INVESTOR AWARENESS GUIDE

MONTGOMERY FINANCIAL SERVICES LLC

Spotlight on Investor Coach

JEFFREY D. MONTGOMERY

Q&A WITH AUTHOR & FOUNDER & PRESIDENT OF MONTGOMERY FINANCIAL SERVICES

PG. 8

3 Simple Action Steps to STOP Self-Destructive Investment Behavior

Once & For All!

PG. 13

HOW *We Work*

It's not about the money, it's about your life

PG. 4

The FISCAL BLUEPRINT

BUILD A STRONG FISCAL HOUSE TO HELP WEATHER A FINANCIAL STORM

PG. 16

table of Contents


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MONTGOMERY FINANCIAL SERVICES LLC
Investing Today for a Better Tomorrow

from The Editor

JEFFREY D. MONTGOMERY

FOUNDER & PRESIDENT OF MONTGOMERY FINANCIAL SERVICES

Dear Investor,

Get ready to embark on a journey! This is a journey into discovering how you really think about money. I have to warn you: some of this information may be a bit unsettling to you. I am going to challenge your long-standing beliefs and biases about how the financial markets really work, how much you actually pay to invest your money, and whether your broker is really working for you.

My mission in life is to coach investors in understanding what prudent investing truly looks like. I want you to realize that most of Wall Street and the financial media don't really have your best interest at heart. It's the investor's job to protect themself by becoming educated.

The good news for the investor is that you don't have to know everything as long as you know the right things. Reading this *Investor Awareness Guide* is a great start on your journey toward having more peace of mind about your money. Taking this journey and discovering the truth about investing is going to be a truly rewarding and eye-opening experience.

I hope you enjoy and remember to always stay focused!

My Best,

Meet My Team of Qualified Financial Professionals
who are passionate about helping individuals & families achieve their ideal retirements

Merrie McElrath
Marketing Manager & Event Coordinator

Matthew Danmyer
Financial Coach & Investment Advisor Rep.

Joani Gursky
Director of Operations

Jeff Montgomery
Owner & President

Nicholas Craven, CFP®
Vice President

Kristen Burns
Director of Marketing

Melanie Wootten
Operations Assistant

Edward Loftice
Senior V.P., Baltimore Financial Coach & Investment Advisor Rep.

How WE WORK

We Are an Ally on Your Journey Through Life

by
Nicholas Craven, CFP®

Why Us?

It's not about the money, it's about your life!

Choosing a Financial Planner or an Investment Advisor can seem like a daunting task to undertake. Many different variables need to be considered as to whether you are making the right decision to hire such a key individual who will impact your life in a significant manner. Everyone has their own set of criteria that will determine if they decide to work with a company or firm. It is imperative that one takes the time to weigh out the differences between companies and choose someone who is the best fit for them.

At Montgomery Financial, we strive to deliver reliable investment advice and guidance needed to live the life that you want to live by helping you to create wealth that will enable you to pursue your dreams. But there is more to our firm than just investing and dollar amounts; we are an all-encompassing financial firm who strives to be an ally to you on your journey through life. We are an asset and an ongoing resource to you, and we hold ourselves to the highest level of standards in terms of professionalism, reliability, and service.

There are key distinctions and qualities here at Montgomery Financial that we believe could be to your advantage if and when you decide to work with us and join our 'family.' While there are a number of reasons that we believe differentiate us from other companies, here are a few that we want to highlight for you to consider…

Fiduciary Standard

As a Registered Investment Advisory Firm we operate under what is called the 'Fiduciary Standard.' Simply put, to act in the capacity of a Fiduciary it is one's legal obligation to put the client's interests above and before their own. A Fiduciary is legally obligated to have your best interests at heart when making decisions on your behalf and it is one of the highest standards that a professional can be held accountable to in the financial services industry. This is in stark contrast to most brokerage firms that do not operate under this legal standard.

At Montgomery Financial we take our duties as a Fiduciary with the utmost seriousness and prioritize this obligation before anything else. We do this because we truly want to protect you from unethical investment practices and ensure that the advice you receive is what is best for you and your loved ones.

Trust-Based Practice

Our relationship with you is built on trust. Being able to trust in your advisor is a crucial deciding factor as to whether you can work together or not. You need to have an advisor that not only possesses integrity and a sound moral compass, but someone to whom you can rely on and go to when in need of advice.

Think of your relationship with us as similar to that of a doctor-patient relationship. You need to be able to trust our recommendations and advice just as you would your own doctor. Also note that we are a trust-based firm in terms of confidentiality. Similar to that of a doctor, all your private and sensitive information will always be kept confidential.

Holistic and Comprehensive

Montgomery Financial Services is more than just your investment advisor. While the first step in assisting you does pertain to the management of your assets, this is not the only role we fulfill as your financial coach/advisor. We take a holistic approach when it comes to servicing our clients. Our services include, but are not limited to, assisting clients in the following areas:

- **Investment/Asset Management**
- **Retirement Planning – IRA/Roth IRA**
- **Insurance/Risk Management**
- **Income Planning (Social Security/Pension)**
- **Tax Efficient Planning Strategies**
- **Employer Savings Plans – 401K Advice**
- **Healthcare Cost Planning**
- **Estate Planning Recommendations**

It is imprudent to solely be a 'money manager' and focus on only managing accounts; at Montgomery Financial we are comprehensive financial planners who like to assist you with the whole picture and not just fragmented pieces.

Unbiased Advice

Going hand in hand with being a Fiduciary is our pledge to always be unbiased in our recommendations and advice. We will never steer you away or towards a financial product or strategy for our own gain, rather we will guide you based on what is in your best interests.

Our motives for implementing a specific strategy or product is completely in line with your well being. It is mutually advantageous that we are independently owned and operated, as we are not incentivized to utilize a specific company and sell their products. This also means that we do not employ the typical sales tactics that some firms engage in. We firmly believe in planning first and product second.

Nicholas Craven, CFP®

Fee Transparency

Montgomery Financial is completely Fee-Transparent. Transparency is important in all aspects of financial planning, however, it is especially important when it comes to investment management. Our firm operates in a fee-based manner and all fees are disclosed up front with no hidden costs or commissions.

Clear Decisions and Guidance

As your Advisor, it is our job to provide sound investment advice and counsel when it comes time to make important financial decisions. Our firm will always strive to supply you with the right answers to questions asked and it is our commitment to continually educate ourselves on relevant topics in order to best serve you in an industry environment that is perpetually changing. Any recommendation made to you will be backed by research and evidence to ensure that the right choice is being made for you and your specific situation.

