

KACHKOVSKY & FISHER, INC.

An Independent Firm

3610 N. 44th Street
Suite 220
Phoenix, AZ 85018

Phone: 602.604.9711
Toll-Free: 866.604.9711
Fax: 602.604.9712
E-mail: garry.kachkovsky@raymondjames.com
kris.fisher@raymondjames.com
website: www.kandfadvisors.com

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Dear,

Less than two months into their remarkable expedition to the Pacific Northwest, Meriwether Lewis and William Clark awoke on the Kansas side of the Missouri River and realized it was “Independence” day, a time to celebrate the nation’s 28th birthday. During the day the party came across two unnamed streams and named them “4th of July 1804 Creek” and “Creek Independence.” The names didn’t stick. Historians say they were likely the two streams known today as White Clay Creek and Whiskey Creek. Both empty into the Missouri near Atchison, Kansas. You may be planning a less adventurous celebration on this Fourth – perhaps firing up the grill for a gathering of family and friends, or a quiet evening watching fireworks on TV. No matter how you observe the 4th of July, we wish you a pleasant and entertaining holiday. Let’s take a look at the numbers.

	(As of 6/30/14)
Dow Jones Industrials	+1.51%
S&P 500 Index	+6.05%
NASDAQ Composite	+5.54%

Major Bond Indexes	(As of 6/30/14)
Lipper Intermediate U.S. Government	+3.76%
Lipper Corporate (A-rated)	+6.72%

Major Mutual Funds Indexes	(As of 6/30/14)
Lipper Large-Cap Core	+6.62%
Lipper Mid-Cap Core Index	+7.09%
Lipper Small-Cap Core Index	+3.86%
Lipper International Index	+4.21%

Source: The Wall Street Journal and Barron’s

*Inclusion of these unmanaged indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor’s results will vary. Past performance does not guarantee future results.

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FINANCIAL AND INVESTMENT PLANNING

"Money and Savings?"

"It so happens that I spend a fair amount of time thinking and reading and teaching and writing about money. I talk about savers getting ripped off, about trustees who can't be trusted, about accountants from whom you simply cannot ever get a straight count, and about geniuses like Warren Buffett who make their investors rich. Money is a vital life enhancer. If you have it, you can enjoy life incomparably more than if you don't. The great storehouses of travel, leisure, rest, refinement, appearance, health, above all, peace of mind – all of these are open to you if you have money. It doesn't have to be millions, or even hundreds of thousands. But it has to be enough so that you can know from one hour to the next that you are not going to be starved, dunned by your creditors, thrown out of your apartment, put on the street, or made to fear becoming homeless. (All this) has made me consider once again my parents and how very different their lives are. My parents, who are not really rich, have never, as adults, as far as I can recall, been seriously worried about money. There is a simple reason for that; they have always lived modestly, even frugally, and have always had wants that are modest compared with their means. They are not geniuses at investing and have never been wildly well paid. They have just been like the ant. Laying aside money year in and year out, and now they have a comfy cushion around them. Their friends and colleagues of their age all seem to be similarly situated. What I keep coming back to is that the real bottom line is a simple idea that the savers know and the terrorized don't: Money is not for spending. Money is first for saving, and then for spending. Or, you might put it a different way. Money is for spending on a rainy day. If that rainy day doesn't come in your life, it might come in your children's. Money is protection, the shield and the buckler for your family and for you. There is no new suit of clothes, no vacation, and no new car that can offset the pain of being truly worried about running out of money. I have had that fear. It comes at about five in the morning, and it keeps you awake and makes your mouth dry and makes you hate the sound of the birds singing in the morning. It's probably not realistic in my case, but I don't want anyone I love to come even close to it."

. . . *The American Spectator*, by Benjamin J. Stein (March 1995)

When it comes to saving our money for a rainy day, retirement, our children's future college tuition, etc., we as a country are saving less and less. The personal savings rate in the USA was 13.1% in 1973. As of 3/31/2014 it has dropped to 3.8% (source: Department of Commerce). The good news is that it has increased from a negative savings rate prior to the credit crisis. Hopefully consumers continue to increase their personal savings. Businesses have continued to increase their savings and as a result are able to put more money to work in the form of more hiring and capital spending. This has helped lead to stronger economic data. The equity markets touched new record highs this past quarter, supported by stronger labor markets and manufacturing reports.

