

Spring 2012

MANAGEMENT

"HELPING YOU MAKE SMART CHOICES ABOUT YOUR MONEY"

WHY YOU SHOULD KEEP INVESTING IN 2012 (AND EVEN UP YOUR ANTE)

Any investor should be willing to admit 2011 was a pretty crazy year for the markets.

They were churned through the year by a weather and nuclear disaster in Japan, a deadlock over finances in Congress that led to a downgrade of U.S. debt, and a major crisis in Europe that threatened to blow apart the European Union and end the Euro as a currency.

The third quarter saw world markets swoon to bear market levels, only to recover swiftly in October, which turned out to be the best month for investors in 20 years.

Withdrawals from mutual funds indicated that many investors fled the market altogether during the year after being pounded with headlines predicting economic disaster and even another Great Depression.

It's never different

Even though the Chicken Littles will tell you it's different this time, a look back at market history suggests it never is different. Consider some history:

Over the last 61 years, the Standard & Poor's 500 Stocks Index has increased by 11 percent compounded annually. Those gains came despite 10 bear markets and 10 recessions.

Think the 2008 financial and auto bailouts were unprecedented? You are forgetting the \$293 billion bailout of the savings and loan industry in 1989, the \$10 billion bailout of New York City in 1975, the first bailout of Chrysler in 1980, the bailout of Lockheed in 1971 and numerous others.

Unemployment topped 8 percent in 7 calendar years, 9 percent (not counting 2011) in five calendar years, and 10 percent in three calendar years.

European debt crisis got you down? How about the Latin American debt crisis of the 1980's, the Japanese asset bubble burst in the 1990's, the Asian debt crisis in 1997, and the Russian debt crisis of 1998?



The events of 2011 were enough to scare any investor, but a look back at history shows similar or worse market events in the past.

Over this period one president was assassinated and unsuccessful attempts were made on three others. We had terrorist attacks in New York, Washington D.C. and Oklahoma City.

Wars and conflict

The United States fought in five wars and numerous military engagements. It faced the Cold War and the Cuban Missile Crisis.

Society was entangled by the Civil Rights, Black Power, Equal Rights, Gay Rights and the Environmental movements.

All of these events and trends roiled the markets. At the end of the day, \$1 invested in big U.S. stocks in 1950 is worth about \$600 today. Think times are tough today?

(Continued on Page 2)

WHAT'S INSIDE

- ◆ Financial literacy declines steadily for investors over 60
- ◆ Insurance is vital but don't make these buying mistakes
- ◆ 401(k) accounts are the only savings many workers have
- ◆ Social Security and more

WHY YOU SHOULD KEEP INVESTING IN 2012

(Continued from page 1)

Yes, they are, but they've been tough—or even tougher—in recent history.

What's your job?

Your job as an investor is to control your emotions, don't do anything rash, remain diversified and stay the course. That's how you reap a decent long-term return.

Yes, it is true that many investors have made next to nothing for five years running—mainly due to the 2008 bear

market. But that trend is unlikely to continue. Long periods of high volatility and underperformance by the stock market have almost always been followed by extended periods of outperformance and lower volatility.

Will this time be different? Perhaps—anything is possible. But a look back at history suggests that the odds are on the side of long-term investors who vow to weather the short-term storms.

FINANCIAL LITERACY DECLINES STEADILY FOR INVESTORS OVER 60

Just at the age when Americans have to make hard financial decisions about deriving income from investment portfolios, a new study shows that handling distributions from retirement accounts, and picking the right health insurance plan, their understanding of financial concepts begins to decline.

Financial literacy seems to decline at a rate of about 2 percent each year after 60, say two finance professors at Texas Tech University and one from the University of Missouri.

At the same time, confidence in the ability to make decisions does not decline, say Michael S. Finke, John S. Howe, and Sandra J. Huston: "Increasing confidence and reduced abilities can explain poor credit and investment choices by older respondents."

The literacy test

They note that other studies have indicated that the cognitive abilities and math skills necessary for making money decisions tend to decline with age. Their study uses a 20-question test to see if corresponding financial knowledge changes as individuals age.

