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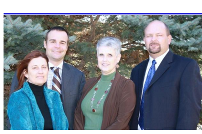
Eliminate Your Value Gap

If you own a business and plan on selling it in the future, it may be wise to consider potential gaps between your own perceived value of your business and its actual fair market value. This value gap could blindside a business owner, especially one nearing retirement.

In an increasingly challenging mergers-and-acquisitions environment, the formula is simple: business owners and management teams who are highly prepared, diligent, and organized for a liquidity event (e.g., sale of company) yield more successful outcomes that are more in line with the business owner's financial goals and objectives than those who are less prepared and wait until the last moment. Receiving a business valuation from an accredited and independent valuation professional may give you more certainty surrounding your retirement plans and may eliminate this value gap.

Ideally, succession planning for your business should start earlier rather than later, as understanding the value of your business today will help prepare you for a liquidity event tomorrow. From gathering detailed information about your company to analyzing projections and conducting management interviews, the valuation process can provide you with a detailed understanding of key value and risk drivers that affect your business. The valuation professional's concluded value is the starting point in your succession and shareholder planning process. Your initial value can also be used as a catalyst to learn how short- and long-term decisions impact value over time and can ultimately change your retirement situation.

If you are interested in learning more about the business valuation process and whether a valuation is right for you, consider talking to your advisor about their relationships with business valuation specialists.



SeaCrest Wealth Management

jmeyer@seacrestwm.com
www.seacrestwm.com

Elizabeth Knox
Jeffrey A. Meyer CFA, CFP
Sharon Dunn
Robert Sayler

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Keeping It Real

Inflation has averaged 3.1% over the last 30 years. This might not seem like much, but this reported figure only tracks total goods and services purchased by the typical consumer. This is a good measure for the economy at large, but it may not be representative for individuals whose lifestyles and buying habits differ from the typical consumer.

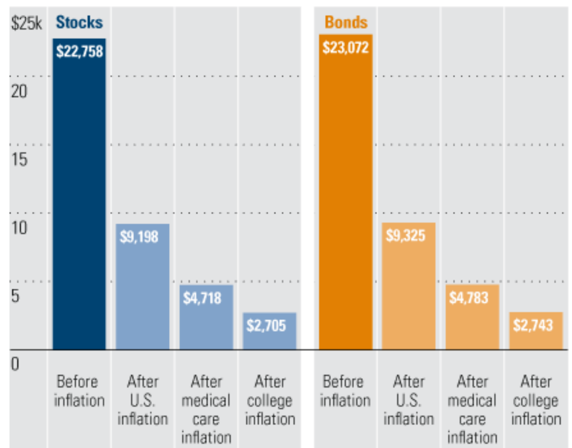
Goal-based investors may experience higher inflation. People who need to focus on savings for college or medical care may be left short, as the cost for such items often tends to rise at a faster rate than the average cost of living. Those investors might not be able to keep pace with rising costs if they do not take their real inflation rate into account when planning their investment goals.

The image illustrates the effect of three types of inflation on an investment of $1,000 in stocks and bonds: overall U.S. inflation, medical-care inflation, and college inflation. After 30 years, inflation has considerably reduced the wealth of the original investment. For example, the $1,000 invested in stocks and bonds only grew to $9,198 and $9,325, respectively, after adjusting for U.S. inflation. Alas, even more bad news for a family with children or a baby boomer nearing retirement.

Further, of the two asset classes considered, bonds provided more growth after inflation, which is unusual. Investors wishing to keep pace with inflation would typically consider a larger allocation to stocks or explore other investments that protect against inflation. However, due to the two major crises and associated stock market declines experienced during the "lost decade," stocks performed more weakly than bonds.

Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. Government bonds are guaranteed by the full faith and credit of the United States government as to the timely payment of principal and interest, while stocks are not guaranteed and have been more volatile than bonds. Holding a portfolio of securities for the long term does not ensure a profitable outcome and investing in securities always involves risk of loss. The rates used in the analysis and their corresponding compound annual growth rates are the consumer price index for: all urban consumers (CPI-U) (3.1%), medical care (5.4%), and college tuition and fees (7.4%).

Investment of $1,000 in Stocks and Bonds Before and After Inflation Rates, 1982–2011



Source: Stocks—Standard & Poor's 500®, which is an unmanaged group of securities and is considered to be representative of the U.S. stock market in general; Bonds—20-year U.S. government bond; Historical inflation—Consumer Price Index; Growth rates of CPI categories—non-seasonally adjusted U.S. city averages from the Bureau of Labor Statistics.

