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## Quarterly Economic Update

*“A problem is a chance for you to do your best.” – Duke Ellington*

### THE QUARTER IN BRIEF

A 2.10% June retreat left the S&P 500 down 0.23% for Q2 2015, putting an end to its 9-quarter winning streak. The quarter’s biggest economic events occurred in late June – Greece defaulted on its debt, the commonwealth of Puerto Rico said a default was imminent, and China’s stock market plunged. The Federal Reserve seemed committed to raising interest rates before the end of the year, even as it lowered its 2015 economic forecast. Spring brought more home buying, higher oil prices, improved hiring, and a number of encouraging signs that the economy was pulling out of a winter slump. Even with all those positives, the headwinds in the stock market were too strong to allow a broad advance.

### DOMESTIC ECONOMIC HEALTH

The second quarter saw the Federal Reserve revise its projections for 2015 GDP downward; the spring forecast of 2.3-2.7% growth was reduced to 1.8-2% growth. Its June 17 policy statement also signaled at least one interest rate hike later this year – but perhaps only one, as more Fed officials now believed the central bank should raise rates only once in 2015 with two calling for no move until 2016. It has long been thought that the Fed might raise rates starting in September, but futures markets disagreed as the quarter ended, envisioning the first move coming in December.

### GLOBAL ECONOMIC HEALTH

As early as April, there were indications that Greece might default on its debt. Then it missed a June 30 deadline on a €1.5 billion debt repayment, triggering a global stock selloff as investors glimpsed a crack in the framework of the European Union. The quarter ended with Prime Minister Alexis Tsipras and the ruling Syriza party announcing a July 5 national vote on whether Greece should accept further austerity measures as a condition of additional financial aid;

61% of the electorate voted no, opening the door to Greece’s exit from the EU and leaving EU leaders with a hard choice for July – either play hardball with Greece and risk a humanitarian crisis, or play softball with Greece and placate its people in a last-ditch effort to keep it in the eurozone. On July 6, the Guardian reported that the Greek banking system held only about €500 million, or about €45 per person. This was the last development the eurozone needed as it tried to mount an economic recovery from its recent recession. Syndicated financial columnist Humberto Cruz recently noted that when he told some fellow vacationers in Orlando that he wrote about financial planning, they all asked him if he gave stock tips. He had to explain that he was simply a journalist, not a financial planner.

### REAL ESTATE

What had been a lukewarm housing market transformed into a hot one. The National Association of Realtors provide ready evidence of that: after slipping 3.3% in April, existing home sales improved 5.1% in May to a seasonally adjusted annual rate of 5.35 million, the best pace in almost six years and up 9.2% year-over-year. New home sales rose 8.1% in April and another 2.2% in June according to the Census Bureau; that put their annualized sales rate at 546,000 (the best in seven years) and their year-over-year increase at 19.5%.

**How much planning have you done?** Retiring without a financial plan is an enormous risk; retiring with a financial plan that hasn’t been reviewed in several years is also chancy. A relationship with a financial advisor can help to bring you up to date about what you need to do, and provide you with more clarity and confidence when it comes to the financial future.

So don’t get caught behind the power curve! Schedule a meeting with your financial advisor to go over your retirement plan!

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# Did you know?



## Leo

Leo (♌) is the fifth astrological sign of the zodiac, originating from the constellation of Leo. It spans the 120-150th degree of the Tropical zodiac, between 125.25 and 152.75 degree of celestial longitude. Under the tropical zodiac, the Sun transits this area on average between July 23 and August 22 each year, and under the sidereal zodiac, the Sun currently transits this area from approximately August 16 to September 15. The symbol of the lion is based on the Nemean Lion, a lion with an impenetrable hide. Leo is followed by the Sixth astrological sign of the zodiac Virgo.

Hey Leo: roar your way through this today and this month!