However, as your Advisor, we will never make a recommendation without first receiving your input. It would be imprudent to advise you on decisions that you had no part or say in making and that is why our planning process is collaborative; a system in which we co-design your financial plan together.

Resources and Tools

With our services comes a large number of resources and tools at your disposal. First and foremost, you will have unlimited access to a wealth of knowledge in the form of your Montgomery Financial Services team. You can rest assured knowing that you will always have access to our knowledgeable staff for whatever questions you may have that come about as a result of the unpredictability of life. Additionally, our firm has access to state-of-the-art technology and financial software that we utilize to better serve you and take the guesswork out of financial planning. As a courtesy, you will also gain access to this interactive software as a client.

Our ability to run reports, projections, and analyses on your behalf will keep you in the best position when it comes time to making educated decisions, and more importantly, will help you to achieve peace of mind when it comes to your finances.

A 5-Star Experience

At Montgomery Financial we strive to provide a client experience like none other. We want you to feel as if you are our only client, because that is the sort of attention that we provide to each and every one of our clients. As a smaller firm, we are provided the luxury of being able to focus our attentions in this way while still having the capacity to provide the same services that a big named company can provide. However, unlike a big named company, you will not just be a 'number' in our eyes, but rather a part of our family.

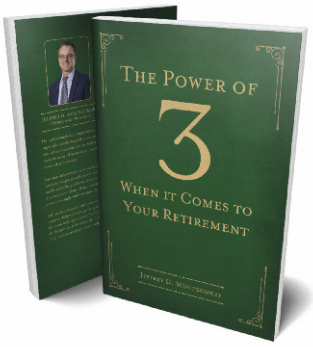
As a part of our commitment to excellent service our firm also prioritizes clear communication with our clients. Accessibility to our financial professionals is never an issue, as we implement an 'open door' policy when it comes to meeting with our staff. We also have a '24 hour rule' regarding the response time to any correspondence from you whether it be via phone call or email.

Education is one of our core values here at Montgomery Financial. As a client, we will continue to educate you and share our knowledge of investing in order to help you obtain and achieve complete financial peace of mind. We complete this goal by educating and coaching through our podcast, *The Fiscal Blueprint*, our educational videos, and our quarterly coaching classes. Our goal is to educate you to where you can enjoy the wealth that you have created and live the life that you want.

We have a saying in our office that 'it's not about the money, it's about your life,' and we sincerely believe that financial stress and worry doesn't belong in the minds and hearts of our clients. As we continue our journey together, know that there is always a team of people monitoring your accounts and striving to ensure that you stay on track towards completing your goals.

[1] Montgomery Financial Services is not a Certified Public Accountant Firm
[2] Montgomery Financial Services is not an Estate Planning Attorney of Law

Q&A



JEFF Montgomery

- Founder & President, Montgomery Financial Services
- Investment Advisor Representative & Investor Coach
- Holds a Series 65 securities license, as well as, Life/Health & Disability licenses in MD, DE & FL
- Author, *The Power of 3 When It Comes to Your Retirement*

Jeff is passionate about coaching and educating retirees to help them achieve a greater understanding of risk & reward and how creating a comprehensive plan for retirement could achieve greater peace of mind. Jeff works as a Financial Coach and Investment Advisor Representative through his Registered Investment Advisory firm, Montgomery Financial Services LLC. The dynamic process gives Jeffrey's clients the opportunity to reach higher levels of peace of mind and wealth, while eliminating unnecessary confusion and anxiety. He accomplishes this by engaging his clients in a process that combines a comprehensive financial analysis of their current portfolio, Nobel Prize-winning investment philosophy, and educational events to teach the discipline necessary for a lifetime of investing success.

Jeff, What is it that motivated you to choose the financial industry as your profession and become a financial coach?

It really goes back to my childhood. My family ran into some hard financial times during the recession of the mid-70s. My dad owned a building business that went under and we almost lost our home. My mom had to go back to work full-time just to make ends meet. Looking back, this greatly impacted my life and the decisions I made. I decided I wanted to learn everything I could about recessions and how the economy works. I chose to get my degree in economics and business and graduated from Towson University in 1991. I chose to become a coach because I really do believe financial coaches can help people achieve their dreams. That, to me, is what makes this an exciting and worthwhile profession. I think everyone deserves the chance to make their own dreams come true and money is usually a part of that, so if I can help people make the right choices about investing and achieving those goals, that is a career well spent.

What was the hardest lesson you had to learn about the investment industry?

The hardest lesson I learned is that the industry at large really doesn't have the best interest of the client at heart. The big brokerage firms and the financial advisors that work for them are really in the business of selling products. Chances are those products are good for the advisors but may not be good for the client. What really helps the client is an investment strategy that does not rely on predictions to be successful. Prudent investing and discipline really pays off in the long-run. Chasing what's hot or the latest and greatest investing gimmick leads investors to make very poor decisions that can have devastating results to their long-term success.

What are the biggest mistakes you see investors make with their investments?

The biggest mistake I see investors make is making changes to their portfolio or their investment strategy based on the emotions of either fear or greed during short-term market conditions. This could look like the investor jumping out of the market during a bad market cycle or chasing after performance of an investment that recently did well. The emotions of fear and greed and the behavior that follows typically leads to performance losses that can be hard to recover from. Sticking with a prudent strategy and hanging on through tough market conditions can produce great results for investors.

What is different about the investment industry now from when you started?

I thought that long-term, prudent investment strategies would become the mainstream of investing for individuals because there is so much academic evidence to prove that it works. Unfortunately, I was very wrong. Technology has made investing into a game for many people and it saddens me to know that by online trading, lack of understanding, and reinforcement from the media that investors are gambling away their futures.

Does your approach to investing work for everyone?

My approach works for people that are willing to take the time to learn and be coachable. It works for people that want to learn what I call the 'what, why, and how' of investing. That is, 'what' kind of investments make up a prudent strategy, 'why' those investments are chosen, and 'how' those investments are expected to perform over time. My approach works for people willing to stick with it and be coachable. It works for people who want to be involved in the process and understand it.

How do you coach investors to stay disciplined with their investment strategy?

This is achieved through consistent education and community. One of the most rewarding things about my career is getting together with all my clients, in a classroom setting, and teaching a class on a regular basis. It connects my clients with me in a way that I don't think many other investment firms do. It always helps to know that you aren't in it alone. By bringing groups of investors together to learn and understand their investment strategy, we are building a support structure for sticking with the program.

What's the most important thing for investors to know about the investing process?

