MARCH 2013

F|I|M group

Current Observations

Perspective

By Paul Sutherland, CFP®

John Templeton often discussed how opportunity exists where perspective or opinion differ from reality. I am writing this from Room 317 at the (Queen) Kapi'olani Medical Center for Women and Children in Honolulu, Hawaii. True to its name of serving women, children and adolescents, this is where critically ill newborns or high-risk expectant mothers are sent from all of the Hawaiian Islands. It also seems to be the hospital that most of Oahu's healthy expectant moms come to deliver their babies. Walking around the hospital you would think that every young woman in Hawaii was pregnant, and that medical schools should immediately prepare themselves to meet the increasing demand. But the reality is that this is all normal. I am simply where the action happens for births.

When I am traveling – especially through busy airports in Los Angeles, London, Chicago or Tokyo – I feel like everyone must be traveling as well. Alas, the statistics prove me an idiot for thinking that everyone is traveling and that the best business to start in Honolulu is a baby store. Don't get me wrong – both industries have sustainable characteristics, and grandparents will want to fly to see their new grandchildren and buy them things. But don't bet the farm that investing in air travel or babies is a "no-brainer."

Reality

The point of this is simple: Get to reality. Realism may be out-of-fashion right now – consider, for instance, energy. The natural gas, coal and oil industries want to promote the idea that anything that is different will kill jobs. I can tell you that if a new technology were developed that made "zero-cost" energy in the U.S., we would have the largest manufacturing boom in history, and employment would be at 100% capacity.

Would the entrenched energy suppliers promote that? Unlikely. They have an incentive to lobby against and obscure technology, and dampen university research programs that look for alternatives to good-old coal, oil and gas. Economically, it makes perfect sense that the renewable energy (wind, solar and wave, among others) and energy conservation industries are growing and viable. The non-hydrocarbon energy industry employs people and is not destroying jobs any more than the "clean" energy business is losing jobs to traditional energy concerns. However, the perception exists that any transition to "clean and sustainable" energy sources is somehow bad for the economy.

Detroit Boy

I am a proud "Detroit boy," and I lived there until I was a teenager before Dad moved us to an extremely small town called "Glen Arbor." Still, with my Detroit and Michigan roots, my heroes were the Henry Fords of the world. (Full disclosure: I have a son named Henry.) Can you imagine the resistance Henry Ford encountered from railroads, blacksmiths and horse traders while building the common man's vehicle? I just bought a hybrid vehicle from Ford that reportedly gets 47 miles to the gallon. When my father-in-law saw it he said it was "cool." Some people, however, think Detroit has lost its way. I suggest these folks go and test drive a C-MAX.

Millionaires were made during the transition from horses to horsepower, and millionaires will be made in the transitions that are going on today. Sadly, fear and greed are significant emotions that guide our world's citizens. This creates opportunities of consequence for those who spend their time searching for truth and reality – and not the reality that supports their biases or feeds their greed or fear.

The End of "Safe" Money

Okay, first, a confession: I worry about inflation. Jeff Lokken, who sits on FIM Group's investment committee, and I both had our formative investment years when interest rates on money markets were 18% and mortgages (if you could get one) were

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at 14%. We lived through the Vietnam War, oil crises and several assassinations – so we are a bit "war-horse"-steady about objectively looking for the reality of the investment risks and opportunities at hand. We have a natural bias toward owning "real income-producing stuff," that is, "stuff that has economic value" like income-producing real estate, businesses that sell stuff at a profit, industries that own stuff like farmland, ports, natural resources, etc. To us these are the real wealth preservers.

What Is Next for Money?

Countries of the world will print money to pay off the loans they made to buy stuff or pretend to create prosperity. Printing billions of dollars to support dying industries, subsidize farmers or pay people to not work does not create wealth. This is not a political commentary. The next big worry map I scenario out in my head has to do with the question: "What is next for money?" I do see three specific hints from history and current economic trends:

1) Fixed-income annuities, bonds, money market investments and CDs, in weak currencies especially, will not be a store of wealth. They won't collapse, but rather will slowly erode. Think about the poor souls who put their faith in CDs or money markets after the collapse in 2008. They watched nearly every asset class go up, including long-term bonds, while their accounts just stayed even. And when compared to simple inflation, they lost purchasing power.