## Quick Tips!

## Staying Healthy At Work

1. Be aware of mental fatigue, which is a signal that you should take a break and go for a walk.
2. After you take that stroll, spend some time cruising the web. Employees who did 10 minutes of surfing were found to be more productive and effective at their tasks.
3. Sit on an exercise ball instead of a chair, which will help posture and keep the abdominal muscles tight.
4. Setting an alarm to remind yourself to get up and walk around is also a simple and effective strategy.
5. It's difficult to avoid hitting the vending machines or indulging in a tasty treat in the office, but it helps to have pre-portioned snacks on hand.
6. It's also important to drink plenty of water to prevent dehydration and to keep muscles healthy.

## KSFA Recommends:



Orange County Fair  
Costa Mesa, CA

The annual Orange County Fair is the premier family attraction in Southern California offering a wide variety of exhibits, foods, entertainment, rides and hands-on activities. There is something for everybody at the Fair including the summer headline concert series, working farm and petting zoos, thrill rides, contests, and games.

Orange County Fairgrounds, Costa Mesa

# The Strong Dollar: Good or Bad?

What is dollar strength & who invests in it?

You may have heard that the dollar is "strong" right now. You may have also heard that a strong dollar amounts to a headwind against commodities and stocks.

While there is some truth to that, there is more to the story. A strong dollar does not necessarily rein in the bulls, and dollar strength can work for the economy and the markets.

The U.S. Dollar Index has soared lately. Across July 2014-February 2015, the USDIX (which measures the value of the greenback against key foreign currencies) rose an eyebrow-raising 19.44%.

On March 9, the European Central Bank initiated its quantitative easing program. The dollar hit a 12-year high against the euro a day later, with the USDIX jumping north more than 3% in five trading days ending March 10. Remarkable, yes, but the USDIX has the potential to climb even higher.

Before this dollar bull market, we had a weak dollar for some time. A dollar bear market occurred from 2001-11, partly resulting from the monetary policy that the Federal Reserve adopted in the Alan Greenspan and Ben Bernanke years. As U.S. interest rates descended to historic lows in the late 2000s, the dollar became more attractive as a funding currency and demand for dollar-denominated debt increased.

In Q1 2015, private sector dollar-denominated debt hit \$9 trillion globally. Asian corporations have relied notably on foreign currency borrowing, though their domestic currency borrowing is also significant; Morgan Stanley recently researched 625 of these firms and found that dollar-denominated debt amounted to 28% of their total debt.

So why has the dollar strengthened? The quick, easy explanation is twofold. One, the Fed is poised to tighten while other central banks have eased, promoting expectations of a mightier U.S. currency. Two, our economy is healthy versus those of many other nations. The greenback gained on every other major currency in 2014 – a development unseen since the 1980s.

This explanation for dollar strength aside, attention must also be paid to two other critical factors emerging which could stoke the dollar bull market to even greater degree.

At some point, liabilities will increase for the issuers of all that dollar-denominated debt. That will ramp up demand for dollars, because they will want to hedge.

Will the dollar supply meet the demand? The account deficit has been slimming for the U.S., and the slimmer it gets, the fewer new dollars become available. It could take a few years to unwind \$9 trillion of dollar-denominated debt, and when you factor in a probable rate hike from our central bank, things get really interesting. The dollar bull may be just getting started.

If the dollar keeps rallying, what happens to stocks & commodities? Earnings could be hurt, meaning bad news for Wall Street. A strong dollar can curb profits for multinational corporations and lower demand for U.S. exports, as it makes them more expensive. U.S. firms with the bulk of their business centered in America tend to cope better with a strong dollar than firms that are major exporters. Fixed-income investments invested in dollar-denominated assets (as is usually the case) may fare better in such an environment than those invested in other currencies. As dollar strength reduces the lure of gold, oil and other commodities mainly traded in dollars, they face a real headwind. So do the economies of countries that are big commodities producers, such as Brazil and South Africa.

The economic upside is that U.S. households gain more purchasing power when the dollar strengthens, with prices of imported goods falling. Improved consumer spending could also give the Fed grounds to extend its accommodative monetary policy.

How are people investing in the dollar? U.S. investors have dollar exposure now as an effect of being invested in the U.S. equities market. Those who want more exposure to the rally can turn to investment vehicles specifically oriented toward dollar investing.