The good news is you don't have to know everything as long as you know the right things. We're bombarded with investing information and it's hard to ignore it all. Most of it is useless and harmful to the investor's state of mind. I also think people don't realize that investing is really a lifelong process. I don't know many people that hit some magical age of, let's say, 75 or 80 and withdraw all of their money and put it under the mattress. It may sound daunting, but true success comes from a lifetime of investing and sticking to a prudent investment strategy in good times and bad.

What kind of people or clients do you regularly work with?

I work with people who are motivated to achieve their financial goals and are willing to let me help them. It doesn't matter how much money they have, it's all about their willingness to admit that they may not know what they don't know. That sounds crazy, but it's not easy to admit that you may not know everything and that 'you don't know what you don't know.' Not everyone is coachable and willing to do the work of understanding their investment strategy in order to get the results they want.

What is the first step to getting started in this process?

The first step is understanding that there may be a better way to invest your money. Letting go of pre-conceived notions and a willingness to explore a different approach is a great start. The second step is to do a complete inventory of your current investment situation – really analyze where you are with your investment strategy, what you have done in the past, what has worked, what hasn't, and determine what results you need to achieve. Being a successful investor is something that anyone can do with the right tools, strategies, and knowledge. I look forward to helping investors achieve their financial goals for years to come.

The MYTHS *of* INVESTING

by Matthew Danmyer and Jeff Montgomery

Have you ever thought about the greatest myths that have been propagated throughout society for centuries? Universal myths like, "the world is flat, you'll sail off the edge!" On the surface this seems like a ridiculous belief, but centuries ago it was widely held, cropping up in various cultures separated by thousands of miles.

Myths of all shapes and forms continue to exist and spread throughout society to this day. Typically, a myth is no longer believed by society when contrary scientific evidence is presented.

Most myths cause little to no harm to individuals and society as a whole. Unfortunately, this is not the case when it comes to the "Myths of Investing." Belief in these myths can have devastating effects on an investor's peace of mind and ultimately, negatively impact the success of their individual investment goals.

I'm not only talking about a goal like accumulating more money or growing your wealth. I'm talking about your important LIFE goals! The goals that ultimately really matter when it's time to check out of this world. Goals that help you achieve a life of abundance and gratitude rather than scarcity and regret. Let's face it, we all entered this world with no possessions and we'll leave with no possessions. It's all about the relationships and experiences we share with our beloved friends and family that really matter. Goals like spending time with your grandchildren rather than working to make ends meet in retirement, goals like traveling the world and exploring different cultures and what the world has to offer, goals that fulfill core values like freedom, adventure, love, and independence. This is the stuff that matters! And believing the "Myths of Investing" can destroy those dreams.

What are these investing myths and how can you protect yourself from harm? **In short, the 4 basic myths of investing are:**

1) **Stock Picking**
2) **Track-Record Investing**
3) **Market Timing**
4) **The Hidden Costs of Investing**


Matthew Danmyer

Myths 1 and 2: Stock Picking and Track-Record Investing

The myths of stock picking and track-record investing are close cousins. Combined, these first two myths are also known as the "Myth of Skill."

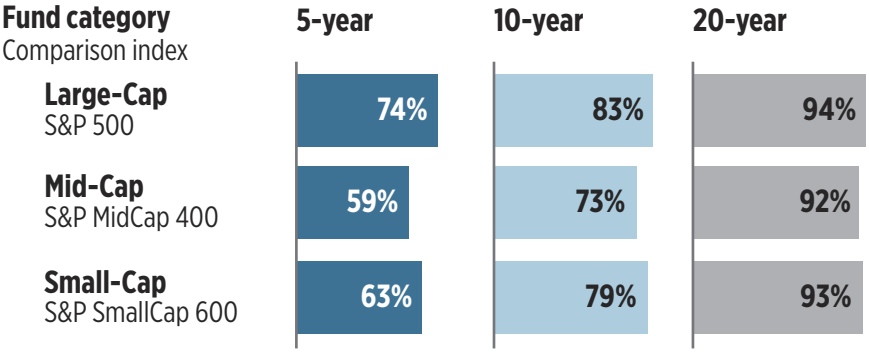
The myth of stock picking is defined as the belief that a person, whether that be an individual investor, stock broker, hedge fund manager, television guru or some other so-called expert, can consistently and predictably exercise superior skill in stock picking. The idea is that with this superior skill you can increase the returns of your portfolio by picking the best stocks in advance.

Track record investing is simply looking at the past performance of the so called "market experts" to determine your investment decisions for the future. On the surface this seems logical, but we all know that past performance of market experts have zero correlation with future performance.

The Way to DISPEL a Myth is to Present Academic Scientific Evidence to the Contrary.

Lagging Behind: *Few actively managed funds have kept pace with market indexes in recent years, new data shows.*

Percentage of U.S. equity funds underperforming their benchmarks



Note: Data as of Dec. 31st, 2021. Source: S&P Dow Jones Indices; SPIVA U.S. Year End 2021 Scorecard.

Take a look at the table above which highlights 20 years of data comparing the S&P indices versus the active funds scorecard. Specifically, over those 20-years that ended in December of 2021, 94% of all actively managed U.S. funds trailed their respective benchmarks. The results are similar for managers that try to pick the mid-cap and small-cap stocks.

Why do investors so often use past performance to make their investing decisions? My argument is that most investors have never been presented with an alternative on how to make investing decisions. Let's face it, you don't know what you don't know!

I believe that if investors were presented with the rigorous peer-reviewed academic evidence to the contrary they would rethink their entire investment philosophy and strategy.

From a simple statistical standpoint, the chance of these market experts beating the respective market index year to year is no greater than that of simply flipping a coin. Heads you beat the market, tails you don't!

Why would you want to own only a few stocks in your portfolio in the first place? Every day investors choose to take considerably more risk without the advantage of additional return. They do so by inadvertently purchasing individual stocks through actively managed mutual funds instead of diversifying their risk by buying a basket of the stocks available in passive structured asset-class funds. They may even choose a mutual fund with the expectation that the fund is highly diversified only to learn that the fund manager, through an active management strategy, is buying and selling thus turning over the portfolio at a ratio of 90% or more.

Definition of Turnover:

The percentage of a mutual fund or other investment vehicle's holdings that have been 'turned over' or replaced with other holdings in a given year.

When the Wall Street gurus, prognosticators, and the talking heads on all the financial TV shows are correct about their predictions, they attribute their success to genius and skill. In reality, it is simply luck.

Convincing the investing public that they have the ability to pick the best stocks in advance, consistently and predictably, is the key to their success and they know it.

