

Human Nature

A well-known indicator of small investor stock market sentiment is mutual fund cash flows. If more cash is coming in than is going out, sentiment is bullish and vice-versa. Mutual fund cash flows are used because institutional investors typically purchase individual securities and hedge funds to get their equity exposure while small retail investors typically favor the diversification of mutual funds. The theory is that small investors traditionally invest based on emotion (selling low out of fear and buying high out of greed). Therefore one should be cautious when money is flowing into stock mutual funds and aggressively buying when funds are leaving.

Consider the historical evidence. Through the end of 1999 there was NEVER a month in which mutual fund cash flows exceeded \$30 billion. Then in the year 2000 this occurred:

January 2000	\$44.5 Billion
February 2000	\$55.6 Billion
March 2000	\$39.9 Billion
April 2000	\$35.3 Billion

The market topped in March of 2000. The S&P 500 index declined roughly 45% over the next three years.

How about the crash of 1987? The single worst day in the history of the US stock market on a percentage basis. It took nearly 18 months for

the S&P to recover to its pre-crash level. Mutual funds were in net liquidation for 16 of those 18 months.

In 1990 the market topped in mid-July. Stock mutual funds were in massive net liquidations in August and September. The market bottomed on October 11. Then stock mutual funds had 94 consecutive months of net stock fund inflows. The market topped on July 17th. August saw the largest monthly net outflow in history: \$11.5 billion. The market bottomed August 31 and made a new high within two months.

It's been said that patience is a virtue when it comes to investing. I like to say that a strong stomach and a reasonable brain is more important.

Doug Lagerstrom

The way to become rich is to put all your eggs in one basket and then watch that basket. Andrew Carnegie

A big part of financial freedom is having your heart and mind free from worry about the what-ifs of life. Suze Orman

I believe that through knowledge and discipline, financial peace is possible for all of us. Dave Ramsey

In this world nothing can be said to be certain, except death and taxes.

Benjamin Franklin

Andrea Baird

I've been with Private Wealth Solutions for 8 years. Over that time we have added some technology that is available for our clients to use. Here are three of those services.

Mystreetscape.com – Offers your securities brokerage account from Private Wealth Solutions secure access to your financial information online. You can keep on top of account balances, positions, trade status and activity daily. To obtain access please contact Lynn @ office for a user name and ID to set up your account.

Portfolio One/Albridge Solutions - Offers a source for consolidated account information, allows you to easily generate and view your investment accounts in user-friendly reports. To obtain access please contact Lynn @ office for help to log on and provide you with temporary password.

KSI Secure Emails - Secure way for Private Wealth Solutions to send documents to you and back to PWS (Client not able to create new messages, but will be able to respond securely). When you receive your first secure email from one of us at the office you will be instructed to set up a password before you can view or respond. This password will be the same each time you receive secure emails from us. Any further questions please give Lynn a call @ office

If you have questions about the technology available to you, or if you would like assistance in using these features, please call or email me at the office.

Lynn Hillyard

The Unlucky Seven

Before I sat down to write this article, I compiled a list of dozens of mistakes I have either read about or seen investors make in the 22 years I have been a Financial Planner. I wish I had the space to share every single one of them with you. I narrowed my list down to what I feel are the top seven or as I like to call them “the unlucky 7”.

Chasing Performance-Statisticians will tell you that it takes many years to distinguish luck from skill. Nevertheless, some investors are swayed by a short-term hot streak. In all likelihood, truly outstanding performance is very difficult to replicate since the conditions that helped generate that performance rarely repeat themselves. Every year presents different challenges and opportunities that the previous one.

Overreacting to short-term events-I have talked about this for years. Many investors talk long-term, but act short-term. The result is often damage to the

integrity of a long-term financial plan and the purchase or sale of an investment at the worst possible time.

Failure to consider a comprehensive financial plan-Many investors get caught up in considering each of their investments individually or in isolation. A comprehensive plan can help reduce risk, help maximize diversification, and stand the test of time.

Desiring absolute returns during bad times and relative returns during good times-Although it would be wonderful to find a manager that always outperforms, in reality that rarely happens. Even Managers who deliver consistent returns with low risk cannot always outperform the market. It is very unrealistic to expect a manager to return 40% during a bull market and lose nothing during a bear market. The answer has always been the same, Diversification.

Hindsight bias-Consider the

following portfolio from 2007. Washington Mutual, Wachovia, Ford, and GM. Investing in these “admired” companies would have turned out to be a disaster in subsequent years. The key point here is that making an investment decision in a real-time setting is very difficult. Nevertheless, many investors assume, after the fact that an investment outcome (e.g., the crash of 2008/2009) should have been obvious at the time the decision was made.

Holding onto losing investments too long- Many investors refuse to sell a losing investment to avoid turning a mistake into a loss. In some cases, realizing a capital loss is the wise thing to do.

Selling winning investments too soon-Imagine purchasing Microsoft in 1986, only to sell it in 1987 for a moderate gain. As long as your fundamentals and goals have not changed, selling an investment early could have a negative impact on the portfolio.

Allen Minassian

Preparing Your Estate

For most of our clients the establishing of a living trust is a critical component of a sound wealth management plan. A Trust protects estates from probate courts and more importantly it ensures that one's assets are distributed as they intended after they have passed. There is the other part of estate planning the often gets little attention and that's the settlement process. Our lives have become more complex and so has the challenge of being an executor or successor trustee and the risk of error more costly. The threat of fraud in the area of financial administration is worse than at any time in my career and, to top it off, it's regulated in fragments by different agencies. From our experience an ill prepared estate can become a time consuming burden on the heirs and the executor and/or successor trustees.

