

THE MAIN ADVISORY

Third Quarter 2015

Piecing It All Together

www.MainAdvisory.com

The view from 30,000 feet....

I normally write and edit the Main Advisory newsletter from my office or my dining table, but today is different. I'm 30,000 feet up somewhere over Iceland. The cloud cover is dense, so I can't confirm there is land below, but the GPS on the plane indicates we are over land.

I'm returning home from another wonderful time in Italy that was spent with two separate groups of friends. One week was spent showing our longtime friends from Blufton, SC through the countryside of Tuscany. Of course, no visit is complete without visiting Florence for a day. A day after bidding farewell to our southern friends, we were joined by



six comrades from my study group and their spouses. Typically our get-to-gathers are accompanied by a working agenda, but not this time. This was the culmination of lots of planning to fulfill a wish to attend the Palio horse race in Siena on July 2nd.

The Palio horserace dates back to the 1600s and is

one of the oldest competitions in Europe. The main square in Siena is converted into a racetrack and approximately 60,000 people crowd into the small space to cheer their designated rider and horse to the finish line. The ten horses must make three laps around the track and can win with or without a rider. The jockeys ride bareback and are assigned their horse less than two weeks from the race. There is way too much to describe about the race in this article, but I will say our horse came in last and the jockey fell off nearly in front of us on the second lap.

The absence of a work agenda didn't stop six financial advisors

from sharing thoughts routinely about the economy, efficiencies, capitalism, entrepreneurialism, taxes, democracy, central banks, a sense of pride and a dedication to family and community. Lightheartedly, we'd contrast the systems in the U.S. with those in Italy.

I find it to be very important to get away from the forest, so I can see the trees. It is so easy to fall prey to a "bubble" existence in the U.S., causing reality to be discolored. I love getting different perspectives that travel can offer. Reading the International Financial Times, the International version of the Wall Street Journal and watching CNN World where the U.S. doesn't dominate every headline gives me an opportunity to soul search and round out my thinking on economic subjects.

One vivid takeaway from this trip focuses on the impact of taxes, no doubt a subject that will be debated with the 2016 Presidential election on the forefront. In several instances while in Italy, we were told our group would be given a "special price" if we could pay in cash. With the presence of ATM machines in multiple places in the small hill towns, this was no problem. But why a discount with cash?

Restaurant owners are taxed at 66% of gross receipts before paying rent, salaries, buying inventory, and contributing to em-

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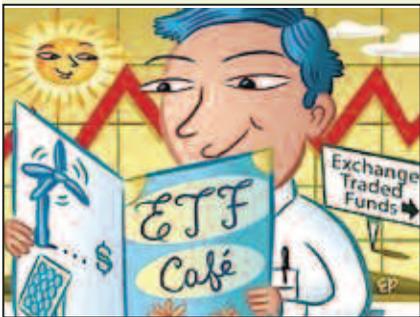
Assembling your financial puzzle one piece at a time.

New Kid On The Block...

The creation of a mutual fund of sorts can be traced back to a Dutch merchant named Adriaan van Ketwich whose investment trust was created in 1774. Ketwich theorized that diversification would increase the appeal of investments to smaller investors with minimal capital. The name of his fund, *Eendragt Maakt Magt*, translated to "unity creates strength".

Investopedia defines a mutual fund as "An investment vehicle that is made up of a pool of funds collected from many investors for the purpose of investing in securities such as stocks, bonds, money market instruments and similar assets. Mutual funds are operated by money managers, who invest the fund's capital and attempt to produce capital gains and income for the fund's investors."

Pooling of capital and spreading risk appeared in the United States in the 1890's, but the strategy took hold in the 1920's. The stock market crash of 1929 wiped out many funds and only a few small open-end funds managed to survive. This caused government regulators to take notice of the fledgling mutual fund industry. The creation of the Securities and Exchange Commission (SEC), the passage of the Securities Act of 1933 and the enactment of the Securities Exchange Act of 1934 put in place safeguards to protect investors: mutual funds were required to register with the SEC and to provide disclosure in the form of a prospectus. The Investment Company Act of 1940 put in place additional regulations that required more disclosures.



