In This Issue...

Concentrate on the Basics

Thinking Strategically about Risk

Separating Your Risk

Does Buy and Hold Still Make Sense?

Business Data

News and Announcements

231 Springside Drive
Suite 155
Akron, OH 44333
330.668.6991
800.630.6991
330.670.6461 Fax

Richard D. Peterson
Certified Senior Advisor

Financial Briefs

MARCH/APRIL 2011

Concentrate on the Basics

When faced with all the decisions that need to be made to ensure you select appropriate investments to help pursue your long-term investment goals, it's easy to become overwhelmed. How do you choose the right combination of investments to help you work toward a goal that may be decades away? The answer is to concentrate on the basics. Make sure you are getting these fundamentals right:

- **Don't wait — invest now.** To put the power of compounding to work for you, start investing now. It's easy to put off investing, thinking you'll have more money or more time at some point in the future. Typically, however, you'll be better off saving less now than waiting and saving more later. Consider the savings habits of a 20-year-old couple. The wife starts contributing $2,000 per year to a tax-deferred investment, such as a 401(k) plan, when she is 20. After 10 years, she decides to stop investing and let her money grow until retirement. She has invested a total of $20,000. Her husband starts investing when she stops, investing $2,000 per year from the time he is 30 until he retires at age 65. Thus, he saves every year for 35 years, making a total contribution of $70,000 — $50,000 more than his wife. If they both earn 8% compounded annually, who will have the larger potential balance at age 65? Time and compounding of earnings favor the wife. Before paying any taxes, her balance would equal $462,649, while her husband's balance would be $372,204. (*This example is provided for illustrative purposes only and is not intended to project the performance of a specific investment.*)
- **Live below your means so you can invest more.** It's a basic fact that most people have trouble coming to grips with — the idea that the amount of money you have left over for investing is a direct result of your lifestyle. Don't have any money left over for investing? Ruthlessly cut your living expenses and redirect all those reductions to investments.
- **Maintain reasonable return expectations.** When developing your financial goals, you'll typically decide how much you need, when you'll need the money, and how much you'll earn on those savings. Those factors will determine how much you'll need to save on an annual basis to reach your goals. The higher your expected return on your

Continued on page 2

Thinking Strategically about Risk

When it comes to risk, many investors claim to be either "risk averse" or "risk tolerant." Generally, the risk averse invest more in bonds, while the risk tolerant invest more in stocks. But is risk really that simple?

York University business school professor Moshe Milevsky recently wrote an article on risk that was featured in *The Wall Street Journal*. In it, he states that investors often don't look at risk as strategically as they should and don't consider the most important asset of all: themselves.

Milevsky believes investors should consider how a high or low day in the stock market directly impacts their take-home pay. The answer varies greatly by industry and job profession: a middle school librarian may have zero impact, while an investment banker or portfolio manager may be highly impacted by the stock market's highs and lows.

After considering this relationship, investors should consider how this relates to their investment

Continued on page 3

Copyright © Integrated Concepts 2011. Some articles in this newsletter were prepared by Integrated Concepts, a separate, nonaffiliated business entity. This newsletter intends to offer factual and up-to-date information on the subjects discussed, but should not be regarded as a complete analysis of these subjects. The appropriate professional advisers should be consulted before implementing any options presented. No party assumes liability for any loss or damage resulting from errors or omissions or reliance on or use of this material.

FR2010-0922-0003

Concentrate

Continued from page 1

investments, the less you'll need to save every year. However, if your assumed rate of return is significantly higher than your actual rate of return, you won't reach your goals. Thus, it's important to come up with reasonable return expectations. While past returns aren't a guarantee of future returns, you'll want to start by reviewing historical rates of return for investments you're interested in. Assessing your progress every year will allow you to make adjustments along the way.

- **Understand that risk can't be totally avoided.** All investments are subject to different types of risk, which can affect the investment's return. Cash is primarily affected by purchasing-power risk, or the risk that its purchasing power will decrease due to inflation. Bonds are subject to interest-rate risk, or the risk that interest rates will rise and cause the bond's value to decrease, and default risk, or the risk that the issuer will not repay the bond. Stocks are primarily subject to nonmarket risk, or the risk that events specific to a company or its industry will adversely affect a stock's price, and market risk, or the risk that a stock will be affected by overall stock market movements. These risks make some investments more suitable for longer investment periods and others more suitable for shorter investment periods.
- **Diversify your portfolio.** Typically, you do not know which asset class will perform best on a year-to-year basis. Diversification is a defensive strategy — it helps protect your portfolio during market downturns and helps reduce your portfolio's volatility. Diversify your investment portfolio among and within a variety of investment categories.
- **Only invest in the stock market for the long term.** Stocks should only be considered by investors with an investment time frame of at least five years. Remaining in the market over the long term reduces the risk of receiving a lower return than you expected.
- **Don't try to time the market.** Timing the market is a difficult strategy to accomplish successfully, since so many factors affect the market. Remember that most people, including professionals, have difficulty timing the market with any degree of accuracy. Instead, concentrate on setting an investment program that works in all market environments and that you can stick with in good and bad times.
- **Pay attention to taxes.** Taxes are probably your portfolio's largest expense. Ordinary income taxes on short-term capital gains and losses can go as high as 35%, while long-term capital gains and dividend income are taxed at rates not exceeding 15% (5% if you are in the 10% or 15% tax bracket). Using strategies that defer income for as long as possible can make a substantial difference in the ultimate size of your portfolio. Some strategies to consider include utilizing tax-deferred investment vehicles (such as 401(k) plans and individual retirement accounts), minimizing portfolio turnover, selling investments with losses to offset gains, and placing assets generating ordinary income or that you want to trade frequently into your tax-deferred accounts.