There is a mountain of peer-reviewed academic evidence as to the lack of skill actively managed mutual fund and stock picking experts exhibit. If you take the time to explore all the evidence, it is truly eye-opening!

My advice is simple, and I have 3 action steps to take NOW:

1) **Become educated on this viewpoint (read Daniel Solin's book, *The Smartest Portfolio You'll Ever Own*).**
2) **Work with an Investment Coach that will take the time to educate you.**
3) **Don't confuse luck with skill!**

Myth 3: Market Timing

Have you ever asked your advisor these questions?

- **Is now a good time to get in the market?**
- **Should I wait until after the election to invest my money?**
- **The market is at an all-time high – should I get out?**

Plain and simple, if you have ever asked any of these questions then you are participating in the myth of market timing and probably don't even realize it.

The problem with these questions is that they all require a prediction about the future to be successful. It's just like using a Magic 8 Ball to make investment decisions! These are the same investment decisions that you are relying on to fulfill your biggest retirement dreams and life goals that we spoke about earlier in this article. Why would you ever take that kind of chance with your retirement future?

The problem with trying to time the market is simple, you must be right TWICE for it to be successful! You not only have to know when to get out of the market at the right time, but you also have to know the right time to jump back in. This is an almost impossible task to achieve consistently over time!

There are many so-called "market experts" all too willing to give you a plethora of fancy predictions about the future of the market. They write books, publish articles in magazines, and appear on CNBC or Fox Business on a daily basis.

These market "pundits" actually announce that they know tomorrow's news today! Their predictions vary widely, but typically involve telling the audience which way the market is heading over a certain period of time. Don't fall prey to these modern-day snake oil salesmen!

Staying Invested in the Market

To show you the power of staying invested throughout the ups and downs rather than trying to time the market, take a look at the two charts below. Investors may wonder during periods of major declines in the market, whether it makes sense to do nothing and stay put. It's extremely important that investors put these ups and downs in a larger context. The first chart shows the compound returns of the S&P 500 index from 1926-2021 AFTER A 10% market decline took place. The following 1-year return was positive, recording an average annualized return of 12.5%. The 3 and 5-year returns were not far behind clocking in at an amazing 34.5% and 68.8% respectively.

What's even more compelling are the average annualized returns after the market reaches an all-time high. The second chart, again, tracks the S&P 500 from 1926-2021 and displays compound average returns after the market reaches a new high. As you can clearly see, the following 1-year average annualized return was a whopping 14.1%. The 3-year and 5-year average annualized returns after the market reaches a new high were 10.7% and 10.1% respectively.

This is extremely powerful evidence that completely destroys the Myth of Market Timing. What should investors do in light of this powerful evidence?

Follow these 3 action steps:

1) **Focus on the long term and not the current market high or low.**
2) **Ignore the market pundits, they do not have a crystal ball!**
3) **Resist the urge to act! Diversification, discipline, and rebalancing should be the only "actions" to consider.**

Myth 4: Hidden Costs of Investing

Have you ever tried to figure out exactly how much you're paying to invest your money? I'm not talking about the fees that are disclosed on your statement or even the fees listed in your prospectus. I'm talking about the hidden fees. These are the hidden costs of investing, and the myth is, what you don't see can't hurt you. But we all know the truth, don't we? What you don't see CAN hurt you!

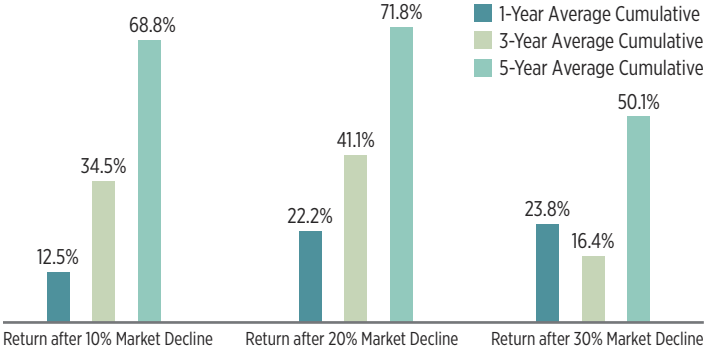
I think most investors have no idea what active management is really costing them. There are numerous studies that examine the true cost of investing with the active management strategy. In his book, *The Smartest Portfolio You'll Ever Own*, Daniel Solin cites a study done by Ross Miller titled "Measuring the True Cost of Active Management By Mutual Funds." The study found that the real cost to investors for all the funds tracked by a major database was 5.2% per year. This amount is far higher than the expense ratios reported. As a matter of fact, there are numerous other fees that are not even listed in the prospectus of the investments. Fees such as the bid/ask spreads, commissions, market impact, and revenue sharing costs.

Another study titled, "The Cost of Active Investing," by Kenneth French, compared the cost of active investments versus passive investments. The results were astonishing! Active investors, which include approximately 90% of individual investors, could have increased their average annual return by .67% per year over the 1980–2006 time period. Simply by switching from an active portfolio management style to a passive portfolio management style your compounded returns may increase dramatically.

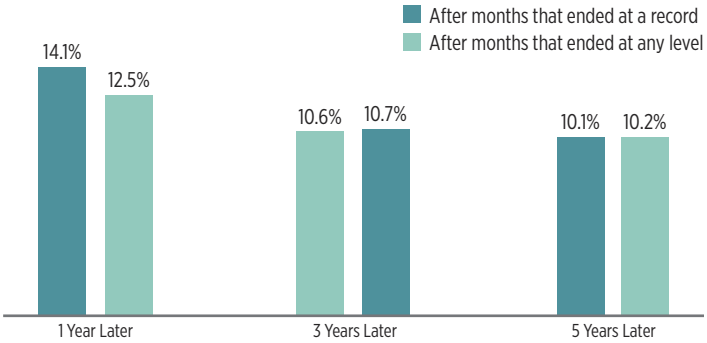
What do these hidden costs total each year? It has been estimated that active management costs investors over $80 billion each year. An industry that has $80 billion a year pouring into its coffers has little incentive to stop the very thing that is bringing in the money.

What does all this add-up to for the investor? The bottom line is most investors are paying huge bucks and getting lower returns in exchange. Now that we've gone over the myths of investing, it's time to explore the truths!

Total US Market Research Index Returns July 1, 1926–Dec. 31, 2021



Average Annualized Compound Returns of the S&P 500



The TRUTHS of Investing

Learn the 3 Simple Action Steps to Achieve Investment Success

by
Jeffrey Montgomery

The truth is that market rates of return are easily obtainable!