The mutual fund industry experienced ups and downs. There were 100 open-ended funds in the 1950's and the number doubled in the 1960's. But, the bear market of 1969 resulted in investors pulling money out at a fierce pace. Despite the outflow, mutual funds managed to survive.

The first index fund was created in 1971. The growth of mutual funds increased exponentially in the 1980's and 1990's. Perhaps, this can be attributed to the birth of the 401k retirement plans. It is difficult to believe, but the 401k plan regulations didn't develop until 1978. It wasn't until 1980 that employees were permitted to defer contributions from their income. Mutual funds were offered as investment choices for retirement plan participants.

Now, there is a "new kid on the block." Actually, the new kid has been around for a few years, but initially used by institutional investors. The new kid is known as an Exchange Traded Fund (ETF).



Darla D. Main, CFP®

**President and CEO
of Main Advisory, Inc.**

ETFs are growing in popularity with individual investors and their numbers are growing also. Most ETFs are passively managed to pursue cost-effective returns that generally correspond to the risk and return of specified indexes. However, there are a few actively managed ETFs being offered, but the numbers pale in comparison to those mimicking an index.

Exchange traded funds and mutual funds have similar characteristics yet distinct differences.

- A mutual fund must be purchased directly from a fund company and an ETF is purchased on an exchange such as the New York Stock Exchange.
- A mutual fund prices daily at the end of the market close. ETFs have intraday pricing and can be bought and sold throughout the day.
- Mutual fund managers do not share the underlying holdings on a daily basis. Creators of ETFs list the underlying holdings of the shares on their websites.
- Exchange traded funds have greater liquidity than mutual funds.
- Shareholders of ETFs recognize the gain and loss on the sale of shares of the ETFs. Mutual fund managers must distribute the gains made on the sale of the underlying securities in the fund to shareholders proportionately. Shareholders of mutual funds must recognize the gain/loss on the sale of the shares, too. Exchange Traded Funds, therefore, have greater tax efficiency.

The U.S. ETF market—with 1,411 funds and nearly \$2.0 trillion in assets under management at year-end 2014—is still small compared to the mutual fund industry of 7,923 and almost \$16 Trillion under management. It will be interesting to see how long it takes for the ETF assets to catch up to the size of mutual assets as interest increases from investors seeking diversification, tax efficiency and low costs. ■

The views are those of Darla Man and should not be construed as individual investment advice. All information is believed to be from reliable sources; however, we make no representation as to its completeness or accuracy. International investing may contain certain risks related to fluctuations in the value of the U.S. dollar relative to foreign currencies, economic, social, and political risks as well as differences in accounting procedures.

A New Face



I am very pleased to welcome Hilary Byers to Main Advisory. She came aboard in mid-May and is catching on very quickly to the daily activities and tasks, not to mention three separate software systems. She is enjoying the opportunity to meet our clients and friends in person and by phone.

Hilary grew up in a small town outside of Washington, PA where for many years her family owned the local market. Her customer service skills were learned at an early age while working for the family business. Her college experience focused on the area of human resources which transitioned her into the corporate world.

Hilary has a passion of helping others and has participated in many mission trips through her church. One of the most memorable trips took place a few days following Hurricane Katrina in New Orleans where she vividly remembers aiding families as they sifted through the remnants of their life.

She enjoys Sunday visits with her parents, weekly dinner and wine with her sister, and chasing her pup Penny around the house.

Please call Hilary if you have questions about:

- o Online access to your account(s)
- o General account questions
- o Year-end realized gains and losses
- o Address changes
- o Scheduling an appointment with Darla
- o A special occasion you'd like us to know about

"The Great Thing About New Friends Is That They Bring New Energy To Your Soul."

Shanna Rodriguez



The view from 30,000 feet.... *(continued from Front Cover)*



ployee pensions (a mandatory requirement). So, the restaurant owners could easily reduce our bill by 20-25%, pocket an additional profit and not report the sale. The tax burden has caused an underground type of economy to exist; an unintended consequence of over taxation.