If you need help with investing, please call. ■

Separating Your Risk

Your willingness to assume risk with your investments is not necessarily a static concept. You may be less willing to take risk with investments designated for an essential financial goal, while you may be more willing to take risk for nonessential goals. However, those varying risk levels may be difficult to assess if all your investments are commingled in one account.

For instance, assume you have three goals — to ensure you have enough funds to support yourself through retirement, to send your children to Ivy-league colleges, and to purchase a vacation home. The most crucial goal is to ensure you don't run out of money during retirement. Thus, you want a high level of assurance that you'll reach that goal, devoting a substantial portion of your resources to the pursuit of it. Your investments for that goal are likely to be somewhat conservative, especially as you approach retirement age. The next important goal is sending your children to Ivy-league colleges. You have more limited resources to devote to that goal, plus your children can attend less-expensive colleges or pay part of the costs themselves. For that goal, you may be willing to assume more risk with your investments to increase the likelihood of reaching that goal. Your goal for a vacation home is clearly last, so you may have few resources to devote to it. For that goal, you may be willing to use very aggressive investments, since that may be the only way you can achieve that goal.

The point is that your willingness to assume risk is not static. It will vary depending on how important the goal is to you and how much you can designate to that goal. Commingling all your investments for all goals in one account may make it difficult to analyze your investments in this manner. Thus, you might want to set up separate accounts for each goal, so you can more closely match the investments to your willingness to assume risk for that goal. Please call if you'd like to discuss this concept in more detail. ■

Thinking Strategically

Continued from page 1

portfolio. Instead of assuming a position in one of the risk camps (averse or tolerant), look at how much risk your "personal balance sheet" can tolerate.

Your Personal Beta

Rather than looking at your assets as allocations of monies into stocks, bonds, real estate, and so on — consider your number-one asset as *you*. Look at your future earnings and consider the amount of income that you will generate before retirement.

After looking at your income and — in generalities — how it is tied to the stock market, actually assign a number to it. Milevsky explains it this way, "If a stock has a beta of 1, it means that it's likely to move pretty much in tandem with the overall market. A beta above that means that if the market falls, the stock will likely fall by even more; a beta below 1 means the stock won't move as much as the market." (Source: *The Wall Street Journal*, 2010).

Most traditional professions have a beta of zero. This doesn't mean the incomes don't fluctuate, but that the volatility of the stock market has no impact on the incomes.

A question of balance. Once you know your personal beta, apply it to how your portfolio is allocated. If you have a high personal beta, if the returns on your human capital tend to fluctuate with the market, then your financial capital — your 401(k), IRA, brokerage account, etc. — should be invested more conservatively. It doesn't matter if you *feel* the market is due to rise. You should instead be considering that if markets decline over a prolonged period of time, there is a greater chance you might lose your job, be unemployed for a long time, own less valuable stock options, and so on.

Rethink your insurance. Human capital isn't influenced only by the stock market. It is vulnerable to plenty of other factors, such as death, disability, and extended illness. One way to reduce the risk level on your balance sheet is to ensure that you are properly insured. Insurance allows your family to treat your human capital a bit more like a bond and perhaps take more risk in their financial portfolio.

Start early. Assessing your personal beta, understanding your income and human capital worth, and allocating the right assets to your portfolio will help you think strategically about risk.

Milevsky claims that "knowing your personal beta will help you manage your total risk more effectively. And that is always a safe strategy." Please call if you'd like to discuss this concept in more detail.

Does Buy and Hold Still Make Sense?

More and more financial experts are claiming that the buy-and-hold strategy of investing has run its course and that it doesn't make sense in today's volatile market. Several general conclusions can be drawn. First, over a period of decades, stocks have been a good investment; the indexes have risen. Second, because of the financial collapse in 2008 and the resulting damage to individual investors, there is an enormous reluctance to "trust the system" and to "get back into the water." Third, individual investors are holding extraordinarily large amounts of their assets in cash or cash equivalents.

Investors who have held exclusively to a buy-and-hold strategy during the past decade probably aren't happy with how their portfolio is performing. But does it really mean buy and hold is dead? Not yet.

A diversified buy-and-hold portfolio strategy still works over a long enough period of time and can minimize risk, but it also needs to be actively managed. It is not termed "buy-and-forget." Rather, the goal of a buy-and-hold strategy it to find a mix of attractive investments and purchase them with the intention of holding onto them for an extended period of time —– all with an eye on the long-term horizon. This goal is still valid. Yet the buy-and-hold strategy should also involve active portfolio management to ensure that assets are properly allocated. An investor's "horizon" may be 10 to 15 years, or it may be 18 months. That time horizon dictates when stocks should be sold.