Mixed Income

Fixed-income performance reversals are common: It is extremely difficult to predict which category of bonds will be the best or worst performer in any given year. The performance of any fixed-income investment can have drastic periodic changes. Investors could potentially diminish their returns by attempting to follow last year's winner.

Furthermore, investors who have an asset allocation policy consisting of different asset classes such as stocks and bonds may still not be diversified. Therefore, branching out within each asset class may further lessen overall portfolio risk.

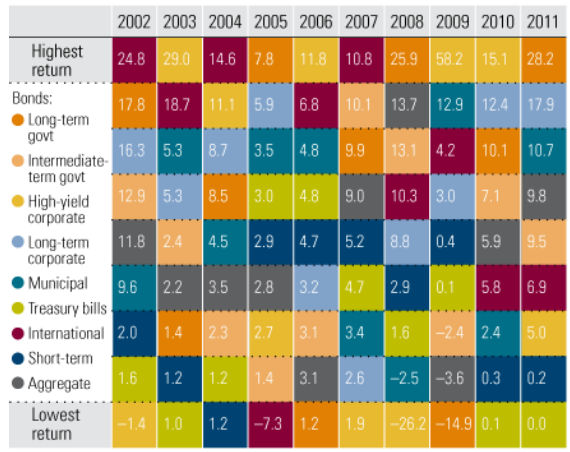
Diversified bond funds might alleviate portfolio volatility: The image illustrates the performance of various fixed-income instruments in relation to one another from 2002 to 2011. The data shows it is impossible to predict the winners for any given year. For example, high-yield corporate bonds were the worst performers in 2007 and 2008, but rose to become the best-performing investment in 2009 and 2010. While aggregate bonds have never been the top performer in any of the years examined, their performance has remained fairly consistent, with minimal swings when compared with other categories such as long-term and international bonds.

It can be beneficial to hold a fund that is diversified across several types of bonds. This might reduce portfolio risk while allowing for more consistent performance over time.

Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. Diversification does not eliminate the risk of experiencing investment losses. Government bonds and Treasury bills are guaranteed by the full faith and credit of the United States government as to the timely payment of principal and interest. With corporate bonds, an investor is a creditor of the corporation and the bond is subject to default risk. High-yield corporate bonds exhibit significantly more risk of default than investment grade corporate bonds. Municipal bonds may be subject to the alternative minimum tax (AMT) and state and local taxes, and federal taxes would apply to any capital gains distributions. International bonds are not guaranteed. International investments involve special risks such as fluctuations in currency, foreign taxation, economic and political risks, and differences in accounting and financial standards.

Fixed-Income Winners and Losers

Performance of Various Fixed-Income Investments



Source: Long-Term Government Bonds—20-year U.S. government bond; Intermediate-Term Government Bonds—5-year U.S. government bond; Treasury Bills—30-day U.S. Treasury bill; High-Yield Corporate Bonds—Barclays domestic corporate high-yield bond index; Corporate Bonds—Ibbotson Associates long-term high-grade corporate bond index; International Bonds—Citigroup non-U.S. world government bond index; Municipal Bonds—Barclays municipal bond index; Short-Term Bonds—Barclays short treasury index; Aggregate Bonds—Barclays aggregate bond treasury index. An investment cannot be made directly in an index.

How to Read a Prospectus

Mutual funds are required by law to provide significant (or “material”) information to investors in the form of a prospectus. A prospectus is a legal document describing the history, organization, management, operations, performance, and costs of a mutual fund.

Since legal jargon can make prospectuses difficult to understand, here is a list of important points an investor should keep in mind while reading a prospectus. It is strongly recommended that potential investors read and understand the prospectus before investing.

1. The document—how to obtain one: Mutual fund companies will mail you a prospectus for free. You can also contact the fund company by phone. Moreover, most companies now provide prospectuses on their websites—look for a section titled “Fund Documents” or “Literature.”

2. Investment objective/goals: This will probably be the first section you see right after the title. It describes, in one sentence, what the fund does and what it wants to achieve. For example, “The fund seeks long-term capital appreciation,” or “The fund’s goal is to provide attractive total returns on an after-tax basis.” Understand, however, there is absolutely no guarantee that the fund will meet its objective.

3. Investment strategy: The strategy section will tell you what the fund invests in and how it invests in order to achieve its objective. Statements like: “The fund invests at least 80% of assets in equities,” “The fund invests a minimum of 50% of assets in bonds” should give you an idea of where the fund places your money. Again, keep in mind that “a minimum of 50%” can mean 50% as well as 90%.

