July 2013

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MALLARD ADVISORS
Comprehensive Financial Planning & Wealth Management Solutions

THE MALLARD FLYER

Consider a CCRC

William D. Starnes

Selecting where to live later in retirement is a big decision that involves one new major consideration: our health care. We are faced with tremendous uncertainty, because we don't know how long we will live, how much care we will need, what type of care we will need, or how our medical decline will unfold. The big question is: Will we each make the last housing decision on our own and ahead of time; or will we have a non-choice thrust upon us when a health crisis hits?

There are a variety of long-term care options, and with all of them there are many uncertainties regarding the future cost, quality of care, on-going changes, potential disruptions, trust issues, bill paying, Medicare, etc. These options include in-home care, living with relatives, assisted living facilities, nursing homes, or a **Continuing Care Retirement Community** (CCRC).

For example, if we elect to remain in our existing personal residence, this will eventually require the hiring of caregivers and/or nurses. While this is a good choice for some, it does create some complexities. The biggest concern is finding, retaining, and eventually replacing qualified help (of differing skills) with people you can trust—and doing so on an on-going basis. This help may start out with meal delivery, move on to hiring a visiting certified nurse's assistant, then to a day nurse, and finally to full round the clock coverage. This must all be managed and paid for, with a strong advocate for the resident. In addition, the house must be kept up, and eventually a move to a nursing facility may be required. Finally, remaining at home can result in far less social support than some of the other options.

However, there is one option that does the best at minimizing these uncertainties and complexities; yet also maximizes a solid social support system. This is the "all-inclusive" Continuing Care Retirement Community (CCRC). These are also known as Life-Care Communities, Type A, or Extensive Life-Care Contracts.

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Mallard Announcements

Mallard Advisors Presenting Several Money School Classes
Bill will be offering a free class through the ***Delaware Money School*** at 6pm on September 4th at the Lamborn Library (1st Floor of the Hockessin Office)—"Investment Success Without a Guru".

Ed is presenting a "Social Security Benefit" talk on July 22nd. Paul is presenting his "Around the World in 80 Minutes" talk on July 29th. Ed is presenting a talk on "Traditional and Roth IRAs" on August 19th, and Susan is presenting a session on "Divorce" on September 9th. **Call the Newark office to sign-up.**

Notices

Newark Office:
Susan will be on vacation the week of August 12th, at a CDFA conference 9/30 to 10/2 and the NAPFA Conference in Philadelphia 10/8 to 10/11. Alan, Ed, and Paul will also be attending the NAPFA conference. Ed will be out Sept 23-25, and the week of 9/30 (when he will be at Myrtle Beach).

Hockessin Office:
Bill will be out of the office the week of August 5th spending some time with family in Cape May, NJ. He will be at the NAPFA Conference in Philadelphia from October 8th—11th.

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Thinking about our eventual housing and medical care is particularly important today. With increased longevity, family dispersion, busy children, and a better, yet more unpredictable, healthcare environment; long-term care cannot be ignored.

What is a CCRC?
Think of a CCRC as a college campus for older folks! However, there is less emphasis on education (and beer) and more on medical care (and prescription drugs). The CCRC provides housing, healthcare, meals, and recreational/social activities under a contractual agreement. You are guaranteed access to a continuum of care and living arrangements - all on one "campus". Living arrangements include apartments or single-family homes for new and independent seniors, to assisted living and nursing facilities. Because CCRC's offer many services on the same campus, you receive the level of care you need while remaining in a familiar community near friends and family.

All inclusive CCRC's promise to provide whatever care you may require in a setting appropriate for that level of care. You don't have to worry about what comes next. You don't need a close family advocate. Couples have the comfort of living "together" even as one spouse needs more care than another.

Most of the all-inclusive CCRC's are non-profit (82%), and many (50%) are faith-based with a "benevolence clause". This means that even if you run out of money, they will still take care of you. Most new residents are age 75-80 and are of middle-to-upper income levels.

Local all-inclusive CCRC's include Cokesbury (Hockessin), Kendal-Crossing (Chadds Ford), and Methodist Country House (Wilmington).

The social support that is available at a CCRC cannot be emphasized enough. By moving into a CCRC where you find a good social "fit", and while you are still physically active (say age 75-80), you will develop a strong social support that will provide emotional support when you need it most (i.e., visits when you are sick).