European investors are responding to the stronger greenback (and the strong probability of the Fed raising interest rates in the near future) by snapping up Treasuries and corporate bonds with longer maturities.

Stocks can still rally when the dollar is strong. As research from Charles Schwab indicates, the average annualized return for U.S. stocks when the dollar rises has been 12.8% since 1970. For bonds, it has been 8.5% in the years since 1976. A dollar rally amounts to a thumbs-up global vote for the U.S. economy, and that can certainly encourage and sustain a bull market. This material was prepared by MarketingPro, Inc., and does not necessarily represent the views of the presenting party, nor their affiliates.

# Behavior Gap: The Talk/ What to Do About College

By Carl Richards

Carl Richards is the Author of The Behavior Gap: <http://www.behaviorgap.com/book/> More of his work can be found at BehaviorGap.com.

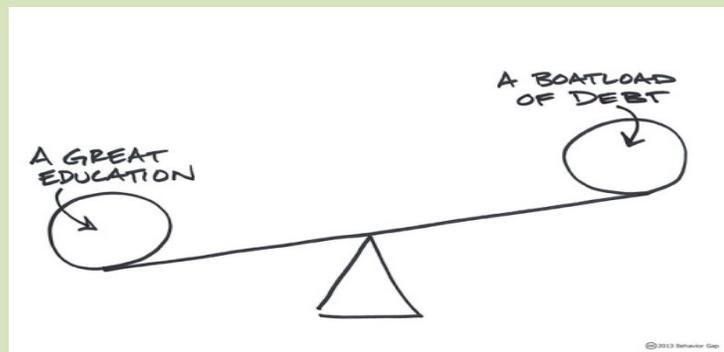
Last weekend, The New York Times published an op-ed by Lee Siegel. He defaulted on his student loans, and the story he shared generated a lot of feedback. The comments made it clear. People feel strongly about college and student debt.

"Why can't college cost less?"

"All this debt for a career just doesn't make sense."

"How can people walk away from their responsibility?"

"My credit is ruined because my kid defaulted on a loan I cosigned."



These stories are painful. They highlight both our desire to improve ourselves with education and the possibility that we might fail.

These stories also point to a huge conversation that many more teenagers and their parents need to have. I speak from experience. With one child just graduated and three siblings to follow, we've talked about college and the cost of college often.

We've talked about weighing options and understanding the trade offs. We've talked about what's realistic and what would be really nice, but probably unlikely.

These conversations have been hard. No parent enjoys asking a child to rethink a dream, yet if we're being responsible, we owe it to our kids to be honest.

There are serious problems with higher education. But at the moment, this system is it. We need to help our kids make the best decision possible. That's why I loved reading about Ronald Nelson.

He graduated from high school this year. An incredible student, Ronald applied and was accepted to all eight Ivy League universities. He also earned admission at Stanford, John Hopkins, New York University, Vanderbilt, and Washington University in St. Louis. This kid is amazing, but what might even be more amazing is the decision he made to attend the University of Alabama.

Yes, he passed up all those brand-name schools for a state university. This decision doesn't make a lot of sense until you consider that he got a full ride from the school and earned admission into the selective honors program.

While the other schools offered some financial assistance, their total cost made them unsustainable after the first year. Plus, Ronald was thinking long term. He's considering medical school, and the student loans for medical school are infamous. Graduating with six-figure debt isn't unusual.

So instead of using the college savings for his undergraduate degree, Ronald did the math and made the call to save that money for a time when scholarships and stipends might not be an option.

Not surprisingly, Ronald said that some people questioned his decision, but I love his reply.

"The Ivy League experience would certainly be something amazing, to make these connections, and have these amazing professors," he said. "But I really do think I'll be able to make the same experience for myself at the college I chose."

If you know a teenager struggling with the question of what to do about college, don't be afraid to talk to them. Share Ronald's story. Share Lee's story. Share the stories of everyone who commented on their stories. We need to have these conversations earlier and more often to avoid an education hangover later.



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