Cooperative Funeral Fund Inc.

Understanding Investment Returns in a Tough Economy. What is Your Statement Really Telling You?

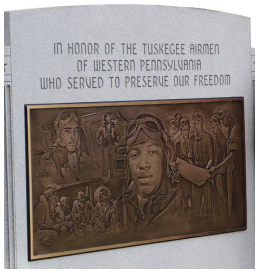
as seen in:

ICCFA® MAGAZINE

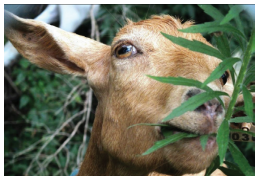
November 2013

CEMETERY CREMATION FUNERAL

Observing the 150th anniversary of the Medal of Honor



- **Tuskegee Airmen monument unveiled at Sewickey Cemetery**



- **Weed-eating goats bring publicity, sales to Congressional Cemetery in D.C.**
- **Celebrants: Planning a service when people 'didn't want a fuss'**
- **Preneed sales success: Eliminating the risk factor**
- **Aftercare program: Good for families, good for business**
- **Offering families anatomical donation**

Don't forget: KIP entry deadline is November 29!

The following article was first published in the November 2013 issue of the ICCFA magazine, and is reprinted with permission. You can learn more about the magazine at http://www.iccfa.com

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ICCFA Magazine author spotlight

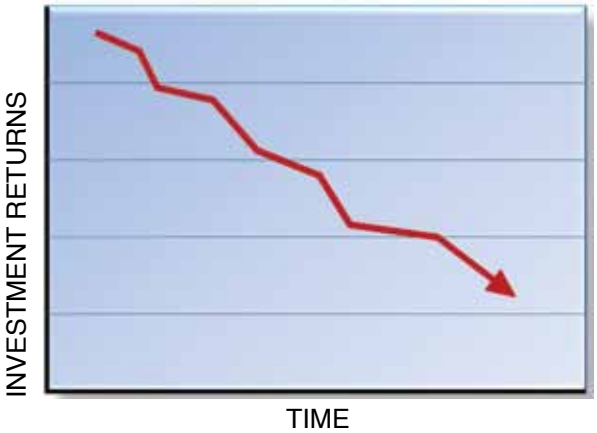
➤Mannix is in funeral and cemetery trust administration and is vice president, sales and marketing, for Cooperative Funeral Fund Inc., Madison, Connecticut.

www.cooperativefuneralfund.com

➤CFF specializes in the management of preneed and perpetual care fund accounts. CFF has provided a program for the death care industry to facilitate the creation, investment, tax compliance and payout of funeral trusts since 1989.

FINANCES

Making the right decisions about your endowment fund investments is never easy, but if you don't know how to read the financial statements, it's impossible.



Understanding investment returns in a tough economy:

What is your statement really telling you?

We have had a tumultuous financial market the last several years, following on the heels of the banking crisis and a global economic slowdown. The investments many had watched grow relatively steadily for years were diminished to a fraction of their former value.

The economic woes have continued, and regardless of who wins the election, most economists predict things will remain murky for years to come in terms of interest rates and economic forecasts. Thankfully, there are steps you can take to minimize your losses and accept that you are doing all you can do despite these difficult financial times.

The up times

When times are good, staying on top of your endowment fund investments is relatively easy. Most put their faith in a third party to manage the funds, and as long as there is positive growth from statement to statement, there is little need to scrutinize how well the investments are actually performing.

When the fund is growing, it's easy to afford that luxury of not having to compare the investments against other options that might offer a more promising return. If the investment is headed in the right direction, the mentality seems to be, "If it's not broken, don't fix it."

People seem to understand that with more risk comes more reward. If their investments are not performing as well as others, they might shrug it off by saying, "Sure I could earn more, but my advisors know what they are doing, and they are shielding me from risk. As long as it keeps growing, I'm going to let them do what they do."

In the up times, there is little risk with this approach. Sure, there might be some opportunity cost (missing out on a potentially better investment), but if the fund is still growing, "Why mess with a good thing?" seems to be the thinking of many people.

The down times

So what happens in a down or flat market? The luxury of putting your investments on autopilot disappears. Whether you manage your own cemetery property or are part of a board of directors, when the fund is no longer growing, or worse, losing money,

When the markets are bad, it would be prudent to really understand not only your ending balance from statement to statement, but also how the underlying investments are being managed. The good news is that all of this should be discernible from your statement.

the fund comes under scrutiny and we pay closer attention to the details.