2) We live in two worlds: rich and poor. No one in the U.S. is poor. Billions of people throughout the world live on less than a couple of dollars a day; they are poor. The rich control resources, pretend to care about the poor and will see life go on as usual. The poor are the ones who suffer in our world while the rich hire them to help maintain their high standard of living. While it pains me to say this, observation is a part of reality. I watch what people do as a society (with some standouts), and most buy what is cheapest without ever asking whether it was made by a Chinese slave or a union worker in Alabama. The point is, from an investment perspective, that more wars, significant tensions between the "haves" and "have-nots," political volatility, pollution and such will translate into volatile investment markets. This is normal, but a consequence will be a lack of trust for "governments," which is not good for money. "I am from the government and I am here to help you" was taught to me growing up as statement to be wary of.

3) We will make progress on all fronts. Standards of living will improve for hundreds of millions of our fellow world citizens. Emerging economies will learn from the "developed" world what works and what doesn't work. Birth rates are stabilizing, infant mortality is improving, and education for women and the poor is seen as a key component to stability and sustainability from India to Haiti.

Investing in a New Money World

When Mahatma Gandhi visited Britain, an ambassador proudly asked him what he thought of Western civilization. Gandhi, without hesitation, answered, "I am still looking for it." We are looking for investments that will provide a store of wealth and grow. We believe that the way to find these investments must be rooted in reality. The world needs food, energy and shelter, so basic economic activity will happen. The investment opportunities are boundless in the transitions taking place globally. The key is seeing these changes as opportunities.

My wife, Amy, and I are hunkered down here at Kapi'olani Medical Center. It is a teaching hospital, so we have residents, nurses and doctors in the room quite often. They have only one goal: to preserve the health and well-being of Amy and our yet-to-be-born son. The team at FIM Group, too, has only one goal: to help preserve, grow and protect our clients' wealth, now and into the future. Like Amy's doctors, to be successful we must not base judgments casually on opinions or perception. Rather, we must hold truth and reality in high regard, and base our judgments and decisions on knowing what the reality is.

Long-Term Care Insurance – Is it Right for You?

By Alice McDermott, CFP®

Long-Term Care (LTC) insurance provides individuals a wide range of services, including those needing care for an extended illness, cognitive impairment or other long-term disability. Most policies cover care in one's own home through an independent agency, an assisted living facility or a nursing home.

Most individuals purchasing LTC are between the ages of 55 and 64 and have an annual gross income of $75,000 or more (America's Health Insurance Plan). LTC seems particularly important to couples with mid to high incomes, with a large portion of this income coming from one spouse. The idea is if one income stream is lost due to death, the LTC insurance will come into play should the surviving spouse need care, the remaining net worth is limited or there is a need to preserve principal for the next generation. Having said that, purchasing LTC for a single person is also important if there is a need to leave assets to one's heirs.

Here are some facts that may be useful in determining whether or not LTC may be appropriate in one's planning:

1. 70% of people over the age of 65 will require LTC at some point in their lives.

2. While family/friends are typically the providers of care, 40% will enter a nursing home and 10% will remain for five years or more.

3. Many believe LTC is only for "seniors," yet 40% of people currently receiving care are between 18 and 64 years old

4. When it comes to nursing home care (the most expensive), 86% are over age 65.

5. In 2011, the national average cost of a semi-private room in a nursing home was $75,500/year (John Hancock Life Insurance).

6. The median annual cost of a semi-private room in a nursing home ranges from $48,000 to $123,000.

7. The median length of stay in a nursing home is 1.4 years for women and 1 year for men.

8. If your family has a history of long-term illnesses such as Alzheimer's, LTC may be a good idea for your situation.

Many LTC policies are "tax-qualified" plans, which means the benefits received (as long as they do not exceed $310/day) are not taxable as income. In addition, the premiums you pay for LTC, as well as out-of-pocket costs, can be added to your medical expenses if you itemize on your taxes.

There are a variety of options you have when determining which LTC plan may be best for your needs. For example, if you are able to "self-insure" for an extended period (90-360 days) you may be able to decrease your annual premium. The cost of your premium will also depend on your age and health at the time of purchase, the dollar/day benefit and the length of care you purchase. Obviously a shorter "wait period," a higher daily benefit and a longer extended period may all increase the premium. For example, a policy may have a 90-day waiting period, a $200/day benefit and extend 2-3 years. Based on the statistics of the "average" purchaser, this type of policy seems to provide adequate coverage. Yet I can't emphasize enough **– it depends on your own financial situation**, so be sure to discuss this with your financial adviser.

