

# PRAETORIAN<sup>SM</sup> GUARD



Praetorian Guard Quarterly Newsletter, 2nd Quarter 2015



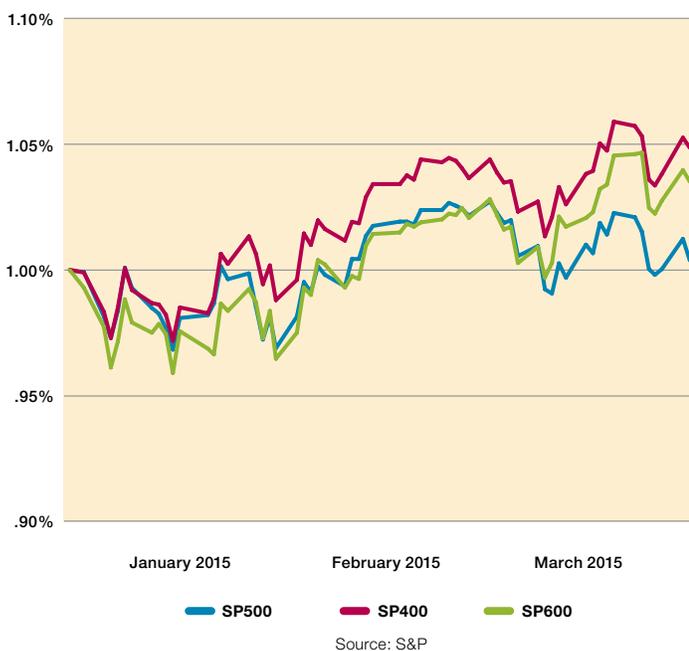
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THE BAD AND THE TRULY UGLY**

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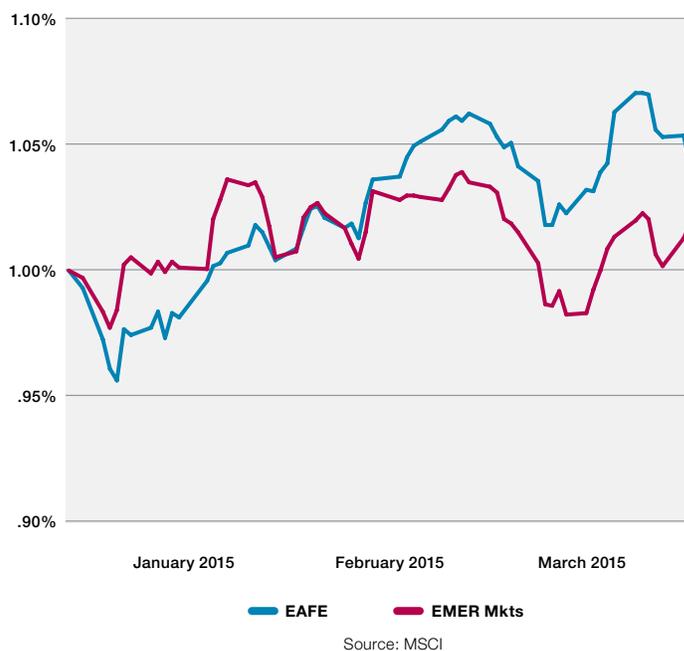
# FIRST QUARTER MARKET SYNOPSIS

It was a challenging start to the year for the equity markets in the United States. The major themes were a lack of direction (either positive or negative) for any sustained period and a collective sense of tension about when the Federal Reserve will finally raise rates. Impacting the economic data was the port strike on the western USA which will show some aftershocks in the second quarter data as well as another brutal winter season on the East Coast. Large-cap stocks, represented by the S&P 500, trended flat for the quarter and were unable to sustain back-to-back positive trading days throughout a period of 28 days (this has not happened since 1994 and only during one other period since the end of World War II).

**US Equity Market Performance Q1 2015**



**International Equity Market Performance Q1 2015**



The strength of the dollar had its largest impact on large-cap companies with greater than 50% of their earnings outside the USA - those companies saw their average share price decline almost 2.0% over the first quarter while large-cap companies with earnings primarily in the USA saw a +1.5% gain in the quarter. (Source: Charles Schwab)

Europe showed some signs of growth, survived another Greece showdown on debt without losing a Eurozone member (yet) and turned in generally positive market returns for the quarter. We are not yet bullish on the Eurozone, especially in light of the US dollar, which will continue to strengthen as the Federal Reserve tightens monetary policy later in the year.