4. Risks: All mutual funds carry a certain amount of risk and you may lose money by investing. This section will describe in detail what kind of risks the fund will expose you to: market risk, large/mid/small company risk, interest-rate risk, credit risk, derivatives risk, liquidity risk, the list is endless. In summary, be prepared for all types of risk.

5. Historical performance: Here you will usually see a chart depicting the fund’s past returns. The representation of performance in these graphs can vary greatly (monthly, annually, since inception), and it is important to know how a fund has performed in the past, but use these numbers wisely. It is even more important to remember that past performance does not guarantee future results.

6. Fees and expenses: These are what the fund charges you to manage your money. Funds may or may not have front or deferred sales charges (commonly known as loads) and redemption fees. However, most funds have operating expenses, as well as management and administrative fees. Consider that no matter if your investment grows or declines, you will still have to pay these fees.

7. Share classes: A mutual fund might offer multiple share classes: different purchase options (into the same fund) with different investment minimums and fee structures. Common types of share classes can be designated by letters (A, B, C), or classified as R (Retail) or I (Institutional). The share class you choose to invest in will determine what fees you will pay.

In addition, the prospectus will tell you the name of the fund manager(s)—they are the ones who make all the important decisions about when and how to invest the fund’s assets. Some funds have a minimum investment requirement ($5,000, $10,000, and so on), which is something you also have to take into consideration. Other important details include how to open an account with the fund, how to buy and sell shares and how to contact someone for help, if needed.

The investment return and principal value of mutual funds will fluctuate and shares, when sold, may be worth more or less than their original cost. Investing in any mutual fund always involves risk of loss.

2012 Mid-Year Economic Outlook

While the U.S. economy continues to slowly recover from the 2008–2009 recession, there still remain many dark clouds, making it difficult to look ahead and navigate the investment landscape. The European debt crisis, slowdown in emerging markets, and U.S. debt problems are some of the causes for this challenging environment.

U.S. Economic Forecast

1. The outlook for the remainder of 2012 suggests a slow start before acceleration.

2. Real (inflation-adjusted) U.S. GDP growth is estimated at 2.0% to 2.5%.

3. Inflation is expected to slow in the range of 2% to 2.5% due to falling commodity prices.

4. Employment growth is expected to accelerate to 195,000 per month.

5. The unemployment rate is forecasted to drop to 8% or lower.

Potential Economic Drivers

1. Consumer spending

2. Housing and construction

3. Lower inflation

4. Automotive sales

Risks to Economic Growth

1. Inflation: drought could cause food inflation, driving prices skywards.

2. Consumer spending could outpace incomes.

3. European sovereign debt continues to play a key role in global financial markets.

4. Increased emphasis on the slowing manufacturing economy outside the United States.

5. Geopolitical issues: Financial markets have mainly been focused on the European debt crisis, the U.S. fiscal cliff, and the deceleration of the Chinese economy. However, investors also need to watch for other geopolitical risks, such as Iran and Syria.

Economic Data Suggests

1. Caution toward emerging markets, which are dependent on both Europe and each other.

2. Bonds look risky, as low rates will not stay forever.

3. Taking a closer look at U.S. wide-moat stocks, which are companies that have strong pricing power.

4. Taking a closer look at small-cap stocks, as they tend to have less non-U.S. exposure.

All of the above statements are based on Morningstar economists' estimates. Government bonds are guaranteed by the full faith and credit of the U.S. government as to the timely payment of principal and interest. Bonds have varying levels of sensitivity to changes in interest rates. In general, the price of a debt security tends to fall when interest rates rise and rise when interest rates fall. Securities with longer maturities and mortgage securities can be more sensitive to interest rate changes. Stocks are not guaranteed and have been more volatile than the other asset classes. Furthermore, small stocks are more volatile than large stocks and are subject to significant price fluctuations, business risks, and are thinly traded. International investments involve special risks such as fluctuations in currency, foreign taxation, economic and political risks, and differences in accounting and financial standards. Emerging-market investments are riskier than developed market investments.

Like A Fine Wine

Like a fine wine, a portfolio only gets better with age. Well, not exactly, but the longer your investment time frame is, the greater the chance that your portfolio will be able to build more value. This happens because of a little phenomenon called compounding: the ability of an investment to generate earnings from previous earnings, accelerating the growth of your assets over time. For example, if you invested a sum of money on January 1st this year, you will get interest on your money at the end of the year. Next year, you will get interest on your money and interest on the interest and, if this happens over many years, you have a chance of ending up with a portfolio as delicious as a bottle of perfectly aged Chateau Margaux.

SeaCrest Wealth Management
840 Mt. Rushmore Road, Suite 201
Rapid City, South Dakota 57702
jmeyer@seacrestwm.com
www.seacrestwm.com