



Investor Education, 4th Quarter 2015

December 21, 2015 - After a serious drop in market performance in August, markets enjoyed a nice bump in October that brought most major markets back in the black.

November was fairly flat, but December has been volatile with recent performance dragging the S&P 500 back into negative territory. The Fed just announced their tiny rate hike last week and oil is still suffering. Since it is so close to the end of the quarter, we will spend more time discussing it in the client letter to be released along with reports in late January, early February. In the meantime, we wish all of our clients, friends and family members a very Happy Holiday season.

[Visit our Website](#)

MVT's Newest Addition: Tom Dugan

Please join us in welcoming Tom Dugan to MVT!

Tom joined our trading team in November to work with Margie Burke on bond analysis and trading. Tom has been in the financial markets all his working life, beginning in his teens on the trading floors of the Chicago Mercantile Exchange.



He completed his Bachelor's Degree at the University of Illinois at Urbana-Champaign and went to work full time on the Chicago Stock Exchange in 1986. He became a member of the exchange and floor broker for a specialist firm at that time. In 1991 he became a specialist and market maker trading 30 listed issues on the New York Stock Exchange.

Tom is licensed through Finra with a Series 3, Series 7 and 66. Tom has a decorated history as a swimmer as a two time State Champion and All American.

Tom still enjoys his time in the water as well as his time on the golf course. He is active in the Irish Fellowship Club of Chicago as well as the Illinois Alumni Association. Tom has lived in Chicago his

He then moved to the Chicago Board of Trade in 1993 and became a broker/trader in the Treasury Complex which entailed the execution of large orders for institutional houses including Goldman Sachs, UBS, HSBC and Morgan Stanley until 2005.

From 2006-2014, Tom switched gears and worked as a financial advisor for retail clients with Smith Barney later to be bought by Morgan Stanley.

entire life and is glad to be a part of a close knit family.

Tom can be reached at the main office at 312.922.1717 or via email at tdugan@mvtinvest.com.

[Read about all of MVT's Professional Staff](#)

The Fed Rate Hike and Its Effect on Your Portfolio

As Fed Chairwoman, Janet Yellen, announced on December 16, the Fed raised the Fed Fund rate to 0.25-.05 percent. This is the first time that they have raised rates in almost a decade. Bond prices and yields have an inverse relationship, so when interest rates go up, bond prices go down. As interest rates rise, investors will earn more interest on new debt, but the price of their current holdings will go down. On the short end, it will give investors the chance to reinvest their portfolios at very slightly higher rates going forward. This rate hike was widely anticipated and priced into the market. Now the markets will try to anticipate when the Fed will next raise rates to continue to get short-term rates above their historic lows. It should be a gradual process dependent on the economy continuing to strengthen.

Just because short-term interest rates are rising, does not mean that interest rates will rise at all maturities. We believe that the yield curve may flatten a little bit, with interest rates remaining flat or coming down on the longer end of the yield curve. In the days since the Fed announcement, equities have faced some volatility and



The increase in the fed fund rate has already had an impact on the prime rate, the rate that banks use for high credit worthy customers. Credit card interest rates may start to rise, so you should keep an eye out for that. This also might mean that money market funds will begin offering more interest if the Fed keeps raising rates throughout 2016. The Fed will continue to watch the economy and inflation to see if it can move short term interest rates up in the coming year. Many people watch the dot plot, where Fed members predict where they think short term rates will be in the future. The dot plot shows that Fed members do think interest rates will continue to rise in 2016, 2017 and beyond.

ten-year bond prices have gone up, with the yield on the ten-year falling slightly. Bonds are still an important part of your portfolio and can help produce income and price return for your portfolio. We invest in bonds across sectors to help produce yield and diversification. We utilize individual bonds and bond mutual funds and ETFs.

- Margie Burke, Fixed Income Manager
mburke@mvtinvest.com

What Kind of Investor Are You?

Margie Burke, our fixed income portfolio manager, and I had the pleasure of attending the annual Schwab IMPACT Conference in Boston in November. The conference affords us lots of learning, and we get to take some fun courses. One of my favorites focused on behavioral finance, which refers to the way in which people's personalities and learned behaviors impact how they think about risk and savings.

The presenter began with a comparison that was rather compelling. In 1950, the average life expectancy was 77.8, and the average retirement age was 66.9. In 2010, the life expectancy had risen to 81.6, but the retirement age had dropped to 61.6, creating a gap of at least 20 years where a person was no longer earning money but still spending.