The Dalbar Corporation does massive studies on investor behavior and investor results. They now have data going back over 30-years. They've been conducting this study since 1984 and update the data every year. If you look at the chart on this page you will see the S&P 500 market rate of return has averaged 10.7% per year from 1991 to 2020. However, the average investor has made a dismal 6.24% per year over that same time period. When you factor in inflation during that time period of 2.25% the average equity investor is only earning a 3.99% return before taxes.

The reasons for this poor performance are numerous, but many are directly related to stock picking, market timing, and track-record investing strategies we discussed earlier.

What if I could show you a way to capture the power of the capital markets, obtain market rates of return, possibly reduce your investing stress, AND create true peace of mind at the same time? My guess is that most of you would be very happy earning an average market rate of return rather than speculating and gambling with the money that is meant to fulfill your life goals.

It's time for a new story... a second act, if you will. I have seen up close and personal the impact of poor investing advice. So, a new ending has to start with a new beginning and that new beginning is simply being AWARE and intentional in your actions. Simple awareness of how the active management industry operates

Dalbar Research Study Results: *This chart clearly indicates that Dalbar Average Equity Investor returns have been significantly less than the leading equity market index.*

CATEGORY	1991–2020 Annualized Return
S&P 500 Index	10.70%
Dalbar Average Investor — Equity Fund	6.24%
CPI (representing Inflation)	2.25%

The indices referenced above are described more fully in the endnotes. This chart is for illustrative purposes only. Indices are unmanaged, cannot be invested in directly and their returns do not represent the performance of any actual fund or transactions and do not include management fees, transaction costs or expenses. In its 2017 Quantitative Analysis of Investor Behavior, Dalbar defines "Average Investor" as "The universe of all mutual fund investors whose actions and financial results are restated to represent a single investor. This approach allows the entire universe of mutual fund investors to be used as the statistical sample, ensuring ultimate reliability." "Average equity and average fixed income investor," as used in the same study, is that subset investing only in equity or fixed income mutual funds. Past performance is no guarantee of future success.

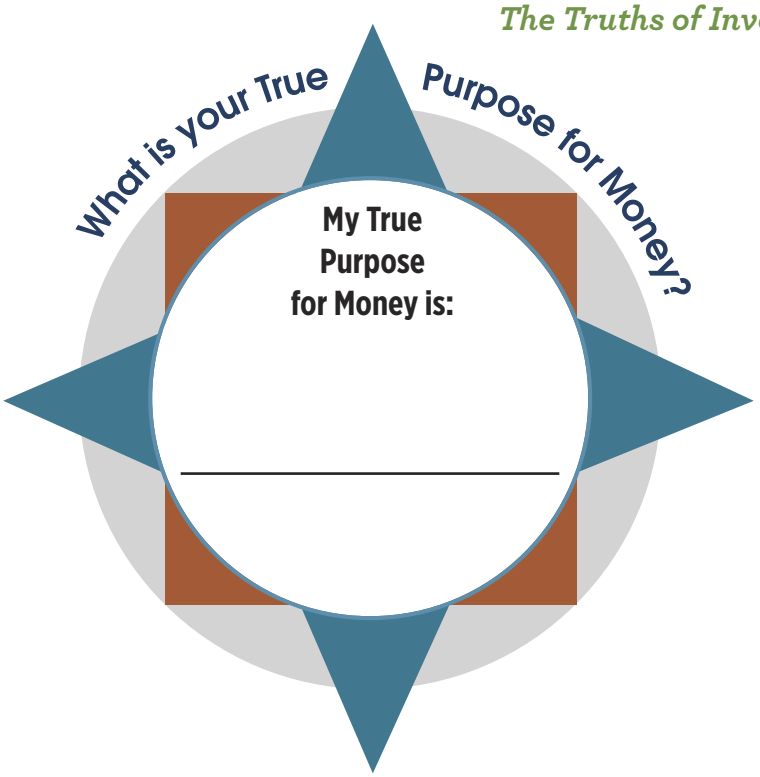
and is designed to convince you that you need them is a great start. **But you then need to take action by following these 3 action steps:**

ACTION STEP 1:
Develop Your True Purpose for Money Statement

The first step is discovering your True Purpose for Money. This is a specific process designed to help each individual reveal the most important internal value that guides the use of money. Your True Purpose for Money is at the heart of all financial decisions and, once identified, serves as a compass to consistently help you to focus in the right direction.

Each of us has our own set of values and beliefs. One way that we express values is through financial decisions. Think of it this way: When our financial decisions align with our values we may experience a real sense of satisfaction and contentment. However, when we struggle, worry, experience buyers' remorse, or suffer because of money, it's very likely that our financial choices are inconsistent with our inner value system. Your True Purpose For Money is the most important value in your life that you express through your use of money. This is much more than writing down your financial goals in life, although goals are extremely important. If a goal can be described as a "destination" that you want to achieve financially then a value can be described as the "motivation" for why you want to achieve that goal.

For example, if we were planning a trip, "goals" would represent our destination (for example, Florida). "Goals" tell us where we are going and allow us to track our progress. However, goals are not the whole story. They do not tell us why we want to go there; they do not define our reason or our purpose for making the journey. A value is defined as that which is desirable or worthy of esteem for its own sake; a thing or quality having intrinsic worth.



VALUE WORDS

This is a sample of values often expressed. It is intended to inspire you, not limit your self-expression.

Security	*Freedom*	*Love*	*Respect*	*Comfort*
Peace of Mind	*Generosity*	*Fulfillment*	*Joy*	*Beauty*
Adventure	*Happiness*	*Abundance*	*Faith*	*Creativity*
Independence	*Honor*	*Dignity*	*Recognition*	*Energy*

Therefore, if goals represent the destination, values symbolize the motivation. In our example, the reason we want to go to Florida could be for peace of mind, happiness, beauty, adventure, or love. Any value could apply depending on the individual. After you have clearly identified what motivates you it is easier to appreciate those qualities once you have arrived.

Use the graphic above and the list of "Value" words to help inspire you to craft your very own True Purpose For Money Statement.

ACTION STEP 2:
Develop your Market Belief

The second action step involves examining beliefs about the market. Our beliefs, whether conscious or subconscious, are the root of action. Beliefs about the market and how it works are largely responsible for dictating decisions made regarding investments. Formed for many reasons and based upon numerous factors, beliefs may be changed instantaneously based on new information or new understanding. For this reason, it is important to consciously examine your beliefs about the market.