No trip to Europe would be complete for me without a "Greek" crisis. I was in Athens in 2012 when Prime Minister Samaras was elected to reform the economy. He has long been gone and Tsipras, democratically elected from the Syriza Communist party, is now in charge. Greece is bankrupt and has been on life support for many years. For the past week, the banks in Greece have been closed. Citizens have been limited to a daily ATM withdrawal of 60 Euros (approximately \$72) per day but many ATM's are out of cash.

We sat in our hotel room in Rome late into the evening to watch the results and commentary of the Greek vote on the

referendum to accept the terms of the European Central Union and the International Monetary Fund or to reject. The citizens voted to reject the terms. Banks are teetering on the brink of closure. Uncertainty will ensue across the globe. As parties come together for more negotiation, a resolution may serve to calm market volatility in the short term, but the long term outcome is likely to be more of the same.

The next question is whether there will be a spill over into other countries such as Italy, Spain, France and Portugal, all countries with large debt and pension obligations. Our friends in Italy suggested that Germany was a big power dominating the stage. Germany has been the driver for reform and austerity for sure. Now, the fragility of the whole European system is to be watched closely.

I have no plans for another trip on the radar. For now, I'll have to savor the experience of the past two weeks and be always reminded that the U.S. is not an isolated economy but one inextricably dependent on the rest of the world. ■

STAFF NEWS

Darla Main - President, Main Advisory, Inc.



I have so much to be thankful for. My parents are now living 20 minutes away, so we have an opportunity to visit with them more frequently. My siblings and their families are coming from Texas and South Carolina in early August. This will be the first time we've all been together in over eight years. I've accumulated three grandsons in that timeframe, so there will be 17 gathered around the dinner table. Needless to say, I'm so excited for their visit.

My excitement doesn't end with the family get-together. By the time you receive the next newsletter, I will have another grandson. No, it is not in the cards for us to have a granddaughter. But, we are eager to welcome another baby Melious to the family. He is supposed to make a debut around September 27th. "G" and I will be on standby to hang out with big brother, Mason, while Mommy and Daddy are at the hospital. ■

Hilary Byers - Client Services



Getting a puppy seemed like a great idea when I was researching. I knew I wanted a small dog and ended up with an adorable little Maltese named Penny. While she's probably the cutest little ball of fur I've ever laid eyes on, she is quite demanding of my constant attention. I can't take one step without her little legs taking four steps to keep up with me.

On the positive side, she's become my companion at my parent's house for Sunday dinner and is quite fond of their very large golden retriever, Sophie. Penny weighs in at a whopping two pounds and has a bark that would make you think she's 102 pounds, so they are equally frightened of one another. She's already chased the mailman twice and unsuccessfully tried to make friends with a neighborhood cat. I think I may have underestimated the duties of being a puppy mom!! ■

THE INTRUDER



I only recall two things from my early WV history lessons: the state bird is the cardinal and the state animal is the black bear. Never in my life have I seen the black bear up close except for a visit to a zoo. This changed over Memorial Day weekend.

My husband, Glenn and I, were in WV to help pack my parent's home for their move to Pittsburgh. We packed many boxes, preparing for the moving company to load and transport. Sleep came easy after a day of unusual exercise. At 1:30 a.m., we were awakened by a noise of crashing and banging.

My mother knocked on the bedroom door and ask us to "come". At this point, we had no idea what was transpir-

ing. We ran to the back door and peered out to find the source of the commotion. To our surprise, there was a big black bear ransacking through the boxes we'd stacked only hours earlier. This 200 pound intruder was looking for food. He found a bag of flour and carried it to the driveway where he dropped it and returned for something more flavorful and tasty. Peering out the glass door, we watched him make three trips on and off the patio. He was aware of our presence, but must have known he had the upper hand in the situation. There was no way we were opening that door even a crack.

The bear eventually bored of the offerings in the boxes and sauntered off to explore other opportunities in the neighborhood. The neighborhood dogs soon turned up the volume and barked for a long while, so they, too, spotted the intruder. Returning to sleep was difficult after all the excitement, and you can bet no one was eager to venture out into the darkness from thereon. ■