How Much Does this Cost?
An all-inclusive CCRC is an insurance product where you are paying for guaranteed, unlimited, as-needed medical care (whether you end up using it or not). While not cheap, they are certainly affordable (for our typical client). Fees (which may be partially or wholly deductible) are comprised of an up-front entrance fee and an on-going monthly fee.

Entrance fees run from $100,000 - $500,000 depending on the type of "initial" housing unit desired and if an entrance fee refund option is selected. Most retirees have a home that is "paid-off", and therefore upon a sale, have the funds to pay this type of entrance fee. Residents don't own their housing unit, but instead have the right to live in the community for the rest of their lives. Monthly fees range from $2,000 – $7,000, also depending on the housing being used. The fees remain the same (although they are generally adjusted for inflation) regardless of the level of care needed. They also may cover (depending on the community) dining, social, laundry, fitness/recreational facilities, transportation, housekeeping, and utilities.

When Should You Consider a Move?
Most of us think of ourselves as about 15 years younger than we actually are! Therefore, it is easy to put off a move to a CCRC until it is too late. You will not be eligible for entry if you (or BOTH of you) can't live independently, or can't pass a mental competency test. The other strong reason to go in early are the benefits of making new friendships early on, and for the rest of your life. Finally, some CCRC's have waiting lists that can be years.

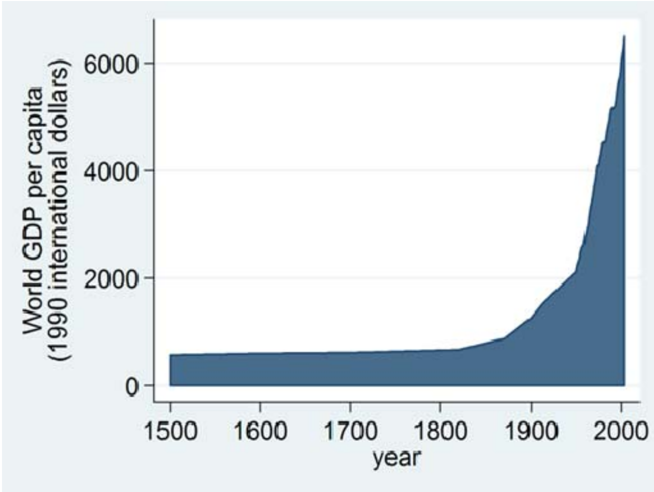
Conclusion
With a CCRC, your costs are quite predictable. You know where you are going, you know what you are getting, and your community remains with you regardless of your health or financial situation. There is peace of mind, certainty, and support in selecting an all-inclusive CCRC.

Bill Starnes is the managing partner of Mallard Advisors' Hockessin office.

Stacked-Deck Investing

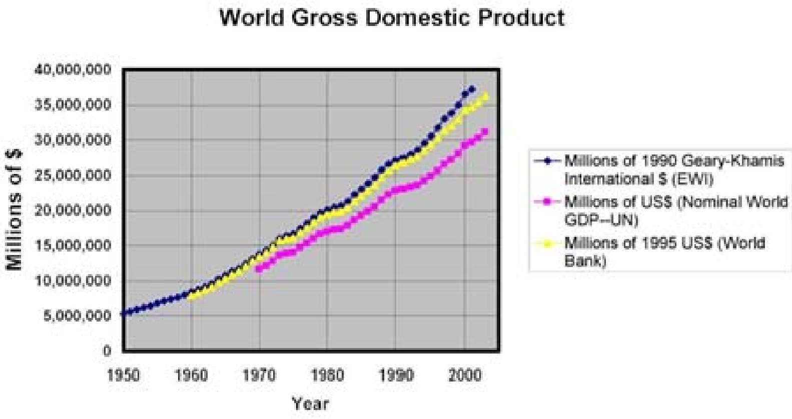
Paul S. Baumbach

How would you like to always have a tailwind when riding your bike, have traffic lights turn green as you approach, or have a favorably stacked deck of cards when playing poker? It is nice to have odds on your side. There are still scenarios which may not work out tremendously well, but you can rightly feel more confident, knowing that the odds are well in your favor. You can similarly approach long-term investing with odds in your favor.



