



Retirement Times

NEWS AND UPDATES FOR RETIREMENT PLAN SPONSORS AND FIDUCIARIES



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The High Price of Yield and Perceived Safety

Since the inception of markets there have been particular investments that garnered the attention of investors above all others. In the 1600s it was the tulip mania and at the turn of this century, tech stocks had investors' focus. Although not to the extent of these examples, currently low-volatility dividend paying stocks are the rage du jour in this low-yielding uncertain market environment.

The lack of yield available on bonds has driven yield-thirsty investors to bond proxies for income, such as dividend-paying stocks. Global economic uncertainty, as well as academic studies that touted the merits of low-volatility stocks, has exacerbated the flow of money into this type of investment. In 2015, over \$11 billion flowed into low-volatility exchange-traded funds and in the first two months of 2016, another \$5 billion.¹



Utilities and consumer staples lie at the epicenter of this low-volatility, bond proxy trade due to their lack of economic cyclicity and higher than average dividend yields. This has led to stretched valuations in these sectors. Between 1995 and the financial crisis, the average price-earnings ratio of the utilities sector traded at a 25 percent discount to the broad market.² In contrast, utilities currently trade at a premium to the S&P 500 despite the sector's lower growth and profitability characteristics. Additionally, the forward price-earnings ratio on the consumer staples sector is over 20 times on average compared to the S&P 500 at about 17 times.³ This represents one of the largest premiums for staples in the last 20 years.

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Valuation is a poor timing tool because valuations can remain extended for long periods of time. If bond yields remain depressed and the global economy continues to slow or deteriorate, this trade could continue to outperform for the time being. However, when investors are looking for perceived "safety" in low-volatility dividend paying stocks, buyer beware. When any investment trade becomes too

continued on page 3

Updated Sample Investment Policy Statement Available

Due to myriad legislative, regulatory, judicial, investment and service provider changes in the landscape we regularly review our sample fiduciary materials to make certain they remain up-to-date. Based upon our regular review, as well as copious edits, recommended language and notes provided by over 20 outside ERISA attorneys (both ours and our clients'), we have substantially recrafted our standard investment policy statement (IPS).



Remember, a well-crafted IPS serves as a blueprint describing the management of your plan's investments, and is essential to achieve compliance with ERISA 404(a). If your plan consultant has not already contacted you with the new IPS, you can expect it before the end of the year. If you have questions or would like to discuss your IPS in more detail, please contact your plan consultant.

What Constitutes Proper Documentation of Retirement Plan Committee Meetings?

With most retirement plans the fiduciary responsibility of selecting and monitoring the plan's menu of investments is designated to a retirement plan investment committee. This committee usually includes financial officers and human resources officers of the employer. The committee meets periodically (anywhere from annually to quarterly) to consider agenda items including investment due diligence, fees and services of plan providers, status of plan goals, etc.

From a fiduciary perspective it is just as important to properly document these meetings as it is to hold the meetings. Proper documentation serves as proof that the committee's responsibilities are being prudently executed. Often plans question the degree of documentation necessary. Below are a few suggestions of what the retirement plan investment committee meeting minutes should include:

- A listing of all parties present with identification of roles (committee member, guest, advisor, provider representative, attorney, accountant, etc.);
- A description of all issues considered at the meeting: fund performance of investments offered, participant communication/education initiatives, plan demographic and provisional review, investment policy statement review, market summary and other topics as appropriate to achieving and maintaining a successful plan;
- Documentation of all materials reviewed during the meeting;
- Documentation of all decisions made and the analysis and logic supporting each decision; and
- Identification of any topics to be continued in subsequent meetings.

For those topics which are relevant to services provided by us, complete documentation will be included in the Executive Summary which your consultant provides after each meeting. These documents are also posted on our secure plan sponsor portal, the Fiduciary Briefcase™, for you to access at any time during the year. For more information, contact your plan consultant.

Are You Excluding Part-Timers From the Retirement Plan?

Many plan sponsors mistakenly believe that they are not required to offer the retirement plan to part-time employees. Regardless of what type of retirement plan you have, all employees, including part-time employees that work 1,000 hours in a year, must be offered the retirement benefit. Though your plan may contain a service requirement that essentially prevents "part-timers" from ever becoming eligible (such as a one year and/or 1,000 hours requirement), part-time employees may NOT categorically be excluded as a class of employees. If you have not informed your part-

time employees that they are eligible to participate in the retirement plan if they complete 1,000 hours during the year, please contact your plan consultant to discuss immediate corrective measures.

High Price of Yield and Perceived Safety

continued from page 1

crowded a reversion to the mean is likely to follow. This type of investment will be particularly vulnerable when interest rates eventually rise and their relative yield advantage dissipates. Certain investments will go in and out of favor over time which is why it is important to maintain a diversified portfolio with exposure to different asset classes, styles and sectors.

¹<http://www.ft.com/cms/s/0/97ff03e0-f4d5-11e5-96db-fc683b5e52db.html#axzz4B1mi80CX>

²[http://www.fa-mag.com/news/what-price-to-pay-for-yield-](http://www.fa-mag.com/news/what-price-to-pay-for-yield-27285.html?section=68&utm_source=FA+Subscribers&utm_campaign=89f50dc97c-)

[27285.html?section=68&utm_source=FA+Subscribers&utm_campaign=89f50dc97c-](http://www.fa-mag.com/news/what-price-to-pay-for-yield-27285.html?section=68&utm_source=FA+Subscribers&utm_campaign=89f50dc97c-)

[FAN Investment Perspectives_060716&utm_medium=email&utm_term=0_6babc79291-89f50dc97c-228578237](http://www.fa-mag.com/news/what-price-to-pay-for-yield-27285.html?section=68&utm_source=FA+Subscribers&utm_campaign=89f50dc97c-)

³<http://www.yardeni.com/pub/mktbriefspesecind.pdf>

COMMUNICATION CORNER: The Real Cost of Coffee and Lunch

This month's memo talks about small lifestyle changes participants can make that could lead to big savings.

As a reminder, we post each monthly participant memo online via the Fiduciary Briefcase™ (fiduciarybriefcase.com).

Call or email your plan consultant if you have questions or need assistance.

Average price-earnings ratio: The average of the ratio of a company's stock price to the company's earnings per share.

Forward price-earnings ratio: A current stock's price over its "predicted" earnings per share.

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Mutual funds are sold by prospectus only. Before investing, investors should carefully consider the investment objectives, risks, charges and expenses of a mutual fund. The fund prospectus provides this and other important information. Please contact your representative or the Company to obtain a prospectus. Please read the prospectus carefully before investing or sending money.

Using diversification as part of your investment strategy neither assures nor guarantees better performance and cannot protect against loss of principal due to changing market conditions. Rebalancing assets can have tax consequences. If you sell assets in a taxable account you may have to pay tax on any gain resulting from the sale. Please consult your tax advisor. S&P 500 Index is an unmanaged group of securities considered to be representative of the stock market in general. You cannot directly invest in the index.

Common stocks do not assure dividend payments. Dividends are paid only when declared by an issuer's board of directors and the amount of any dividend may vary over time.

Please note that all investments are subject to market and other risk factors, which could result in loss of principal. Fixed income securities carry interest rate risk. As interest rates rise, bond prices usually fall, and vice versa.

To remove yourself from this list, or to add a colleague, please email us at lfellows@firstohioplanning.com or call (614) 486-0691 ext. 6.

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