And though active management is key, changes should only be made when necessary. For example, you should sell a stock if a development in the competitive environment causes you to question a company's future prospects. Proceeds from individual bonds will need to be reinvested at maturity. You should also be aware of whether your investments are lagging that of their peers. If that situation persists, then it might be time to redirect your investment.

Investors who pay attention to their allocations tend to find opportunities to sell one asset class high and buy another asset class low. Regular, periodic monitoring of the portfolio is what is recommended by most experts. The idea is to check often enough so that you are aware of what is happening, but not so often that you are constantly tempted to tinker with your portfolio. This kind of proactive buy-and-hold strategy will keep you from trying to guess where the market will trade at tomorrow or next week, which often leads to underperformance.

Buy-and-hold investing and active trading are not mutually exclusive. Many investors experience great success — and lower their risk — with a diversified buy-and-hold strategy for the majority of their portfolio holdings, while allocating a small portion for active trading.

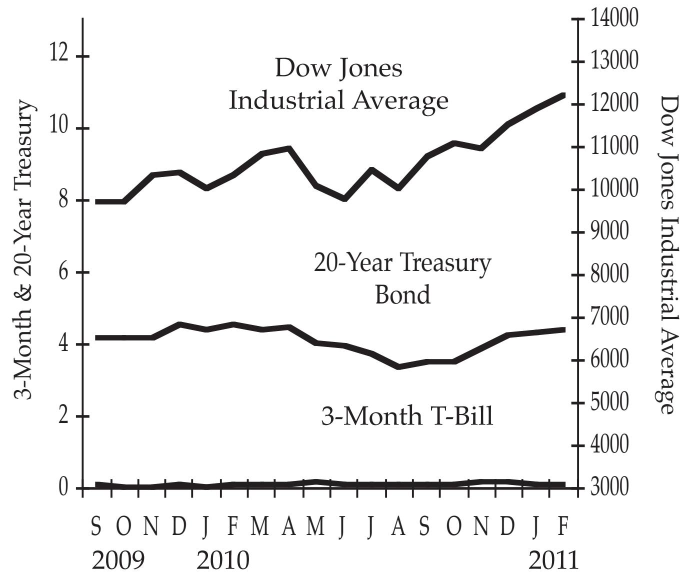
Business Data

Indicator	Dec-10	Jan-11	Feb-11	Dec-09	Feb-10
	Month-end				
Prime rate	3.25	3.25	3.25	3.25	3.25
3-month T-bill yield	0.18	0.16	0.15	0.11	0.10
10-year T-note yield	3.37	3.42	3.60	3.76	3.74
20-year T-bond yield	4.23	4.32	4.45	4.53	4.56
Dow Jones Corp.	3.89	3.83	3.87	4.43	4.22
GDP (adj. annual rate)#	+1.70	+2.60	+2.80	+2.20	+2.20

	Month-end			% Change	
Indicator	Dec-10	Jan-11	Feb-11	YTD	12 Mon
Dow Jones Industrials	11577.51	11891.93	12226.34	5.6%	18.4%
Standard & Poor's 500	1257.64	1286.12	1327.22	5.5%	20.2%
Nasdaq Composite	2652.87	2700.08	2782.27	4.9%	24.3%
Gold	1405.50	1327.00	1411.00	0.4%	27.3%
Unemployment rate@	9.80	9.40	9.00	-8.2%	-7.2%
Consumer price index@	218.80	219.20	220.20	0.6%	1.6%
Index of leading ind.@	111.30	112.20	112.30	0.9%	4.5%

— 2nd, 3rd, 4th quarter @ — Nov, Dec, Jan Sources: *Barron's, Wall Street Journal*
Past performance is not a guarantee of future results.

18-Month Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield
September 2009 to February 2011



News and Announcements

Fear vs. Faith

Sometimes we find ourselves in the middle of a fluctuating market and don't know what to do. During difficult market periods, the battle to be fought is one of fear vs. faith. Fear is one of the strongest emotions, and sometimes it can get ahold of us and influence us in ways that can be more harmful than good.

Fear may cause us to panic at the worst possible time and make investment decisions that can cause setbacks in long-term plans. I don't want to discount emotions that can come with long-term investing and market declines — those emotions are very real and need to be addressed.

I hope to share with you the other side of the battle — the power of faith. Faith in America, the American economy, American companies, and the U.S. markets. Both recent and long-term history have shown us what a great country we live in and how the U.S. markets can overcome tragedy and crisis.

Faith looks at what happens over the long term; fear lives in the moment. Faith is fueled by history; fear is fueled by the media and headlines. Faith has a long-term outlook; fear only sees today.

If you are to have a financial plan designed to help meet your financial goals, you will see many market cycles and at some point find yourself fighting a battle with fear. It's in those moments we need to turn to the same faith that many Americans recently rediscovered in our great nation. Let faith win the battle of long-term investing for you.

Anyone who would like a copy of our privacy policy or our ADV Part II, give us a call at 330.668.6991.

Rick