Economic Tailwind—The following chart, from Qwfp (Template:Nemo, via Wikipedia Commons), shows the dramatic increase in GDP per person over the centuries. There is nothing clearer than the one-direction growth in this figure—the amount of goods and services that the average person consumes each year (actually this shows the average production per person, but assuming that we consume what we produce, collectively, it is easier to think about what we all consume each year).

The second graph is from Willard R. Fey's article "The Energy Perspective: Oil and the Magical 4%." It shows that same unstoppable upward growth of the global economy. This is that unstoppable force, that 10 mph tailwind, which propels the global economy onward and upward. When you purchase stocks, or stock funds, you are purchasing a piece of the global economy; you are purchasing a share of that growth. Fundamentally, it is that simple.



This is the reason that, at Mallard, we preach the broken record of long-term investing. By following a disciplined approach to investing, committing to a set allocation to stocks, in good times and bad times, your bike ride is being aided by that tailwind. You are playing with a favorable, stacked deck.

Even with a favorable, stacked deck, you will lose a hand here and there. You could even lose a few in a row. Yet this doesn't change the fact that you have the odds in your favor. In most cases, it improves your future odds.

Quick statistics lesson: there are dependent and independent probabilities. Let's say that there are ten ping pong balls in a bowl, numbered 1-10. Let's say that you will double your money if you choose a ball numbered between 4 and 10 (70% of the time), and lose your entire bet if you choose a ball numbered 1, 2, or 3. Let's say that you put the ball back in between each selection (if you choose a ball numbered 6, you get paid, then return that ball to the bowl, and bet and choose again). In this case, the probabilities are independent—you still have a 70% chance of success on your second round. Coin tosses also involve independent probabilities. Independent probabilities mean that past success or failure has no impact of the probability of future success.

If, however, you do not replace that number 6 ball; if after your first round the 6 ball is no longer in the bowl, then your odds of success fall, to only 6 out of 9 (two-thirds). In this case, the probability of success in round two is dependent on the outcome of round one. Dependent probabilities mean that one round's result affects the probability of the subsequent round's result.

One last statistics tidbit—population size matters. If there are ten ping pong balls numbered 1-10, with a 70% chance of winning initially, then a dependent probability (where you do not place the chosen ball back into the bowl before choosing a second time) is far more significant, than if there are 1,000 balls, numbered 1-1,000, with the same 70% chance of winning. So how does this impact investing?

While far from reliable year-to-year, annual stock returns involve dependent probabilities. When stocks move sharply in one direction, there is a greater likelihood of a bad subsequent year, and vice versa. However, the population size is large enough that it can take time for this to occur. The S&P 500 US stock index had eight straight annual gains in the 1980s, and five straight gains in the 1990s and again in the mid 2000s.

Small increases to your odds matter, over time. In blackjack, if both the house and the player follow the same rules, but the house wins ties, this makes the odds slightly in favor of the house. Over time, however, this slightly beneficial increase in the odds supports an entire global industry.

Again, so what? How should this affect your investment decisions? While there is no certainty in investing, you are able to shift odds in your favor, in a reliable fashion. As more people are consuming more goods and services over time, as the global economy grows in an unyielding manner, stock investors have a clear advantage in likelihood of growth.

Step 1—Permanent Use of Stocks
This advantage, over time, has and should continue to provide superior results to investors who stick to a disciplined allocation to stocks.

Step 2—Permanent Use of Bonds
Since the improved odds of stock investing is merely a greater likelihood of greater returns, not a guarantee, almost all investors should use bonds to provide stability to a portfolio. The proportion of bonds should be tied to your need for safety—if you need to avoid any big losses, then you need to avoid big allocations to stocks.

Step 3—Every Day is Opposite Day
Since stock (and bond) returns involve dependent probabilities, bad returns are more likely to follow good returns. Therefore, investors should strongly consider cutting back investments that rise, and adding to investments that fall. When stocks jump 20%, look to cut them back and buy bonds. When bonds jump 10%, cut them back and buy stocks. I can almost guarantee you that this will feel awful—but that very real emotion is the core reason for its success. When you feel awful to sell bonds that are doing well to buy stocks that are doing poorly, you won't be alone. The vast majority of investors will take the other approach—they will add money to rising bonds and take money from falling stocks. This enables you to capture the advantage, buying stocks at cheap prices and selling your bonds at high prices, before the crowd recognizes its error.