— Two Views of Markets —

There are two opposing views about the nature of markets. One view is that markets set prices for goods and services efficiently and the other is that markets fail to set prices quickly and accurately. In other words, you can adopt **"The Markets Work"** belief that the market is efficient and all known information is already factored into the price paid and only new and unknown information will change the price moving forward. Or, you can adopt **"The Markets Fail"** belief that the market often gets it wrong and with the proper information or

research that no one else has, you can take advantage of mispricing, unrelated to risk.

The Markets Work

Let's examine each one of these beliefs a little further. The Efficient Market Theory or EMT, as it is known, has its roots as far back as 1776 with the groundbreaking book by Adam Smith titled, *The Wealth Of Nations*.

Adam Smith was the first to offer a comprehensive statement that markets work and that a free market is the best way for a social order to allocate resources. The debate about the efficiency of markets has resulted in hundreds of empirical studies attempting to determine whether specific markets are, in fact, "efficient."

Many investors are surprised to learn that a tremendous amount of evidence supports the efficient market hypothesis. Further, academic research over the past 50 years in the field of economics strongly supports the theory that markets work.

In 1965 Dr. Eugene Fama, a 2014 Nobel Prize winner in Economics, published his doctoral thesis in the *Journal of Business* titled "The Behavior of Stock Market Prices." This important work states that since information about publicly traded securities is available and known to the market participants (those buying and selling) then this information is already factored into the price. In other words, the only thing that will change the price of stocks moving forward is NEW information. No one knows tomorrow's news today!

The market participants (buyers and sellers) set the price and movement of the market by their individual collective decisions evaluating all the known information and driving the price towards fair market value.

The Markets Fail

The second view espouses the belief that the market is not efficient and often misprices a security. The premise is that markets fail to price goods and services accurately. Because there are flaws in the system it is possible for some individuals to identify in advance which prices are incorrect, meaning that overvalued or underpriced markets can be predicted.

Not so surprisingly, there is little to no evidence supporting this belief system. Empirical evidence supporting inefficient markets is poor. Indeed, statistical studies show that professional money managers who attempt to take advantage of mispricing in the market are generally only able to provide higher returns than the comparative market index at a level with what would be expected to occur by simple blind-random luck.

On the other hand, there is a lot of anecdotal evidence to support this view usually in the form of magazine covers, cable network stations like CNBC and Fox Business, financial newsletters or Internet chat rooms touting the latest individuals who have "beat the market." These anecdotes are alluring to basic human instincts but do not stand up to peer-reviewed empirical evidence in the least.

What do you think?

Now that you have examined the two opposing views of the nature of markets and realize that there is a choice to be made, I want you to ask yourself this one question: Does your advisor have information about the direction of an investment's price that no one else in the entire global market has access to? If your answer is, "Well, maybe that's possible," then ask yourself one other question. If your advisor actually does have information not available to anyone else on the planet, why would they share that information with you? Wouldn't they keep it to themselves and make sky-rocketing returns unrelated to risk? Of course they would!

ACTION STEP 3:

Initiate Your Investment Strategy Based On Your Market Belief & Your True Purpose For Money Statement

Strategy: The art of devising or employing a careful plan or method toward a goal.

The third principle involves defining the method you want to use to create an investment portfolio and identifying an Investment Strategy consistent with your True Purpose for Money Statement and your Market Belief.

As you can imagine, just as there are two opposing views on market beliefs, **there are two clearly defined strategies for investing**. One associated with each particular belief about how markets work.

Active Management

Active Management means actively buying and selling securities with the assumption that securities bought are intrinsically worth more than the price paid, while securities sold are worth less than the selling price. This strategy is in alignment with the idea that the market fails. **Active management is characterized by these 3 tenets:**

STOCK PICKING:
Pick stocks that will get high returns in the future and invest in them.

TRACK-RECORD INVESTING:
Utilize a manager's previous performance to determine whether or not to invest with them.

MARKET TIMING:
Attempt to alter or change a portfolio based on a prediction about the future.

Some food for thought – according to *Webster's Dictionary*, "speculation" means buying and/or selling in the hope of taking advantage of an expected rise or fall in price. Given that active management is based on the belief that the manager expects market prices to rise or fall in line with his or her prediction then it can be viewed as a form of gambling and speculation, not prudent investing.

Asset Class Investing

Asset class investing refers to a buy and hold approach to asset management. If you think markets work efficiently, then buying and selling securities in an attempt to outperform the market is effectively viewed as a game of chance rather than skill. This approach involves applying scientific, academically proven strategies of

It is time to make a choice. What makes most sense to you?

☐ **MARKETS WORK** (Place a check in the box next to your choice) **MARKETS FAIL** ☐

**Montgomery Financial firmly believes in The Markets Work Philosophy*

Modern Portfolio Theory and investing is seen as a lifelong process. Instead of attempting to get in and out of the market at the "right time," staying in the market all of the time is a fundamental part of success in Asset Class Investing. **Here are the appropriate actions to take when initiating an asset class strategy:**

- ☐ **Focus on capturing market returns**
- ☐ **Eliminate the traditional investment strategies of stock picking, track-record investing, and market timing**
- ☐ **Utilize asset-class or structured funds**
- ☐ **Diversify prudently**
- ☐ **Identify your risk tolerance**
- ☐ **Work with a financial coach who shares your "Market Belief" and helps you pursue your investment objectives.**

I cannot stress enough the importance of clearly developing your own personal investment philosophy based on the 3 action steps stated.

Smart investing is not complicated. Relying on brokers or advisors who claim to be able to predict the future is simply foolish. It's time for you to fundamentally change the way you invest and be INTENTIONAL in your actions... it's time for you to put yourself in charge of your financial life by following these rules:

THE TAKEAWAY

- If you are using a broker or advisor who is not a Fiduciary, withdraw your money & close your account.
- If you are using a broker or advisor who claims to be able to beat the market, withdraw your money & close your account.
- Ignore stock market gurus who make predictions. They do not have a crystal ball.
- Neither you, your broker, or advisor is smarter than the collective wisdom of millions of people looking at the publicly available information about a stock. The price that is set is likely to be fair.
- Don't chase after returns or "in vogue" investments of any kind, this includes gold & Bitcoin.
- Determine your own personal risk tolerance. If you don't know it, open your phone's camera & scan the QR code.
- When it comes to your portfolio; globally diversify, rebalance & above all stay disciplined.
- When faced with two portfolios with the same expected returns, choose the one with the least amount of risk.
- Dismiss active management of all kinds. Investing should be based on data & prudence, not speculation & gambling.

