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Beating the Index Verses Achieving Your Goals

By Christopher W. Beale, CFP®

The end of one year and the beginning of another is a good time to measure progress. The typical bench mark for measuring performance in our industry is the Standard and Poor's 500 (S&P 500) which is an index of the 500 largest U.S. based public companies. Many people still use the Dow Jones Industrial Average (DJIA) as the stock market benchmark. The DJIA uses 30 large U.S. companies for this index. According to the Wall Street Journal, for 2014, the S&P 500 returned 11.4% and the DJIA returned 7.5%. If you're wondering how your account did compared to these benchmarks you might see an underperformance this year. There may be many reasons for this but I think the main reason many of our model portfolios at New England Capital didn't keep up with the S&P 500 and the DJIA can be summed up in one word: diversification.

None of our portfolios invest in 100% large U.S. companies exclusively. Instead we invest not only in large U.S. companies, but small and midsize U.S. companies. We also invest in large and small foreign companies both in developed countries as well as companies in emerging markets countries such as India, Brazil, and China. Most portfolios will also include bonds which typically react differently than stocks, again for added diversification. We even have diversified our bond holdings by using U.S. government bonds, Treasury inflation protection bonds, foreign bonds, high yield bonds and municipal bonds. Cash or Money Market investments are a great diversifier to reduce risk and increase stability. Commodity funds, real estate funds and long/short funds are also used to increase diversification and reduce volatility.

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Life Happens – So Plan For It!

By Christopher M. Lee, CFP®

I don't know about you, but it always seems like the month of December flies by. Thanksgiving comes and then before you know it Christmas is here and you turn around and it's New Year's Eve. Life sure gets busy and it moves quickly. As I am now in my early 40's, I am seeing how quickly the days, months, and years go by. Country music star Kenny Chesney sums it up in a song, singing "don't blink, life moves faster than you think..."

Since this is the time of year when we often reflect on the previous year and make resolutions/ goals and possibly try to find balance in our life for the upcoming year, I feel the timing of this article is a good fit. Often in the articles that Chris Beale and I write, we refer to the phrase "life goals". In this article I'm going to talk about those life goals and how to create or refine them – and how to find balance in your life.

The first step, before creating those life goals is to take an inventory of where you are today. When life is busy, it's all too easy to find yourself off balance, not paying enough attention to important areas of your life. While you need to have drive and focus, taking this too far can lead to frustration and intense stress.

One of the tools that I have used for a while is called the "Wheel of Life". The Wheel of Life is powerful because it gives you a vivid visual representation of the way your life is currently, compared with the way you'd ideally like it to be. It is called the "Wheel of Life" because each

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Diversification, by definition, means investing in multiple asset classes. We want different parts of your account to zig while others zag. Fortunately, this typically helps our long term performance by smoothing out returns, reducing volatility and downside risk in your accounts. Unfortunately this great, prudent, long-term approach to managing money can make us look silly in the short term when we compare how we did verses a signal asset class like large U.S. stocks.

So your portfolio may not have “beat the market” as defined by the S&P 500 because parts of your portfolio underperformed compared to the S&P 500 in 2014.

Specifically the Russell 2000 (small US companies) up 3.5%; EAFE (foreign stocks excluding the U.S.) down 7.4%; EAFE EM (emerging market stocks) down 4.6%; S&P GSCI (the commodity index) down 33.1% -- but at least we are paying less money to fill our gas tanks. Finally, the cash position in New England Capital model portfolio's effectively had a 0% return which also dragged down our overall returns. Of course, your real estate fund returned more than 30% in 2014. So why didn't I just have all your money in that fund in 2014? First, I'm still perfecting my super human powers of seeing into the future, and secondly, I have a fiduciary responsibility to act prudently on your behalf which couldn't be justified by concentrating 100% of your money in one asset class.

An interesting thing happens when we look past a 1, 2 or 3 year time frame. When we review a full market cycle or a 10 year period, a well-diversified portfolio which reduces volatility and downside risk can actually outperform most individual asset classes. Also, while discussing goals with you, no one ever mentions “beating the market” as your goal. Our conversations with you center around three broad goals: accumulation of real wealth, protection of wealth, and the efficient distribution of wealth.

Please understand that we at New England Capital have extensively reviewed and studied our absolute and relative performance this year for lessons on how we can build our model portfolios and manage your money to serve you better. I can safely say that diversification will continue to be a key aspect of how we manage money this year and into the future. The main point of diversification is that no one knows with certainty what tomorrow has in store for us. Market timing, which we don't practice at New England Capital, implies knowledge and certainty about the future. This is the essence of diversification. As we begin this New Year, none of us knows whether stocks will outperform bonds, whether the U.S. or Europe or China will end the year in positive territory. Holding some of each is a prudent strategy since one can never predict these things in advance.

What I do see is a kind of boring, long, slow economic recovery in the U.S., a slow housing recovery and healthy, but not spectacular job creation. I see a less healthy Europe and stagnation and fear in southern countries of Europe, including Greece who will hold a national election for a new government this month. The steep drop in oil prices from \$107 per barrel in July 2014 to less than \$50 per barrel as I write today will save approximately \$14 billion to U.S. drivers annually, but hurt oil exporting countries like Russia, Venezuela, and some mid-east countries.

I also know that since 1875 the S&P 500 has never risen for seven consecutive calendar years. Could 2015 break the trend? I will be watching closely because it will make for a good story in January 2016. But of course I will be less interested in how one asset class does in any one year, as I will be interested in achieving your life goals.

“It's kind of fun to do the impossible.”