Four of the questions asked how confident the test-taker was in making money, credit, investment and insurance decisions. The other 16 questions touched on basic knowledge necessary to make decisions in these four areas. The most financially literate responders were between 45 and 49: they answered an average of 63 percent of the questions correctly. At age 70, however, the average rate of correct answers was 45 percent, and by age 80 it was just 31 percent.



Does your know-how beat a coin toss?

Try it yourself

How literate are you? Here are questions from the test:

1. Savings account and money market accounts are most appropriate for
 - A. Long-term investments
 - B. Emergency funds and short-term goals
 - C. Earning a high rate of return
2. To reduce the total finance costs paid over the life of an auto loan, you should choose a loan with the
 - A. Lowest monthly payment
 - B. Longest repayment term
 - C. Shortest repayment
3. On which type of loan is interest never tax deductible
 - A. Home equity loan
 - B. Adjustable rate mortgage
 - C. Personal vehicle loan
4. The benefit of owning investments that are diversified is that it
 - A. Reduces risk
 - B. Increases return
 - C. Reduces tax liability
5. The main advantage of a 401k plan is that it
 - A. Provides a high rate of return with little risk
 - B. Allows you to shelter retirement savings from taxation
 - C. Provides a well-diversified mix of investment assets
6. To ensure that some of your retirement savings will not be subject to income tax upon withdrawal, you should contribute to
 - A. A traditional Individual Retirement Account
 - B. Roth IRA
 - C. 401k plan
7. If you have an insurance policy with a higher deductible, the premiums will be
 - A. Higher
 - B. Lower
 - C. The same
8. Which policy provides the most coverage at the lowest cost for a young family
 - A. Renewable term life
 - B. Whole life
 - C. Universal life

Answers: 1-B; 2-C; 3-C; 4-A; 5-B; 6-B; 7-B; 8-A.

INSURANCE IS VITAL, BUT DON'T MAKE THESE BUYING MISTAKES

Deductibles, exclusions, premiums, terms, riders: the jargon and complexity of insurance baffles many consumers.

Unfortunately, it also leads to lots of insurance mistakes. Here are some of the most common. All of them can imperil your financial plan. Use this list as a checkup for your own needs (and make sure you talk to your financial planner and insurance professional before making any rash decisions).

Buying too little

Homeowners run the risk of not being able to rebuild their homes if they carry too little replacement coverage. Young families often fail to get enough life insurance to cover expenses for survivors if a chief breadwinner dies early.

Buyers of cash value life insurance are frequently seduced by the "investment" aspects of the policy. In many cases, long-term investment can be done more cheaply and tax effectively outside of a life insurance policy.

Ignoring potential liability can be damaging. When was the last time you saw someone who was injured go to court for less than \$1 million? A \$1 million umbrella liability policy may cost as little as \$200 a year and will supplement your homeowner's and auto policies.

Ignoring disability

Although a young family should have adequate life insurance, an even bigger risk is loss of income due to a long-term disability. Workers under 65 have a greater chance of becoming disabled than of dying. A disability policy can be invaluable if this happens.

Filing small claims, especially on a homeowner's policy, may cause higher premiums or even cancellation of insurance. Consider your homeowner's and auto policies as disaster coverage, rather than a piggy bank for small repairs and damages. Self insure for small items by increasing your deductible, which will result in a lower premium.

Buying narrow coverage

Too many consumers succumb to sales pitches or specialized insurance policies. Burial insurance, cancer insurance, accidental death insurance and others may seem cheap, but that's because they are unlikely to pay off.

Instead, a good life insurance policy will handle those eventualities and any others that result in death.

401(K) ACCOUNTS ARE THE ONLY SAVINGS MANY WORKERS HAVE

When it comes to retirement savings 401k accounts have become vitally important for more than half of those preparing for their golden years, says Fidelity Investments.

It conducted a nationwide survey of workers enrolled in workplace savings plans and found that without 401k plans many workers would not have saved a dime for retirement.