Another factor that will affect the premium will be whether or not you add inflation-protected riders to the policy such as **guaranteed, simple** or **compound** inflation. Guaranteed is typically recommended for those 70 and over, simple for those 65-70 and compound for those under age 65.

In conclusion, LTC is considered the most "neglected" aspect in most financial plans today. Usually cost is the prohibiting factor for this neglect. If an individual is unwilling to purchase a recommended policy for his/her situation, in most circumstances, a "good" policy in lieu of the "best" policy may be better than no policy at all. Our job as your Certified Financial Planner is to recommend what we feel is most appropriate given your financial situation and your goals.

Please be sure to talk with one of our advisers before purchasing an LTC policy so we may help guide you.

(Much of this information was taken from an article in the *Journal of Financial Planning, Vol. 25, No.1,* November 2012)

Employer-Provided Retirement Plans

By Matthew J. Desmond, CFA®

The array of different employer-provided retirement plans and their dizzying rules can make even the most tenacious financial aficionado withdraw into inaction. Do not be intimidated. The advantages and long-term financial rewards are too great for eligible participants to not participate.

The most common plan American workers can access is the ubiquitous 401(k) (as well as its nonprofit sibling, the 403(b)).

The 401(k) comes in a few different flavors, allowing an employer to customize a plan based on individual preferences and goals. For a participant, one big advantage is the ability to contribute a significant amount of money each year – in 2013, up to $17,500 (or $23,000 for those 50 years old and older). Contributions are made through payroll deferrals, which means they are deducted and deposited into the plan before it reaches your paycheck and before income taxes are deducted. The participant will pay income taxes upon withdrawals in retirement, but will avoid all capital gains taxes and income tax on dividends and interest along the way.

Companies may encourage their employees to participate in the 401(k) plan by matching elective contributions up to a stipulated maximum. For example, an employer could match an employee's contribution $0.50 on the dollar up to 4% of an employee's compensation. Some employers have more generous matches, some have less and some have none at all.
Some 401(k) plans also have profit-sharing contributions to participants, and others, based on their design, make "safe harbor" contributions (which allow company owners to maximize contributions to their own 401(k) accounts) of 3% of compensation to all eligible employees. These "non-elective contributions" are made independantly of a participant's payroll deferral. They are, in many ways, free money to the participant, and one more great reason to enroll in a 401(k). Typically, a participant does not receive the full benefit to the match and the profit share contributions right away. To discourage staff turnover, these contributions can vest over a maximum six years, meaning that an employee will only receive the full amount of the contribution after working for the company for the stipulated number of vesting years. After reaching the magic number, however, all past and future contributions fully vest immediately.

The IRS does limit the total amount that can go into any single 401(k) account in a given year. For 2013, total contributions, employee plus employer, cannot exceed $51,000.

Many 401(k) plans have a final, often very appealing accessory: The Roth 401(k) plan. When available, the Roth feature allows employees to make contributions after-tax. No taxes are paid on those dollars again – no capital gains tax, no income tax from dividends and interest, and, unlike the traditional 401(k), no income tax upon withdrawal. Anybody who thinks they'll pay taxes in a higher bracket upon retirement should consider the Roth option, if available.

The 403(b) is the nonprofit organization's version of the 401(k). Until a few years ago, nonprofits, with a few exceptions, could not have a 401(k) plan. Like the traditional 401(k), contributions to the 403(b) are made with pre-tax dollars that grow tax-deferred (no capital gain taxes or taxes on dividends and interest). In 2013, the contribution limit is $17,500 or $23,500 for those over 50 years old. Employers can make matching contributions, but few do in the nonprofit sector. The 403(b) also may have the Roth option in which the participant pays tax up front to avoid paying the deferred tax later on.

The SEP IRA (Simplified Employee Pension Individual Retirement Arrangement) allows employers to establish a retirement plan with very few administrative requirements and virtually no administrative expense. The SEP is actually a variation of the Traditional IRA (Individual Retirement Account). Company owners must make the same contribution to all employees, including himself/herself, as a percentage of compensation, not to exceed the lesser of 25% or $51,000. There is no catch-up allowance for those over 50. SEP IRAs do not allow for employee elective deferrals. Self-employed folks with few or no employees tend to use the SEP most frequently.

