

Global Equity Market Capitalization 1970 - Oct 2014 (MSCI ACWI Index)



Source: iShares; Morningstar; Morgan Stanley Capital International Holdings as of October 2014

As recently as 1970, the US stock market made up 66% of the world’s market value. That figure is now about 50%. The pattern is similar with the fixed income (bond) markets. Also in 1970, our economy provided 31% of the world’s Gross Domestic Product (GDP). In 2013 our GDP was 23% of the world! The good news is that even though in percentage terms our “slice of the pie” has decreased since 1970, the dollar amount is much larger. **We haven’t shrunk; the pie is simply much bigger!**

Because half of the stocks in the world are non-US companies, it simply doesn’t make sense to limit a portfolio to half of all that’s available. Would you want to eliminate Toyota, Baer, BP, or Alibaba (the new Chinese company) as holdings just because they are foreign companies? Our half of the pie isn’t always the best performing, so investing internationally provides more ways to diversify a portfolio.

International investing carries its own set of unique risks, such as currency, political, and economic. But when used in moderation with professional managers, we believe that it should be a part of nearly everyone’s portfolio.

Ron Kelemen, Mary Way, and Larry Hanslits are independent CERTIFIED FINANCIAL PLANNER™ certificants. Together with Investment Advisory Associate Brenna Baucum, they jointly serve their clients as a team with over 80 years of combined experience. They work on a fee-only basis and do not accept any third party compensation or finder’s fees. Their practice focuses on wealth planning and investment management for professionals, business owners, and retirees. They are advisory associates of The H Group, Inc., one of the largest independent fee-only registered investment advisory firms in the Northwest with 12 professionals in seven offices with over \$600 million under active management.

## About Ron Kelemen, CFP®

In practice since 1981, Ron is the author of *The Confident Retirement Journey*, a financial columnist for local medical and dental societies, and a contributing author of three financial planning reference books. He is frequently quoted in the national press and professional journals. He is active in Rotary and several non-profit organizations.

## About Mary Way, CPA, CFP®

Mary joined the practice in 1995. She is also a non-practicing CPA with 16 years’ experience in banking, business, and finance. She president-elect of the 185-member Rotary Club of Salem, and like Ron, a past president of the Willamette Valley Estate Planning Council.

## About Larry Hanslits, CFP®

In practice since 1985, Larry merged his practice with Ron’s and Mary’s in 2011. He sits on the investment policy committee of The H Group, Inc., provides advanced estate planning case writing services to attorneys nationwide, and is a teacher and a judge for the financial planning scholarship competition at Oregon State University.

## About Brenna Baucum

Brenna joined the practice in 2013. She is a licensed investment advisory associate and is working toward her CFP® certificate. She is a member of the Rotary Club of Salem and an active volunteer for other organizations.

*The opinions expressed in this newsletter are those of Ron Kelemen, CFP®, Mary Way, CPA, CFP®, Larry Hanslits, CFP®, and Brenna Baucum. They do not necessarily reflect those of The H Group, Inc. They are general comments that may not be appropriate for every individual. They should not be construed as legal or tax advice. All information is believed to be from reliable sources; however, we make no representation as to its completeness or accuracy. All economic information is historical and not indicative of future results.*

<sup>1</sup> CIA World Factbook, April 2014, based on official exchange rates. This tends to understate countries like China that manipulate their currency below what it would be in a market-determined exchange rate, but it also captures internal goods and services of a country that are not part of international trade. The other three main methodologies still rank the US, China, Japan, Germany, France, and the UK as the top six economies in that order.

# Team Update

Let's see . . . where do we start? Since our late August issue, we were the title sponsors of the second Annual TEDx Salem event, followed by our Shred Day. Our new VOIP phone system will be operational when you read this. We're currently reviewing our clients' taxable accounts to identify tax-saving opportunities, and will soon send our tax planning information to them so that they can take action before year-end.

**Michelle** repainted the break room and has initiated many helpful operational changes for us. She took a long weekend to visit family and friends in Colorado, and participated in a charity dodge ball tournament with Brenna. Check out our September 22 blog post to see a photo of Team Bridesmaids, which was also published in the *Statesman Journal*.

**Debbie** is busy with new accounts and year-end activities such as IRA minimum distributions. She and husband Bob have been attending the Oregon Duck games, but the biggest highlight was daughter Gretchen's marriage. In her words, the ceremony (with Bob as the minister) and the reception afterward were absolutely perfect.

**Brenna** wraps up the Retirement module for her CFP certification in December. She had a busy fall with a lot of grandma time. Her grandmother-in-law celebrated her 100th birthday! Brenna then spent a week visiting her own grandmother in California, enjoying hours of baseball playoffs.

**Larry** is finishing up a long-term consulting contract for a bank trust department and can hardly wait to have it completed. He and wife Laurie hired a trainer and work out diligently four days a week at noon. Now that the rains have started they have shifted their focus from landscape improvements to managing their respective fantasy football teams. It was an interesting week around here when they went head-to-head.

**Mary** is working on some challenging planning cases. She thoroughly enjoyed her 45th high school reunion of Visitation Convent near Minneapolis. About 15 of her 31 classmates participated. She also planned and executed a blow-out 60th birthday party bash for husband Steve. Friends and family from everywhere attended.

**Ron** taught a class for members of the Marion-Polk Dental Society entitled "Getting a Grip on Your Own Retirement." His book just passed the one-year anniversary mark and sales remain steady. He continues to write and oversee social media and website activities for The H Group, Inc. The highlight of the year so far was his 885-mile, 13-day bicycle ride from Zion National Park to Santa Fe, NM. He said he finally got in shape for it on the 13th day.



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## Shred Day - 8,000 Pounds!

We hosted our first ever client appreciation shred event in our office parking lot in September. Clients arrived with pickup trucks and cars loaded with boxes of documents that needed shredding. The steady pace continued until noon, and the barista at our mobile coffee cart kept everyone caffeinated well-fed with pastries. The Shred-it truck was well fed, too. According to the driver, we shredded over 8,000 pounds of documents. All in all, a fun and productive Saturday morning.



## What is Your Vision of Financial Independence . . .

*Continued from page 1*

### 4. What would be my "perfect day" in each of the phases of retirement? (1. Trial, part-time; 2. Early-Active; 3. Middle, less active; and 4. Final-very inactive.)

You might need to break this down into weeks or seasons. What will I be doing? What will I have? Where will I be? When will I be there? With whom?

### 5. What about my spouse or significant other?

How do our answers compare? Do our visions match? Can we stand to be around each other 24 hours a day? (As Ron likes to joke, "I married my wife for better or worse, but not for lunch every day!")

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Perhaps you noticed that we overused the words "retire" and "retirement" and that none of the above questions specifically mentioned money. Yes, some of your dreams—such as travel—will require money, but you first need to have the travel dream to give your money a purpose and to know how much money you will need.

***So, wouldn't you rather want to be financially independent with good retirement cash flows? With a well-conceived vision and a plan to make it happen, that sounds a lot more fun, liberating, and secure than plain old retirement and retirement income.***