Speaking to manufacturing and our country's drive towards energy independence, we continue to see an American resurgence. With a more competitive labor market in the U.S. (higher foreign wages), lower energy costs and companies wanting to make goods closer to their customers, many still are underestimating the future impact of what has been transpiring. One example lies in Louisiana with a South African company, Sasol Energy. A \$21 billion plant is slated to be built in the near future, which would make it the biggest foreign investment project in U.S. history. This massive engineering undertaking will lead to thousands of new jobs. Few appreciate the extent of the industrialization that's about to begin. According to the Greater Baton Rouge Alliance, when completed some 66 industrial projects will be breaking ground over the next five years, worth about \$90 billion. Currently, Louisiana's entire GDP is \$250 billion, so we are talking about a massive 36% increase in the state's GDP!

And, at a closer look, it is not only new innovation and breakthrough technology that is driving the world economy forward. Despite the fact that investment management maharishis are telling us to bow down to the god of disruptive innovation, some traditional businesses are thriving in this era by forging against the tide – reviving old-fashioned technologies and business standards. This unrelenting focus on heritage rather than novelty, quality over quantity, and craftsmanship over efficiency has reawakened old industries. The Swiss mechanical watch industry is stronger than ever in spite of almost going extinct in the 1970's due the innovation of inexpensive and more accurate digital watches. Trams are re-emerging as green solutions for America's cities. More than 6 million music LPs were sold in 2013, up from almost none twenty years ago.

Governments around the world are encouraging economic activity through innovative and traditional means. The European Central Bank further eased monetary policy. One of their actions included a move to push short-term

deposit rates into negative territory, the first time a major central bank has attempted this. Reasoning – savers will be forced/encouraged to spend and spur on economic activity. In Japan, the Prime Minister said the government has

decided to lower the corporate tax rate from 35% to 30% over the coming years to help spur economic growth. The Bank of Japan is likely to continue its very aggressive asset purchase program through 2016.

While there are many bright spots around the world and in our economy, we still have real headwinds to address at home. In May, we spent time in Washington D.C., listening to different speakers. One such speaker, Erskine Bowles, businessman/politician and co-author of the deficit reduction plan Simpson-Bowles, discussed the headwinds and five tough steps that our country needs to take.

First, healthcare costs need to be addressed. We spend twice as much on healthcare as any other developed country, which would be okay if our healthcare was twice as good as the other countries'. Yet, according to Erskine, U.S. ranks 25th in the world in terms of life expectancy and infant mortality. In 1980 ten percent of the Federal Budget was spent on healthcare. Today that number is 25% and rising. Healthcare costs need to slow to the growth rate of GDP. Next, defense spending should be brought under control. We spend more on national defense than the next 12 largest countries combined, including Russia and China. Third, make the tax code significantly more efficient. The tax code nets about \$1.3 trillion. The reason it nets so little is due to \$1.3 trillion in "back door spending" (deductions, credits, exemptions, loopholes). Erskine's solution - simplify the code by using 96% of the revenue to reduce income tax rates and 4% to reduce the deficit. Fourth, get social security solvent. Over the next 10 years social security will have a negative \$800 billion effect. When President Roosevelt implemented the social security program life expectancy was 63 years and you were not eligible for Social Security until you were 65. Now life expectancy is 79. Erskine proposes raising the eligibility age of social security age by one year forty years from now and by another year sixty five years from now.

Finally, do something about our national debt and the impact of compounding interest on that debt. Currently, we are spending roughly \$230 billion per year on interest to service our debt – more than the government spends on the Departments of Commerce, Education, Energy, Home Land Security, Interior, Justice and the Veterans Administration combined. And, that's at artificially low interest rates. At normalized rates that figure would be \$650 billion. If we don't do something soon, it will be over \$1 trillion that could otherwise be spent on education, infrastructure, high value added research at our universities, or be given back to the taxpayers. Erskine ended his address by noting that we can't solely grow ourselves or tax ourselves out of the problem. We also can't "cut spending" our way out of the problem without killing the economy. Major reform is needed and it starts with electing people that will address these problems.

Over the past few years, we have experienced Benghazi, the NSA spying on us, a horrific Syrian civil war, the Boston Marathon bombing, the Fiscal Cliff, school shootings, Hurricane Sandy, Russian tanks moving into Ukraine, ATF's Fast & Furious program where we sold guns to Mexican smugglers, the terrifying tsunami in Japan, ISIS moving across Iraq and Syria. Yet economies around the world continue to grow. We can always find reasons not to invest today and tomorrow. We'll leave this section with a quote from Peter Lynch, an investing legend, who captained the Fidelity Magellan mutual fund for two decades, said, "Far more money has been lost by investors trying to anticipate corrections than has been lost in all the corrections combined."

