Investor Insights & Outlook

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Politics and Investment Performance

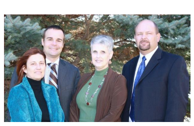
With the Nov. 2 elections come and gone, here's the result of an investigation into the relationship between the composition of the legislative and executive branches of the U.S. government and market performance. The data table displays the average annual returns for the S&P 500® and a 60% stock/40% bond portfolio in three different situations. The "unified" situation refers to years when the Senate, the House of Representatives, and the White House were all controlled by the same party. The "partially divided" situation represents years when the House and Senate were controlled by the same party, but the White House was held by a different party. The "completely divided" situation uses data from years in which the two houses of Congress were divided. Both the S&P 500 and the diversified portfolio averaged the highest returns during unified years, lower returns during partially divided years, and the lowest under completely divided years.

Average Annual Returns
1926–2010

	S&P 500	Diversified portfolio	Number of years
"Unified" years	14.8%	9.9%	45
"Partially divided" years	11.1%	9.5%	30
"Completely divided" years	1.0%	6.8%	10

Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. Diversification does not eliminate the risk of experiencing investment losses. Government bonds are guaranteed by the full faith and credit of the United States government as to the timely payment of principal and interest, while stocks are not guaranteed and have been more volatile than bonds. The time period examined is 1926–2010, and the returns are average annual returns.

Stocks—Standard & Poor's 500 index, which is an unmanaged group of securities and considered to be representative of the stock market in general. Bonds—20-year U.S. government bond.



SeaCrest Wealth Management

Elizabeth Locke

Jeffrey A. Meyer CFA, CFP

Sharon Dunn

Robert Sayler

New Credit Card Rules

On May 22, 2009, the Credit Card Accountability, Responsibility and Disclosure Act was signed into law, and it went into effect on Feb 22, 2010. This piece of legislation was aimed at reforming the worst practices of credit card companies and required the Federal Reserve to issue new rules to ensure that late charges and penalty fees levied on consumers were reasonable. "With this new law, consumers will have the strong and reliable protections they deserve. We will continue to press for reform that is built on transparency, accountability, and mutual responsibility—values fundamental to the new foundation we seek to build for our economy," President Obama said.

According to CreditCards.com, the average credit card debt per household was $15,788 (as of March 2010) and there were 609.8 million credit cards held by U.S. consumers (January 2010 report by Federal Reserve Bank of Boston). Needless to say, the new legislation will have a profound effect on many. Here are some important features of this legislation.

Notification requirements: Credit card companies now need to give cardholders a 45-day notice of changes to the terms of their cards, including interest-rate increases and changes to certain fees, such as annual or late fees. In addition, companies must give the option to cancel the card before certain fee increases take effect (as a side note, keep in mind that closing an account might hurt your credit score). And, it must notify consumers how much they would have to pay each month in order to pay off their balances in three years and how long it would take if only minimum payments are made.

Credit card companies, however, do not have to send this 45-day notice if cardholders have a variable interest rate tied to an index. Moreover, notice is not mandated if an introductory interest rate expires.

Interest-rate increases: Credit card companies cannot increase interest rates for the first 12 months after an account is opened. However, there are exceptions, which include a variable interest rate that is tied to an index, if borrowers are more than 60 days late in paying bills, and if cardholders signed up for a limited-time introductory rate. Introductory rates have to last at least six months under the new act.

If rates change and there is a balance being carried on the account, the prior interest rate will be in effect for that balance. In addition, when balances have multiple rates, any payment above the minimum payment required for that billing period must be applied to the balance with the highest interest rate.

Over-the-limit fees and charges: New rules stipulate that borrowers must tell credit card companies that they want to allow transactions to go past an account's credit limit (otherwise the transaction could be turned down). Those who do not opt-in cannot be charged for over-the-limit-transactions.

Annual fees: Annual or application fees cannot total more than 25% of the initial credit limit, and card companies cannot impose fees for the manner in which customers pay their bills. However, this limit does not apply to penalty fees such as penalties for late payment. So, when shopping for a new card, make sure to avoid cards with annual fees as much as possible.

Billing and payments: Credit card companies need to mail or deliver bills at least 21 days before the payment due date. Due date should be the same date every month, and companies cannot charge a fee to pay by phone, internet, mail or any other channels, except to expedite a payment through a service representative. In addition, companies now can only impose interest charges on balances in the current billing cycle—two-cycle (double-cycle) billing is not allowed.

Major Stock Market Indexes

There are a number of stock market indexes that are frequently mentioned on television and cited in financial newspapers and magazines. They measure various slices of the stock market and can be used as performance benchmarks for both investment vehicles (such as mutual funds) and one's own portfolio returns. Here are three of the most popular and referenced indexes.