SCAN ME

My final word is to always remember: **It's not about the money, it's about your life.** The Montgomery Financial Services team wants to get to know you on a more personal level, not just professionally. Getting to know you and your family is a vital part of the process so that we can go the extra mile to help you pursue your life goals. By diving deeper into your values, goals and beliefs, we can create a plan together that is designed specifically for your unique situation. Together, we can write your second act!

THE FISCAL BLUEPRINT™

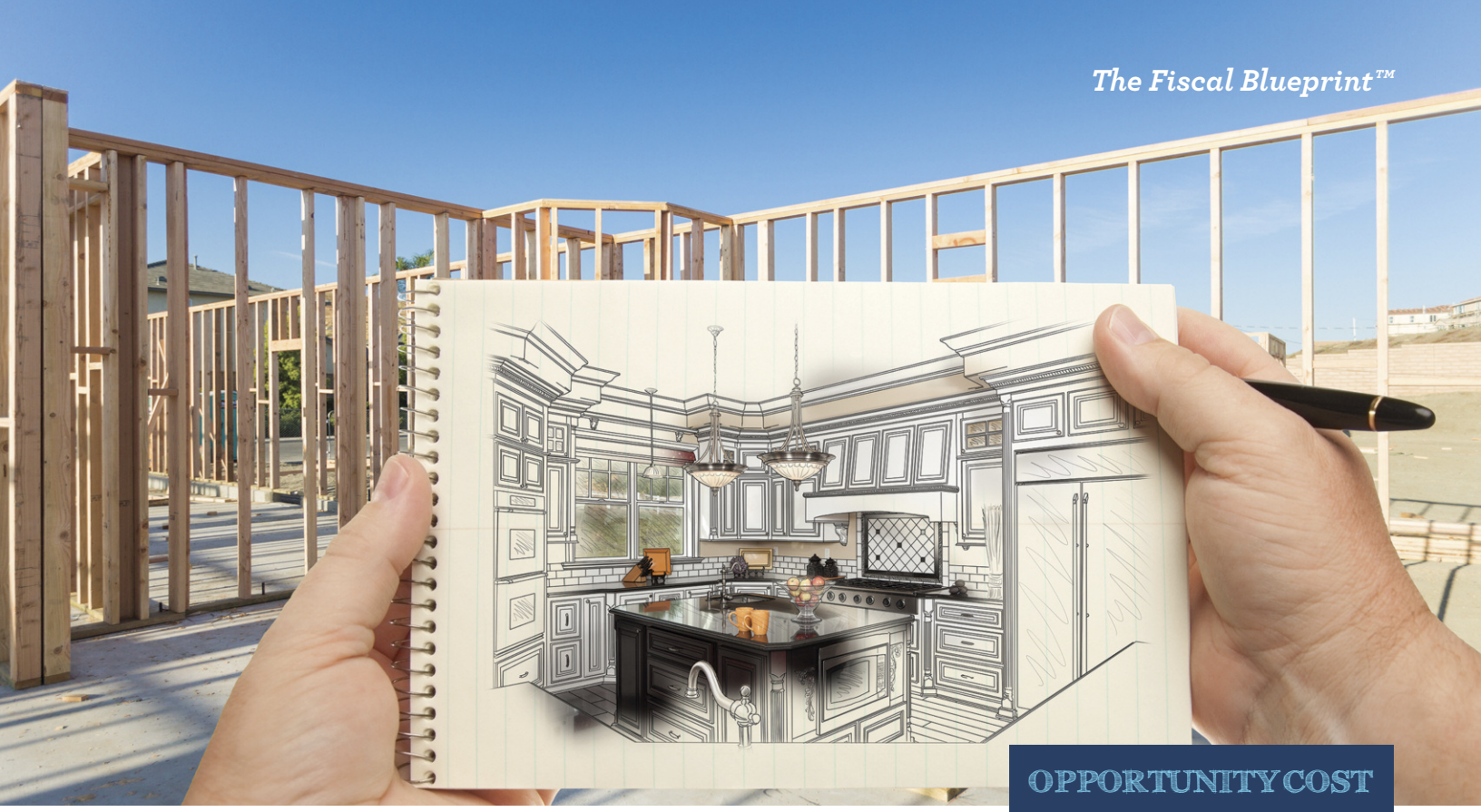
A strong, flexible, renewable, and sustainable fiscal house can help weather a financial storm

by Edward Loftice and Jeff Montgomery

BUILDING YOUR FISCAL HOUSE TO WEATHER THE ELEMENTS

Homeowners who live in areas susceptible to inclement weather face the challenge of building a home that can constantly weather the elements. The same can be said for an investment portfolio. Over time, our financial assets must weather a multitude of uncertain conditions including market swings, economic downturns, fluctuating interest rates, rising inflation, and changes in our own lives.

Building a strong, flexible, renewable and sustainable retirement income portfolio is a lot like building a weather-resistant home. The overall strength of a house is dependent on how well its components—the walls, floors, roof, and foundation—work together as a singular unit. When inclement weather strikes, such as a thunderstorm, the walls and the roof bear the brunt of these forces



FISCAL HOUSE CONSTRUCTION: START WITH A STRATEGY

To build a home, you start with a full set of construction drawings. This is the blueprint that details not only what your house will look like, but also all of the individual components that will integrate to create the home. Obviously, you don't just start with one room and then add on later. You design the whole house at one time. To do so, you must first consider all of your objectives for the house. For example, include things you want such as solar panels on the roof to optimize energy efficiency. Also consider what you don't want to be in the house, such as expensive and high-maintenance flooring. With these objectives in mind you and a professional designer would then work together to draw a plan that includes every room and every component of each room until you have a full set of construction plans, plus a list of materials and resources needed to build the house.

Likewise, a retirement income portfolio is comprised of a **foundation, walls, roof, and even fencing.**

The first component on which to build your fiscal house is the foundation, because without a strong foundation, the house may crumble.

FOUNDATION

The foundational elements of a retirement income portfolio are typically the most protected assets—money you can't afford to lose. Generally speaking these funds will be used for **EMERGENCY PURPOSES**—now and in the future.

In your fiscal house, the walls and roof are the elements that could be rebuilt over time, but the foundation is the element needed to provide stability for the rest of the house.

Your foundation should be composed of accounts that are protected from loss. These can include:

- **Checking, savings, CD accounts — protected by the Federal Deposit Insurance Corporation**
- **Government bonds — protected by the U.S. Treasury Department**
- **Traditional, fixed annuities — protected by the financial strength and claims paying ability of the issuing insurance company.**

Widely regarded as the leading sage on investing, Warren Buffett sets this primary rule of investing: Don't lose money. The foundation of your fiscal house is what helps you adhere to this rule and thereby ensure income. And ensuring income is the anchor of an effective retirement income strategy.