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PERSONAL

With warm winds coming off the Atlantic Ocean, Kris' dad, Dave, rode his bike the final miles to a much anticipated Florida beach. The group of 14 adventure cyclists celebrated as they completed their 3,141 mile ride from beach to beach - San Diego to St. Augustine. Truly incredible! At 67 years young, Dave said his legs felt great throughout the journey. Aside from 5 straight days of rain through Florida and a headwind in Texas that made you feel like you were going backwards, the weather was great. They met wonderful people along the way, including some folks in the Bayou, who made an out of this world homemade gumbo for the hungry riders. When Dave returned home (Michigan), he hit the streams for fly fishing – he is loving retirement!

With the hot desert sun beating down, Kris, his brother Steve, and Steve's friend, Chris, began a 3 day mountain biking trip through Canyonlands National Park. The group set out to see the spectacular landscape that has eroded into countless canyons, mesas and towers by forces of water and wind. The ride began with a heart pounding ascent up Hurrah Pass. Once you get to the top of the pass, one needs to go down. The decent had the same effect on Kris' heart rate, albeit for different reasons. Fear appears to be something Steve wasn't born with, as he bombed down canyons at blistering speeds. After hours in the saddle each day, the riders looked for a place to put their head for the night. As enjoyable as the days were, everyone looked forward to the evenings. The trio would cook their dinner over the campfire, drink a cold beer, enjoy the absolute solitude of the primitive desert, and talk late into the night.

The second quarter of 2014 was relatively quiet for the Kachkovskys. Emily's mom and aunt made the trip from San Diego several times to see Ava. The three have become best buds. It's not uncommon for Ava to dial "baba" (grandma) to quiz her on when she and Nanny are coming to Phoenix next. Yes, two year olds know how to use our cell phones, arguably better than us. Easter was spent peacefully in Phoenix, highlighted by an enthusiastic egg hunt. Ava said she planned on using the found money on more cars. Absolutely, the car obsession continues. Father's Day weekend was spent in San Diego, building castles on the beach, riding the Skyfari at the wonderful San Diego Zoo, and having dinner with Emily's dad and his wife. Garry celebrated his birthday in April. At this point, it's best to stop counting the years. Before the temperatures hit triple digits, the family enjoyed hiking at Papago Park, Ava often leading the charge up the mountain.

Back in 1996, then, a junior in college, Garry spent a semester abroad. As an exchange student of Illinois Wesleyan University he lived and studied at a university in Moscow, Russia. The program afforded him the ability to see his extended family for the first time in more than ten years. The time before was when he and his parents were still citizens of the Soviet Union. A lot had changed in those ten years. The Iron Curtain had fallen and the new pseudo-democratic Russia was creating its own brand of capitalism. Later that year, Garry's cousin in Moscow gave birth to Anton, a rambunctious young boy. As the country was embarking on a new journey, so was this energetic child. Both full of hope for a bright, new "free" future. Fast forward 18 years, and my, how much things have changed again. This year Anton celebrated his 18th birthday, graduated high school, took his college entrance exams and is now awaiting college acceptance letters. And, at first glance, his future does look bright. Yet, upon further examination, the Russian government seems to be reverting back to its old ways – wielding power more with an Iron Fist rather than "rule of law". That oppressed life which Garry and his family left behind should never have to be revisited by those who experienced it during the communist era, or those like Anton born after the fall of the Soviet Union. Is history to repeat itself? Time will tell. During these trying times, we assess our lives and remember how fortunate we are to live in a country where each man, woman and child are created equal and are endowed with certain unalienable rights - Life, Liberty and the pursuit of Happiness. Happy 238th Birthday America!



(AVA)

“All the adversity I've had in my life, all my troubles and obstacles, have strengthened me... You may not realize it when it happens, but a kick in the teeth may be the best thing in the world for you.”

- Walt Disney

Thank you for your trust, confidence and friendship.

A handwritten signature in blue ink, appearing to be 'GK' with a stylized flourish.

Garry Kachkovsky, CFP®
Financial Planner

A handwritten signature in blue ink, appearing to be 'KR' with a stylized flourish.

Kristian R. Fisher, CFP®
Financial Planner