This is not to say that the person managing your funds isn't doing a good job at minimizing the losses. During the banking crisis, the markets were in a free fall and there were very few who didn't lose a significant portion of their portfolio.

Nevertheless, it is a fact that as the money in your endowment care fund diminishes, so does your ability to maintain your property. When the fund is growing, it impacts your bottom line in a positive but distant way, promising increased future revenues derived from a larger principal base. There is no immediate effect to your budget.

But when the fund goes down, it impacts today's income immediately. You have less money today than you did yesterday, and there are still current bills to pay.

Who is responsible?

Even if you feel your financial advisor understands your unique needs as a cemetery, it is important to realize that the ultimate fiscal responsibility is yours. Have you ever read the disclaimers that come with your statements or fund prospectuses?

While not exonerating the financial advisor and fund managers from all responsibility, the disclaimers pretty clearly state that you are hereby notified of the associated risks you are taking (i.e. the ultimate responsibility is yours). Furthermore, financial advisors have many clients, and some advisors are better than others at managing the many goals and expectations of all their clients.

When the markets are bad, it would be prudent to really understand not only your ending balance from statement to statement, but also how the underlying investments are being managed. The good news is that all of this should be discernible from your statement.

Understanding the statement

It is as important now as ever to really understand how your investments in your endowment care fund are performing. You get a statement with an ending balance every month (or sometimes every quarter), but do you really know how each of your investments performed during the current period?

We perform comparative analyses on statements almost every day and have found some interesting reporting practices by banks, brokers and other financial services firms. While not illegal or intentionally deceptive, some institutions' reporting can be somewhat vague.

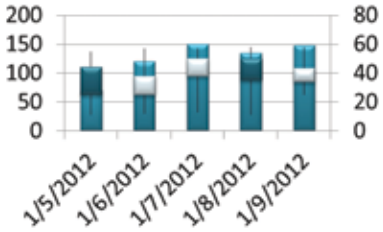
Many statements require you to do a

Quarterly Account Statement
Carr Cemetery – 110 Victory Way, Blue, MI 12354
January 1, 2012 – March 31, 2012

Portfolio Summary

Principal Assets	Beginning Balance	Ending Balance	Unrealized Gain/(Loss)
Equities	$ 156,568.26	$ 158,133.94	$ (41,114.83)
Bonds	$ 453,256.85	$ 457,789.42	$ 119,025.25
Fixed Income	$ 329,568.25	$ 332,863.93	$ 86,544.62
Total Proncipal Assets	$ 939,393.36	$ 948,787.29	$ 164,455.05
Income Assets			
Cash	$ 23,569.12	$ 25,926.03	$ 6,481.51
Total Income Assets	$ 23,569.12	$ 25,926.03	$ 6,481.51
Total Portfolio	$ 962,962.48	$ 974,713.33	$ 170,936.55

Asset Allocation



Too much detail: This statement has a great deal of useful information, but still lacks some of the detail you need to understand the period performance of the underlying investments.

little digging or to know where to look in order to really understand how an investment performed over a specific period. Evaluating the specific period's performance at the individual investment level should give you a period-to-period benchmark for each underlying investment. This will give you a better understanding of just how the portfolio is being managed and may also help you avoid some uncomfortable losses.

If you are delegating the fund management to a third party, you are paying a fee to have these funds actively managed. This means that someone is looking after your objectives as the markets move. Monitoring the individual investments can be a way to help you to understand just how well these funds are being managed.

This is not to say that a good investment does not go down from time to time. Your financial manager should be balancing your long-term goals with your need for short-term income.

Some good long-term investments do lose value from time to time, so just because you might see a loss for a particular investment, doesn't mean you need to get on the phone and demand an explanation. You should be concerned, however, if you see a trend of losses in a particular fund over a period of several months.

You can perform this analysis by carefully reviewing your statements. However, it may not be easy to determine the current period's performance simply from looking at your statement. I will describe some common potential issues with how statements are prepared that may hinder your analysis, and make some suggestions about how to find what you need.

Potential issues with statements

1. Not enough detail

Some statements are reported at the summary level. While you will always know how much you had at the start and end of a particular period, you may not have the exposure to the information you need to evaluate the fund's performance.