*-Walt Disney,
American Business
Magnate, Cartoonist,
Film Director, and
Philanthropist*

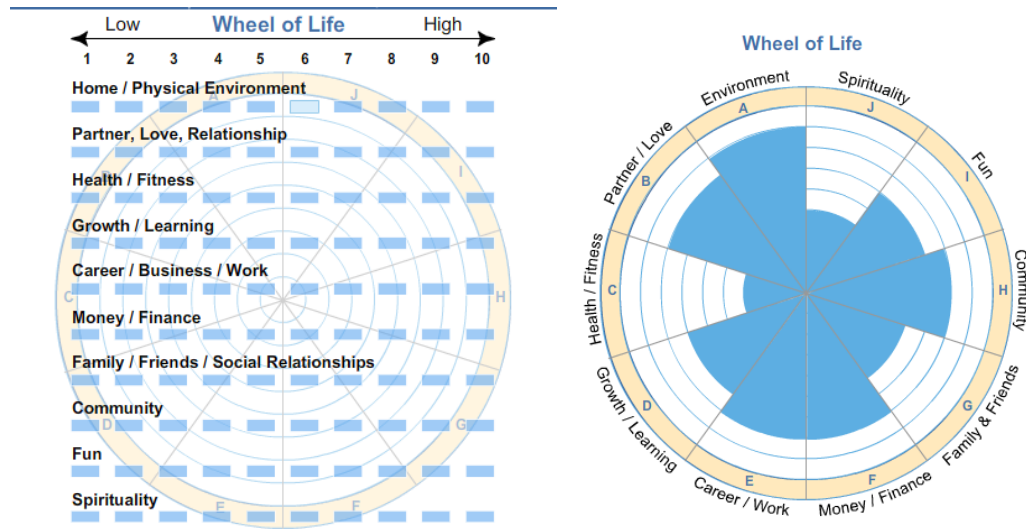
*“Be at war with your
vices, at peace with
your neighbors, and
let every New year
find you a better
man.”*

*-Benjamin Franklin,
Author, Politician,
Scientist, Inventor
and Diplomat*

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area of your life is mapped on a circle, like the spoke of a wheel. An example of how this works is below. You simply identify where you currently are on the scale, with 10 being the highest level of satisfaction (on the left):



“Do not Dwell in the past, do not dream of the future, concentrate the mind on the present moment.”

-Buddha,
Founder of
Buddhism

Once this has been completed, you can draw it on a “wheel” to see how it looks and if it is balanced by the example above (on the right).

Please note that a balanced life does not mean getting 5 in each life area: some areas need more attention and focus than others at any time. And inevitably you will need to make choices and compromises, as your time and energy are not in unlimited supply.

So the question is, what would the ideal level of attention be for you in each life area? Plot the "ideal" scores around your life wheel too. Now you have a visual representation of your current life balance and your ideal life balance. What are the gaps? These are the areas of your life that need attention.

Once you have identified the areas that need attention, it's time to plan the actions needed to work on regaining balance. Starting with the neglected areas, what things do you need to start doing to regain balance? Then, make a commitment to these actions by writing them down on a worksheet, which will get you prepared for setting your life goals.

The next step in setting personal goals is to consider what you want to achieve in your lifetime (or at least, by a significant and distant age in the future). Setting lifetime goals gives you the overall perspective that shapes all other aspects of your decision making. To give a broad, balanced coverage of all important areas in your life, try to set goals in some of the following categories (or in other categories of your own, where these are important to you):

- **Career** – What level do you want to reach in your career, or what do you want to achieve?
- **Financial** – How much do you want to earn, by what stage? How is this related to your career goals?
- **Education** – Is there any knowledge you want to acquire in particular? What information and skills will you need to have in order to achieve other goals?
- **Family** –How do you want to be seen by a partner or by members of your extended family?
- **Artistic** – Do you want to achieve any artistic goals?
- **Attitude** – Is any part of your mindset holding you back? Is there any part of the way that you behave that upsets you? (If so, set a goal to improve your behavior or find a solution to the problem.)

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- **Physical** – Are there any athletic goals or workout routines that you want to achieve? What steps are you going to take to achieve this?
- **Pleasure** – How do you want to enjoy yourself?
- **Public Service** – Do you want to make the world a better place? If so, how?

After you have thought about this and have created your "big picture" of what you want to do with your life, then you break these down into the smaller and smaller targets that you must hit to reach your life goals.

This is why you first start the process of setting goals by looking at your life goals. Then, work down to the things that you can do in, the next ten years, five years, then next year, next month, next week, and today, to start moving towards them.

Let us help you make 2015 a prosperous, balanced, manageable and life changing year! Some of the common goals we help people with at New England Capital are to help you to retire in x years, or if you are in retirement and have a goal to never outlive your money. In addition to that we have helped clients reach their goals of paying for college, leaving an inheritance, or making sure a surviving spouse is financially stable to name a few.

If you want more information or help on this goal setting along with a template, please email me at chrislee@newenglandcapital.com.

2015 IRA and Retirement Plan Contribution Limits

Roth IRA & Traditional IRA 2015 Limits	
AGE 49 & BELOW	AGE 50 & ABOVE
\$5,500	\$6,500

401(k), 403(b), and 457 Contribution Limits	
AGE 49 & BELOW	AGE 50 & ABOVE
\$18,000	\$24,000

Simple IRA Limits	
AGE 49 & BELOW	AGE 50 & ABOVE
\$12,500	\$15,500

SEP IRA Limits	
Max Dollar Allocation	Max Considered Compensation
\$53,000	\$265,000

IMPORTANT DISCLOSURE INFORMATION

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