Similar to the SEP, the SIMPLE IRA (Savings Incentive Match Plan for Employees) has the important advantages of simplicity and low or no

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Investment Team Spotlight: Fyffes

SUMMARY SNAPSHOT

Fyffes Ticker: FYFFF

www.fyffes.com

Share Price/
Market Capitalization (02/13/13):

EUR.60 (US$.81)/EUR178m (US$240m)

Company Description:

Dublin-based importer and distributor of tropical produce with operations in Europe, the U.S., Central and South America. #4 player in the global banana trade and #1 in Europe with meaningful share of the pineapple and melon markets as well.

Investment Thesis:

Fyffes offers considerable total return potential from a 3.5% dividend yield and expected share price gains driven by continued earnings growth. The company offers significant, hard-to-replicate competitive advantages and a good track record of value creation for shareholders.

**Data Source: Bloomberg*
*** Picture Source: Fyffes*

Fyffes is the oldest fruit brand in the world, dating back to 1929. Through an integrated supply chain spanning production, procurement, shipping, ripening, distribution, and marketing, Fyffes brings bananas, pineapples, and melons from Central and South America to North America and Europe. Bananas are largely procured under long-term agreements with third-party growers, while pineapples and melons are increasing grown on internally owned and managed plantations.

Competitive advantages for Fyffes include large economies of scale, decades-long relationships with both growers and customers, and state-of-the-art logistical infrastructure. Combined with a solid, net-cash balance sheet and shareholder-friendly management focused on returning value via dividends and stock buybacks, we believe that Fyffes is well positioned to embark on future growth.

Although factors like fuel costs (trans-ocean shipment of fruit) and foreign exchange rate volatility (Fyffes' costs are primarily US$-based, while revenues are largely in sterling/Euros) can impact short-term financial results, management has a solid track record of longer-term execution. Despite the brutal recession in Europe, Fyffes is on track to more than double its earnings per share from 2007 levels on a 30%+ increase in sales. We believe that this earnings growth can continue, driven by the long-term trend in healthier living and ample opportunity to take share from larger players like Chiquita and Fresh Del Monte.

As this goes to press, Fyffes trades for around 8x expected earnings and offers a 3.5% dividend yield. Although we've trimmed back exposure in appropriate accounts after strong stock price and Euro currency gains, we still believe that the position can generate significant total returns from its growing dividend and share price gains driven by continued earnings growth.

Do you have a question regarding your investments?

Contact your FIM Group Advisor or visit *www.fimg.net* for more information.

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administrative cost. They, too, are a variation of the Traditional IRA. The SIMPLE allows employees to contribute to a Traditional IRA set up by the employer for the employee. Employers commit to matching up to 3% of those contributions for most years or to making a 2% non-elective contribution for each eligible participant. Only companies with fewer than 100 employees can use the SIMPLE. The SIMPLE's most significant disadvantage is the lower contribution limits: Elective contributions (salary reductions) for 2012 cannot exceed $12,000 or $14,500 for those who are at least 50 years old, and the match cannot exceed 3%. For SIMPLE plans based on the non-elective 2% employer contribution, up to $255,000 in compensation can be considered for the computation.

Participant eligibility is the one area we still have to touch on. Generally, for 401(k) and 403(b) plans, participants must be 21 years of age and have completed one year of service (typically defined as 1,000 hours of work completed) for the employer. Plans can relax those eligibility rules but usually cannot tighten them. The maximum SEP eligibility requirements are 21 years of age with at least $550 in compensation from the employer in at least three of the last five years. To be eligible for a SIMPLE IRA, an employee must have earned at least $5,000 during any two years before the current calendar year and expects to earn at least $5,000 during the current calendar year. Again, an employer can ease those restrictions but cannot tighten them.

For any employee eligible for an employer-provided retirement savings plan, the most import advice is to participate. And the importance only increases whenever any employer contribution is at stake. If you do not have a retirement plan at work, you can still take advantage of the tax benefits offered by Traditional IRA and Roth IRA accounts. Those, of course, come with their own income restrictions and contribution limits. In any case, they are well worth the research effort in order to build those crucial retirement savings.

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