Step 4—Be Aggressive with New Contributions
When regularly purchasing shares of an investment with a set dollar amount over time, there is a mathematical advantage that you obtain when the investment price is volatile. This advantage is called dollar-cost averaging. For this reason, we often recommend that clients invest their new dollars more aggressively than their existing (nest egg) holdings. This is particularly well-suited for retirement plans such as 401(k)s and 403(b)s. The dollar-cost averaging benefits smooth the otherwise volatile investment price moves.

Step 5—Plan Your Plan and Play Your Plan
Since the odds are in your favor, it is critical that you stick to your plan. This means NOT boosting your stocks when stocks are hot, and NOT selling your stocks when they are losing. This means regularly rebalancing your portfolio, ensuring that you seal in profits, and directing profits and new money into weak areas with superior odds for future good returns.

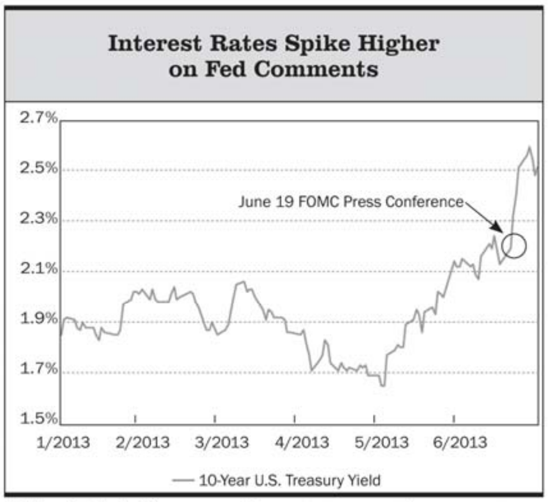
Investing and an investment plan rely on selecting an approach based on the likelihood of success. These five steps are designed to help you tailor your own approach to line up the best odds of success. As the slogan from the book and film *The Hunger Games* suggests, "May the odds be ever in your favor!"

Paul Baumbach is the Director of Investments at Mallard Advisors' Newark office.

Investment Outlook and Review

Bonds have been hit hard over the last two months strongly impacting the more conservative investor. Considering that conservative investors dislike volatility, this has been quite painful. Why did this happen? In a nutshell, because the economy is growing, the Fed announced it will no longer have to stimulate the economy by driving down interest rates via the on-going purchase of bonds. This expected lower demand for bonds resulted in bond investors selling—which drove down bond prices and drove up yields.

On May 2, 2013, the 10-year Treasury bond yield hit a low of 1.63% for the year. The yield then rose steadily through May, and finally spiked sharply higher, hitting 2.6% on June 24—its highest level since early August 2011. The rise in rates resulted in significantly lower market values for bonds (rising bond yields mean falling bond prices) across most bond asset classes.



While this looks like a pretty dramatic increase, if you put it in the context of rates of the past 50 years, it is apparent how depressed rates still are relative to history. Data as of 6/30/13. Source: Board of Governors of the Federal Reserve System.

Core investment-grade bonds lost 3.3% from May 1 through June 30—one of the worst two-month decline in the benchmark's 37-year history. These recent poor bond returns, low current yields, and articles (over the last 5 years) about a "bond bubble" have led many investors to reconsider the value of investment grade bonds. This is not surprising considering expected future returns may be only 2% over the next ten years (and that is before inflation).

As I mentioned in the last edition of this newsletter, "The big-picture bottom-line is that the fixed-income marketplace, particularly the highest quality parts, continues to offer paltry longer-term returns given our expectation for rising interest rates. Most areas of fixed-income are trading at historically elevated prices, and yield levels are at or near historic lows."

Now, only three months later, investment grade bonds have declined 2.5%. International stocks also had a bad quarter with emerging-market stocks dropping in value by 8.5%, and developed international stocks dropping 3.3%. Bucking the trend were large-cap U.S. stocks, which fell only 0.4%. Gold, which is typically viewed as a safe haven during periods of market turmoil, was not spared—losing 15% from May 1 through June 30, and melting 26.5% year to date.