Lastly, the price of a barrel of oil appears to have stabilized. In the last 9 months, the rig count in the USA has been declining and has dropped from more than 1,600 to just under 900. The least productive rigs have been taken out of service. US crude production has continued to climb to over 9 million barrels per day—however, we see this peaking in the second quarter and production plateauing. The largest unknown as of this writing is the ultimate fate of the P5+1/Iran negotiations as they approach the June 2015 final deadline (we really mean it this time) and if Iran's oil sector quickly re-enters the world markets.

## President's Commentary



We are about to see many in the financial world be diagnosed with a case of FRRIPS (the acronym for Federal Reserve Rate Increase Panic Syndrome). The symptoms include breathless parsing of every utterance of Janet Yellen; more analysis of what “could” happen than during the waiting period for either *fumata nera* (black smoke) or *fumata bianca* (white smoke) following a papal conclave; and more importantly, overreaction in the stock market to an event the Fed has been consistently saying is going to happen.

Our advice for the first in a series of rate increases (each of which we believe will be 0.25%) is the following:

Turn off the TV, take the dog for a walk, have a good meal with a good bottle of wine and relax. It will all happen again in six weeks following the Fed Open Market Committee meeting.

The objective for the Federal Reserve is to return interest rates to a “normal” level, allow the economy to adjust to each small increase and then get out of the way and allow the private sector to do what it does best: create wealth and expand opportunity.

## 401K PLANS: THE GOOD, THE BAD AND THE TRULY UGLY

They are virtually ubiquitous in the private sector (along with similar 403b plans for non-profits/schools and 457 plans for Government entities) as the vehicle for retirement savings for both owners, highly compensated employees and line/rank and file employees. However, the structure of YOUR plan may leave a lot to be desired. If you don't know what you are missing your retirement dreams may potentially be harder to attain.

EVERY 401k plan in the country has to be completely restated not later than April 30, 2016. Now is a good time to highlight some important provisions of these plans for business owners, employees and parents advising recent college graduates so they can ask the questions now to possibly influence the way their plan is structured for the next several years. Focus on these areas (which are by no means exhaustive):

- Is your plan designed for you to save for you, or attract talent for growing your business? Ideally, it is for both.
- Are you and your key employees able to contribute the annual maximum allowed (\$18,000 for 2015 and under age 50; over age 50 can add \$6,000 more) or are you getting money “back” each year? If your contributions are “returned” because the plan failed the non-discrimination tests, it is indicative of the need for revisions (which may include an “opt out” vs. “opt in” structure, the need for safe harbor contributions, or other options available in the plan design).
- Is there a Roth 401k option as part of the plan?
- If there is a Roth 401k option, can participants contribute after tax dollars to it?
- Are the rank and file employees participating? At what percentage? If they are not, why?
- Does your plan have a broad range of investment options or are you restricted to a smaller (possibly proprietary) list from the plan administrator?

Like many aspects of running a business, 401k plan design, administration and investment options are far too often not on the top of the To Do list for the owners. Our recommendation is to move it up—not necessarily all the way to #1, but definitely into the top 5.

This is a highly specialized area—search out a 401k design firm that does this exclusively. As with many aspects of business decisions, don't select on price only or you may well get exactly what you pay for and not be significantly better off at the end of the process.

Please contact Praetorian Guard if you are interested in improving your 401k plan and we can introduce you to firms who specialize in improving plans.



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## THE FIDUCIARY DEBATE: SEC VS. DOL

A noteworthy debate is currently underway between the Securities Exchange Commission (SEC) and the Department of Labor (DOL) regarding the type of advice provided to consumers by the various business models in the financial services industry. We have touched on this issue in previous newsletters and thought it timely to summarize the issue here.

### Questions to ask when engaging a financial advisor include:

- Will you act as a fiduciary on my/our behalf at all times?
- Is your firm a Registered Investment Advisor (RIA) or a Broker-Dealer? Warning: they are not interchangeable.
- What are the total fees and expenses I can expect to incur (yours and others involved in providing me advice and service)?
- Is your compensation model fee-only, fee-based or commission? Know the difference before you ask so you can effectively evaluate the answer.
- Do you or your firm have a financial interest in the custodian that maintains my/our assets? Why did you select to custody with this firm?

**The bottom line:** is the person/firm you are working with acting in your best interests (a fiduciary) or providing you with advice that is suitable (fits your needs and risk tolerance) but not necessarily in your best interest? When phrased that way, everyone can identify the model we prefer for ourselves. It should be that simple, but it's not.

## Simple is Beautiful



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## Closing Thought

All financial success comes from acting on a plan. A lot of financial failure comes from reacting to the market.

—Nick Murray