Step into the shoes of the executor

Have a walk through. Start with the trust. Who does the successor trustee call first? Does the trust specify passwords, security codes, online login information for social network accounts?

Other Tips

- * Know where are assets held
- * Make sure all assets are held in trust.
- * Maintain a list of all accounts and include it with the trust documents.
- * Have a conversation with your heirs and/or executor.
- * Inform and in some cases educate them on how to deal with the multiple ‘agents’ involved and what they can or should do themselves. If part of the estate is going to a charity, they often required full and complete accounting its advised to have an accountant prepare this and not the attorney settling the es-

tate.

* Discuss how to distribute personal items that might have collective value. Items like: artwork, antiques, rare books, collectibles etc. It is not uncommon for rare books to be sold off pennies at a garage sale simply because the trustee was unaware of their value.

* Discuss expectations and access. Are they can handle this responsibility? Not everyone is prepared to handle the settling of your estate for multiple reasons, and those reasons could change through the years. If you have multiple investment properties in another state and your executor has new family they might not have the time or energy to step into that role.. In short, proper planning for the settlement of one's state is not just prudent, it is also courteous.

Kumbie Mtunga

Political Picture

Water is beginning to replace oil as the commodity of greatest concern to California citizens. This year promised to bring some much needed relief to our water reservoirs. However the El Nino conditions we anticipated didn't bring forth the expected precipitation. In a dramatic show of just how bad the snowfall has been, Governor Jerry Brown conducted a press conference earlier this month in a field of brown and green grass that is normally covered by five feet of snow. Since current technology cannot produce rainfall, we are left with a few less desirable options.

Restrict Building

The city of Goleta has been dealing with water shortages since I was a kid. Many years ago the city decided to restrict new development by not providing a water connection. You could build a home on your property,

but you needed to drill your own well to supply your home with water. Of course with the number of people currently in the state, this solution is a drop in the bucket.

Desalination

Some cruise ships use desalination to produce drinking water. After all, the ocean water is plenti-

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ful so why not take the salt out and use it. Currently the cost for this technology is prohibitive. The raw energy needed for this osmosis process also makes this option less eco-friendly than other options. However, the drought conditions are so severe this year that Santa Barbara

is spending \$40 million to modernize and reactivate the desalination plant that it shut down in 1992. If conditions worsen, other cities may follow suit.

Conservation

Voluntary conservation efforts began last year in an effort to stave off the crisis. However, with water levels declining further, the governor earlier this month ordered mandatory restrictions to impose a 25% reduction in water use. The specifics of this mandatory conservation effort will be left to the water agencies themselves. The restrictions will likely include car wash and sprinkler use restrictions.

Conclusion

As you can tell, there are no easy solutions to this problem. Perhaps we will get two or three years of healthy rainfall to help us out. The prudent move, however, is to deal with the problem now. Let's hope water consumers, producers and our state politicians have the courage to do so.

Spring 2015



PRIVATE WEALTH SOLUTIONS

Generational Wealth Management

Economic Outlook

The Federal Reserve Bank stopped buying US Government bonds in October of last year. Ironically as we have completed our QE program, Europe is beginning their own. With an eye no doubt toward the relative economic recovery in the United States, the ECB has announced they will begin buying bonds to keep interest down in Europe to help stimulate the economy. Because China, Japan and most of the remaining world is also pursuing loose money strategies, the US dollar has increased in strength. Aside from helping US tourists, how does the strong dollar effect our economy?

Corporations

Large US based companies that rely on exports to fuel their revenue will likely see a decline in sales as foreign buyers of their goods will see the cost rise. This decline in sales will likely lead to lower profits. Conversely smaller companies that rely predominantly on domestic demand will see their prices remain stable. Because many of these companies import their parts, they should see their overall costs decline and their profits increase.

Investors

A stronger US dollar could lead to an influx of foreign investment, particularly in our US government bonds. . When *investors* are *paying Switzerland* for the privilege of lending them money for ten years and Ger-

many is paying 0.25% for their ten year notes, a US government ten year note at 1.80% has appeal. Therefore, I believe until the global economy picks up speed, interest rates in the United States, par-

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ticularly long term interest rates, are likely to remain low.

Savers

We believe this group of people will continue to get the short end of the stick. Although many investors believe the Federal Reserve Bank may raise the federal funds rate later this year, the rate hike will likely be very gradual and measured, according to chairperson Yellen's recent comments. Banking clients and CD investors will likely suffer through interest rates below 2% for quite some time.

Conclusion

We are on the long, slow road to recovery. However, the problems in Europe and Asia are likely to make our recovery longer and slower than it otherwise would have been. The consolation is we are likely to experience a *longer* recovery as a result.

One in seven college borrowers defaults within the first two years, five times the delinquency rate on credit cards.

- *The Week*,
March 27, 2015

Americans are expected to spend roughly \$4 billion illegally gambling on the NCAA tournament this year - significantly more than the \$3.7 billion spent to influence the 2014 midterm elections. But the March Madness total was bet by roughly 40 million people, or 12.6% of the nation's population, whereas only 0.2% of Americans made contributions to the 2014 elections.

-*The Washington Post*,
March 21, 2015

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