The short-term bond losses (and interest rate increases) are unusual – and especially painful for conservative investors. Although we expect rates to continue to rise over the long-term, anything can happen in the short run. While we don't expect investment grade bond returns to be exciting, these types of bonds still hold an important role – downside protection, or "insurance" in the event of severe economic weakness. This role is especially important to risk-averse investors. Bonds are still less volatile than stocks.

The big driver of all this volatility was the pronouncement from the Federal Reserve about the future course of monetary policy, and specifically, the Fed's plans to begin "tapering" its QE (quantitative easing) bond-buying program. So, it was actually **investors' fears** that rates would rise (and bond prices fall) as a result of a less expansive Fed policy which caused them to sell bonds; thereby causing rates to rise just as they feared!!! As a result of these fears, bond mutual fund investors removed $72.8 billion from bond funds from June 1 through June 25. Prior to June, bond funds had registered net inflows for 21 consecutive months.

The good news is that interest rate increases during the early/middle phase of an economic expansion are the natural result of improving business conditions and are good for stocks. We won't be surprised if rates come back down somewhat from current levels in the near term as markets further digest the Fed's message and intentions.

While we believe in maintaining an awareness of the potential outcomes of policy changes, this is very different from making portfolio decisions based on false confidence that we know how things will play out over the short-term *and* that we can get the timing right. Correctly timing the stock or bond market consistently based upon short-term *unexpected* events is not possible. **Don't be fooled: the advice that sounds the best in the short-run is always the most dangerous in the long run**. What sounds tempting to bond investors right now: move to cash, get out now before the bond bubble bursts, etc? Is this really prudent long-term advice?

Total Return as of 06/30/2013	June	2nd Qtr	YTD	Last 12 Months
PORTFOLIOS**				
60% Equity	-1.8%	-0.4%	4.7%	10.9%
40% Equity	-1.7%	-1.1%	2.3%	6.9%
STOCKS				
Larger-Cap	-1.4%	2.9%	13.7%	20.4%
Smaller-Cap	-1.0%	2.7%	15.9%	25.5%
International - Developed Mkts	-3.8%	-3.3%	-0.5%	13.5%
International - Emerging Mkts	-6.1%	-8.5%	-10.9%	1.3%
Real Estate	-2.0%	-1.6%	6.3%	8.8%
Inflation Hedges*	-5.2%	-7.2%	-5.0%	3.1%
BONDS				
Investment Grade Bonds	-1.7%	-2.5%	-2.5%	-1.0%
Emerging Local Market Bonds*	-5.0%	-8.7%	-8.9%	-1.3%

*Each asset class is represented by a relevant Vanguard Index fund except for Inflation Hedges where the Morningstar Category average for "**Natural Resources**" is used, and for Emerging Local Market Bonds where **PIMCO Emerging Local Bond** is used.

**Each portfolio is represented by a Vanguard Lifestrategy Index fund.

Often our inclination is to not even discuss short-term market or performance issues because we think such a short-term focus for many people is a major impediment to attaining long-term investment success. They risk becoming part of the emotional investing herd—jumping into areas of the market that have already had a run of strong performance, or panicking and selling out of assets *after* they have had a sharp downturn, -- also known as "buying high and selling low".

Emerging-Markets: Emerging-market stocks and emerging-market local-currency bonds have also been hit over the last few months. But in this case we think the markets are overreacting to short-term developments. We continue to view these asset classes as more attractive than U.S. stocks.

Emerging-market local-currency bonds (e.g., Pimco Emerging Local Bond), should generate returns at least in the high single digits. Naturally with higher long-term expected returns (and past returns), we should also expect more risk (as risk and return go hand in hand). The key driver of our return expectation is their mid to upper single-digit current yield. They are also a good hedge against the risk of a general dollar decline and/or unexpected inflation in the United States.

Both Loomis Sayles and Pimco see attractive longer-term opportunities in emerging-market local-currency bonds. We did not recommend this asset class as a short-term position, so we have no intention of rushing for the exits due to last quarter's poor performance.

While it can be uncomfortable to see short-term losses in one's portfolio and financial markets falling across the globe, we actually welcome this recent market volatility. It has the potential to create more attractive, if not outright compelling, *long-term* investment opportunities if investors overreact and cause markets to overshoot to the downside.