The rest of the presentation talked about how we are going to have enough money to survive that long when our emotional responses and beliefs about money often get in the way of our success. What are the key challenges we face as investors?

1. We think too fast, meaning we prefer not to engage in the act of thinking. In fact, studies have shown that 70% of men and 30% of women would rather be subjected to electric shocks than be forced to sit and think quietly.

2. We think too narrowly. For instance, make a list of all of the addresses you have ever lived at. For some, this might seem impossible. However, if you gave someone a



decisions while investing? It may have something to do with your ability to tolerate losses and your general outlook on spending money.

The presenter referred to studies that have shown that, on average, people are 2 times more sensitive to losses than to gains. Try it for yourself. Go to the following link, click on Loss Aversion Calculator, and answer the questions.

[Loss Aversion Calculator](#)

What was your score? Mine is a 4.5, and I've taken it three times. That means I am MUCH more loss averse than the average investor.

What does this say about you? Are you someone who thinks that life is too short to wait to do things OR do you prefer to focus on ways that your life can improve while you are in retirement? Of course, the answer to that question is not so simple and greatly depends on your experiences, the size of your nest egg, and your health.

The presenter recommended that new retirees would benefit from doing something fun and out of the ordinary upon retirement. He called it "planting a peak." The idea is that you do something seemingly

list of addresses, some of which they actually lived at and some they didn't, they would get much more correct than asking them to simply make a list. It's the way our memory systems are built. Unfortunately, it keeps us from making important lists and focusing on goals.

3. We think too shallowly. We purposely do not ponder our more difficult choices in order to avoid making emotional tradeoffs. More immediate decisions are given more credence by others than those we contemplated longer.

How does this impact our abilities to make

irresponsible right out of the gate and then focus on being very disciplined with your money going forward. I think that makes a lot of sense.

If you are interested in additional information about this presentation, please feel free to contact us; and let us know your Loss Aversion score!

-Danielle Woods, dwoods@mvtinvest.com



Required Minimum Distributions from Retirement

Since you will likely live several years after you stop working, you will need some retirement savings in addition to social security benefits. However, once you reach the age of 70 1/2 years, the IRS requires you to begin withdrawals from your IRAs (including SEP and SIMPLE IRA plans, but not Roth IRAs). These withdrawals are aptly named Required Minimum Distributions.

These withdrawals may be 100% taxable as income. Although deposits into some retirement accounts can be made until April 15th of the following year, withdrawals must be made in the calendar year for which they are required. There are exceptions for the year in which you turn 70 1/2. If you have multiple IRAs, you will need to add all of them up to determine your required minimum distribution. Please let us know if you need assistance. We can set these up for you. - Danielle Woods, dwoods@mvtinvest.com

[Schwab RMD Calculator](#)

Should MVT Offer a Robo Advising Option?

This is a question we have been kicking around and researching for over a year. We eventually chose Schwab's program. Within this service, we looked at ten different options for clients. In September of this year, the firm invested some of its own capital to fund the Robo option we thought would be best for our clients. As you know, we "eat what we cook." In other words, we use the same investment strategies and products for our own accounts as those of our clients.

In general, what is Robo Investing? News channels and the internet have information on this new way of investing; but basically, it is the automated option for investor's who want to invest for themselves.

How does Robo investing work? The system works on questionnaires filled out by clients about their income, goals and risk-taking comfort zones. Computer algorithms then come up with a portfolio allocation. Minimums are very low, costs are reduced, options can be limited and rebalancing is automated.

How is the MVT Robo product different? If you look up Robo products they are generally limited to 12 to 18 investments with no advisor option. MVT has over 450 investment products in 27 investment sectors and the portfolios are reviewed and discussed with clients before they are implemented.

We are happy to add the Robo product for clients in the first quarter of 2016. Some highlights include:

- The large amount of investment options.
- Personal advice component.
- No commissions for trading.
- No fees for custody.
- Low minimums of \$6,000 for MVT clients that want to try this out for themselves or family members.
- Cell phone or computer access to account 24/7.
- MVT service model.

We hope to have more information out for you soon. This is not the only way or best way for everyone to invest, but it is an interesting option. Please call if you have questions. -- John Mitchell, 312.922.1717, jmitchell@mvtinvest.com



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No legacy is so rich as honesty. - William Shakespeare