Dow Jones Industrial Average: The Dow Jones Industrial Average was first unveiled by Charles H. Dow on May 26, 1896, and consisted of 12 stocks. In 1916, the industrial average expanded to 20 stocks and in 1928 was subsequently bumped to 30, where it currently stands. The index constituents are 30 of the world's largest, most influential and well-known companies. Whenever you hear someone referring to what "the market" did in any given day, they are most likely referring to the Dow.

Changes to the index are rare and usually take place, according to Dow Jones Indexes (www.djaverages.com), "when a current component is going through a major change, such as a shift in its main line of business, acquisition by another company, or bankruptcy. There is no review schedule."

Standard & Poor's 500 Stock Index: When you hear that a portfolio has "beaten the market" it is most likely being compared with the S&P 500, which was first published in 1957. The index is composed of 500 leading companies in leading industries of the U.S. economy, focusing on the large-cap segment of the market but also serving as a proxy for the total market—covering approximately 75% of the U.S. equities market.

The S&P Index Committee follows a set of published guidelines for maintaining the index (complete details of these guidelines are available at www.indices.standardandpoors.com). Some of the criteria for addition include a market capitalization (share price multiplied by shares outstanding) in excess of $3 billion, adequate liquidity (how easy it is to buy and sell shares) and reasonable price and financial viability. Those that substantially violate the criteria are dropped.

Nasdaq Composite Index: Launched in 1971, the Nasdaq Composite Index measures all Nasdaq domestic- and international-based common type stocks listed on the Nasdaq Stock Market. The index includes nearly 3,000 securities. While it is best known for its large portion of technology stocks, it also contains stocks in other industries.

To be eligible for inclusion in this index, securities must be listed on the Nasdaq Stock Market and they need to be of a specific type. For more information, visit www.nasdaq.com.

Please keep in mind that a company can be a member of more than one of the three indexes described above. Microsoft is an example of a company that has a place in all three.

Stock Market Index Comparison

Stock Index	Dow	S&P 500	Nasdaq
Year Introduced	1896	1957	1971
Constituents	30	500	2,900*
Types of Companies	Large, well-known, influential.	Leading companies in leading industries. Focuses on large-cap segment.	Large number of technology stocks. Also stocks in other industries.
Index Modifications/ Eligibility	Companies undergoing a major change can lead to a modification.	Market cap in excess of $3 billion, adequate liquidity/ reasonable price, financial viability.	Listed on Nasdaq Stock Market and needs to be specific security type.
Examples of Current Constituents*	Walt Disney, Johnson & Johnson, Coca-Cola, McDonald's, Walmart	AT&T, Boeing, General Mills, Procter & Gamble, Google	Apple, eBay, Cisco, Dell, Yahoo!

*As of 12/02/2010

Stocks are not guaranteed and are more volatile than other asset classes. The information above is provided for illustrative and information purposes only. The indexes noted are unmanaged and can not be directly invested in. References to specific securities should not be viewed as a recommendation to buy or sell the mentioned security.

The Rollover IRA, Taking It With You

One of the most convenient and flexible options for dealing with a retirement plan from your ex-employer is to transfer the money to a Rollover Individual Retirement Account. A Rollover IRA is, in essence, a traditional IRA where you can park the cash you're transferring from your old employer's retirement account. The money you invest in a Rollover IRA accumulates tax-free until you take it out in retirement, just as it does in a defined-contribution retirement plan (401k). You can open a Rollover IRA with just about any investment firm, including mutual fund companies, insurance companies, and online brokers. You're allowed to invest the money in stocks, mutual funds, bonds, and other types of investments. That's why the Rollover IRA is your most flexible choice when leaving a job.

You have a number of options after you open your Rollover IRA, too. Of course, you can leave it alone until you retire. But if you move on to a new job, you may be able to transfer the money you have invested in your Rollover IRA into your new employer's retirement plan (assuming the qualified retirement plan has language permitting such rollovers). And if a Roth IRA is more to your liking, you can convert your Rollover IRA into a Roth IRA, if you meet the criteria.

Keep in mind that you can't take a loan from a Rollover IRA as you can from some employer-sponsored retirement plans. Moreover, Rollover IRAs are also subject to the same withdrawal limits as other tax-deferred retirement accounts. So, if you take any money out before you turn 59½, you'll pay a 10% early withdrawal penalty in addition to taxes.

Returns and principal invested in stocks are not guaranteed. Stocks have been more volatile than bonds.

SeaCrest Wealth Management
840 Mt. Rushmore Road, Suite 201
Rapid City, South Dakota 57702