OPPORTUNITY COST

It may be tempting when constructing your fiscal house to simply steer clear of any risk, but that would open you up to opportunity costs. Also known as 'shortfall risk,' opportunity cost is when a portfolio does not contain financial vehicles that provide the opportunity for a higher total return. In other words, stocks may be risky – but it's also risky not to include them in a portfolio designed for growth in order to meet the investor's long-term objectives.

THE WALLS

The walls of a retirement income portfolio provide a 'safety-net' for your retirement income. They are comprised of traditional corporate or government pensions, social security benefits, and investments that can provide various benefits. Benefits like income guarantees, cash flow, inflation protection, and possibly some chronic illness benefits. *(Guarantees and protections provided by insurance products are backed by the financial strength and claims-paying ability of the issuing insurance carrier. See disclaimer on page 19.)*

Regarding the investment portion of the walls, the main purpose is to provide some type of guaranteed income in support of your Social Security and traditional pension benefits, or if you don't have a traditional pension, you can effectively create one.

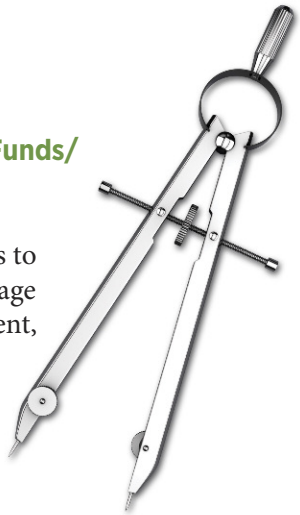
It's important that the walls are coordinated with holdings in both the foundation and the roof, because frequently they represent hard-working elements that may contribute significantly to your goals with the least amount of risk possible. **Typically, the walls are comprised of the following:**

- **Fixed Indexed Annuities**
- **Social Security Benefits**
- **Pensions From Employment**

ROOF

The roof of your fiscal house is represented by the highest level of risk your portfolio can tolerate. These securities have the opportunity to grow, but they can also be lost due to external forces beyond your control—similar to the way a thunderstorm or hail could damage the roof of a home. This is why it's so important to start your retirement income portfolio construction with a sound foundation and strong walls. Should the roof ever be damaged due to risk-based investments, it should not crumble your fiscal house. You only need to replace the roof to repair the damage caused by risk assets. **Roof assets may include:**

- **Stocks**
- **Mutual Funds**
- **Structured Exchange-Traded Funds/ Structured Mutual Funds**



It's important to use diagnostic tools to evaluate your level of risk and the average expected return you desire. In retirement, measuring and understanding the amount of risk you can emotionally tolerate is paramount to success.

FENCING

Finally, as a means to help protect you and your loved ones' future against potential portfolio losses that may occur before or after your death, it may be a good idea to build a fence around your fiscal house, represented as insurance. Life insurance may help replace your income with a lump-sum payout, and can also be structured to help you cover long-term care costs, if needed. *(Guarantees and protections provided by insurance products are backed by the financial strength and claims-paying ability of the issuing insurance carrier. See disclaimer below.)*

An experienced builder has at his or her disposal the knowledge and necessary tools to build a strong, weather-resistant home. Likewise, a competent financial professional will be able to help you deploy both holdings and the proper asset allocation strategies to build a market-resistant retirement income portfolio.

THE BIG PICTURE

One of the most important aspects of building your fiscal house is to include every element of your financial picture. It is common for consumers to have their portfolio spread out among many different strategies with no centralized management.

For example, you may have a financial advisor who manages your investment portfolio, an IRA you manage yourself, a 401(k) at work managed by individual fund managers and insurance policies you've purchased over time that have not been reviewed in years.

To get your fiscal house in order, all of these components need to be reviewed regularly and managed together as part of a total strategy. After all, your personal asset allocation strategy is not truly comprehensive if it does not incorporate the assets you hold in your IRA or 401(k) plan. The details of each component of your construction strategy are important, but only inasmuch as they work within the big picture.

Much as you would build a house to suit the needs of your family, your fiscal house requires at least that much time and attention — and more.

After all, fiscal house cleaning is similar to maintaining a home; it's not something you build and never think about again. There are constant tweaks, upgrades and even occasional repairs that must be made, and the ever-constant vigilance to protect and enhance its market value.

Edward Loftice

NEXT STEP

While every investor's circumstances are different and there are no guarantees of success, we aim to help our clients take some of the uncertainty out of investing while working with them to develop a financial strategy for their unique investment circumstances.

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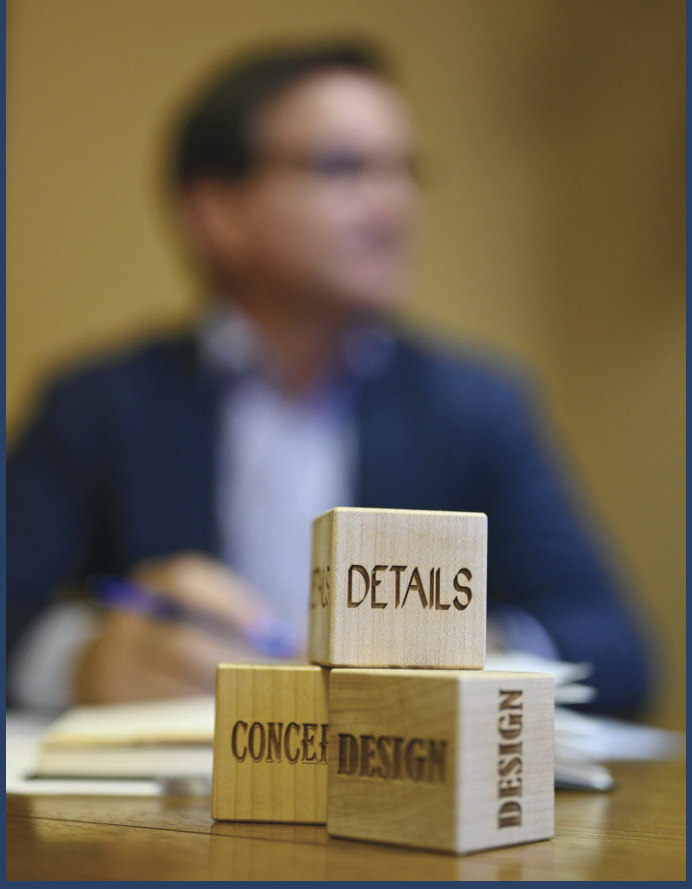

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