Often, these summaries consist of a single page and have roll-up balances without detailing any of the underlying investments. If this is what you are getting, you are at liberty to request a detailed statement. Be careful though, as some institutions may try to charge an extra fee for this. You have the right to this information, so you should be able to obtain it free of charge.

2. Too much detail

On the opposite end of the spectrum are statements that may have more detail than you know what to do with. Much of this is useful information, and it will help you to analyze how the funds are invested. But if you're not familiar with how it's being presented, you will need to sit down and familiarize yourself with what information your fund managers are trying to convey.

In addition to beginning and ending balances, you may see a breakdown by investment type (equities, bonds, fixed income, cash, etc.), realized gains or losses, an income summary detailing the interest and dividends for the period, current market value as a percentage of the total fund, investment holdings detail and a summary of transactions.

Again, these are all useful tools to help you understand how the fund is invested and how it is performing, but your statement may still be lacking the specific detail you need in order to understand how the underlying investments performed during the current period.

3. Current period performance

This is the specific return of each of the underlying investments for the statement period. One would think putting this on the statement would be automatic, but surprisingly many statements simply state the beginning and ending balance of the whole fund.

You may have to do some research to see just how each underlying investment performed for the statement period. Some statements might break down the investments, but do so using the initial purchase price to determine return as opposed to the period opening value against the period ending value.

Even the most detailed statements may give you all the various ways of looking at and analyzing your accounts but lack in the necessary information for you to make a true evaluation of current period performance for each of the underlying investments.

4. Cost basis investment return, open market investments and bank funds

In statements that break down the underlying investments, it is important to look closely at how they are reporting the returns. Many use a cost basis method of reporting which will tell you how well the

Comparative benchmarks: One way to evaluate the performance of your investments is to compare their performance to that of a benchmark such as the Dow Jones Industrial Average, NASDAQ Composite Index or S&P 500 Index.

investment has performed since the time you bought it. While useful for seeing how well a particular investment has done over the long haul, these types of statements do not show you how that particular investment performed during the statement period.

You may have to look up the trading symbol and get the starting and ending price for the period from one of the online tools that provide open market returns. Some banks have their own internal funds which cannot be tracked on the open market. However, you should be able to ascertain the beginning and ending price by giving the bank a call.

You want to look at the returns during a specific period because the investment might have done very well the first year you owned it, but struggled since. If you are looking at a cost basis approach, you may still show a gain (from the time you bought it) even though it lost money during the last several periods.

5. Comparative benchmarks—Dow, NASDAQ, S&P 500

Every investment advisor should tell you that the stock market is for long-term investing, especially when it pertains to endowment care.

Knowing how a particular investment performed during the statement period should be used as one reference point to see how your funds are doing over time. If you see a trend month after month of a continual slide, you may want to consult your advisor to see if there are other options to ride out a downturn in a different fund that may expose you to fewer losses.

Looking at market benchmarks provides another reference point useful in evaluating your investments. The Dow Jones Industrial Average, the NASDAQ Composite Index and the S&P 500 Index provide three different benchmarks to compare to when evaluating how a particular representative basket of stocks performed over a period of time. It's using a broad brush for sure, but it is a good way of understanding how your investment has performed against the broader market.

6. Realized gain/loss (not until traded)

Some statements might include a realized gain or loss. It's important to understand that this is really telling you the impact of trades made during the investment period; this is not a reflection of how the investment performed from the beginning of the statement period to the end.

For example, when you invest in a stock and the price goes up but you still own the stock, you have what is called an "unrealized" gain. You see the gain on your statements, but it is not "realized" until the stock is sold.

If you bought a stock six months ago and sold during the period, it could state significant gains or losses in the period it was sold in the form of a realized gain/loss. However, when you are trying to discern the current period's performance, it is important to understand that the realized gain would show the total gain/loss (since the stock was purchased), which shouldn't be confused with the gain/loss during the period.

By reading your statement detail and taking the time to research and understand the current period performance, you should be able to understand if changes need to be made to your investment portfolio. You will be able to feel confident that your investments are being shown the proper care by your advisor.

Even if you decide not to make any changes, getting in the habit of knowing your statement inside and out will help you to maintain a healthy investment strategy and take a more active role in managing your endowment care funds.

Yes, we're in a down market with a slow recovery predicted, but you can still manage your fund to many happy returns. ❐