Some workers were supplementing their 401k accounts with other sources of retirement income: 37 percent also had individual retirement accounts, 28 percent had significant bank accounts and 28 percent had investments in stocks and bonds, Fidelity said.

Only one-third of those surveyed were also going to get a traditional employer-sponsored retirement plan.

However, saving for retirement remained difficult even for workers with access to a 401k.

The survey found that 23 percent of workers had borrowed from their 401k accounts, while 25 percent said they had recently decreased their contributions to their accounts.

If you are a 401k contributor, consider increasing your contribution level at least annually until you reach the maximum allowed contribution. The maximum contribution limit in 2012 is \$17,000.

Remember that if you are age 50 or older you can contribute an additional \$5,500 per year to your account.



Money saved in 401k accounts is a significant source of many worker's retirement income.

If you are married with household income less than \$173,000 or single with income under \$110,000 you can also supplement your retirement savings by contributing to a tax-free Roth IRA account. Although you won't get a deduction for the contribution, you will never be taxed on any money withdrawn from the account, if you meet withdrawal rules.

You can contribute up to \$5,000 to a Roth IRA, or \$6,000 if age 50 or older.

SOCIAL SECURITY AND MORE

The Social Security Administration says that Social Security makes up the majority of retirement income for 60 percent of retired Americans.

And for retirees in the top 40 percent of household income it still accounts for almost half of their retirement income, it adds.

Current projections by the Congressional Budget office show that Social Security can meet all its obligations through 2038. After that it will collect enough money from payroll taxes to pay 80 percent of promised benefits.



WHO ARE THE 1%?

The Occupy Wall Street protesters say the richest 1 percent are taking advantage of everyone else. But who are they?

Federal Reserve statistics indicate that it takes \$9 million of household wealth to earn admission to the 1 percent. When the 1 percent is defined by annual income, you must make more than \$700,000 to join the club.

NO FORECAST IS PERFECT

Burton Malkiel, economics professor at Princeton and author of “A Random Walk Down Wall Street,” wrote an editorial in the *Wall Street Journal* urging investors to ignore the market’s recent trends and to focus on the long-term.

He acknowledged that neither his nor anyone else’s forecast is perfect, but he said long experience in the markets has taught some basic lessons.

“Investors who have sold out their stock at times when there have been very large declines in the market have invariably been wrong,” he wrote. “We have abundant evidence that the average investor tends to put money into the market at or near the top and tends to sell out during periods of extreme decline and volatility.”

His final advice: stay the course. “No one has ever become rich by being a long-term bear on the fortunes of the United States.”

BLIND TO LONG-TERM CARE

A new survey by Sun Life Financial found that only 36 percent of Americans over 50 believe they will ever need long term care, even though the U.S. Dept. of Health and Human Services estimates that 70 percent may need it.

Single people are more cognizant of the possibility of needing care someday, as are wealthier Americans and those who don’t have children, Sun Life said.

Our Basic Tenets

Our objective is to design portfolios using passive asset class funds that maximize investors’ returns within their tolerance for risk. Here is what sets us apart:

- ◆ Fee-only investment management
- ◆ A disciplined investment strategy
- ◆ Access to institutional no-load passive asset class funds
- ◆ An academic Nobel Prize-winning investment approach
- ◆ Continued access to academic research
- ◆ A tax-efficient focus with valuable tax- and estate-planning ideas
- ◆ Risk tolerance assessment
- ◆ Periodic portfolio rebalancing
- ◆ Regular communications and state-of-the-art reporting
- ◆ No front-end loads, no back-end loads, no surrender fees, not locked in
- ◆ **MOST IMPORTANT ...
A TRUSTED ADVISOR RELATIONSHIP**

**WEALTH
MANAGEMENT** LLC
A REGISTERED INVESTMENT ADVISOR

INTRODUCTIONS—REFERRALS ARE ALWAYS APPRECIATED.

Investments provided through Wealth Management LLC, a Nebraska LLC, Registered Investment Advisor.

This material is derived from sources believed to be reliable, but its accuracy and the opinions based thereon are not guaranteed. The articles and opinions in this publication are for general information only and are not intended to serve as specific financial, accounting or tax advice.