

Investor Insights & Outlook

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Investment Updates

Securing Your Portfolio

There are a number of ways you can protect your portfolio and your financial well being. Chief among them are insurance, estate planning and protection from identity theft. While nobody likes to talk about insurance (except, of course, those who sell it), some individuals should protect themselves with some basic policies. Here are a few examples.

It's a good idea to purchase a life insurance policy when you have a child. You'll want enough coverage to pay off the mortgage and get the kid(s) through college. Health insurance, of course, is a must. Many people jeopardize their retirement planning by not factoring in the cost of health insurance before Medicare kicks in. If you retire before age 65, be sure to investigate the costs. Disability insurance will help you get through an extended period of time without work. Long-term disability coverage typically provides 60% to 70% of your current income should you run into this unfortunate situation. Also, carrying the appropriate property and casualty insurance

(homeowner's, auto, for example) can help you avoid liability lawsuits.

Once you have insurance covered, protect your estate. By neglecting the proper estate documents, you run the risk of damaging your assets. A simple will should suffice for many people. Failure to have a will in place upon your death can mean that your spouse or kids won't get what you intended for them. An attorney can put together a will for you or provide you with more information.

And remember: Always protect your identity. We all know how bad it can be to lose a wallet. Identity theft is even worse, and the number of incidents is unfortunately on the rise. A few simple steps can help prevent this from happening: Invest in a shredder and use it on financial papers, and get a copy of your credit report and verify the information on it.

SEACREST
WEALTH MANAGEMENT, LLC.



jmeyer@seacrestim.com
www.seacrestwm.com

SeaCrest Wealth Management

Elizabeth Knox
Jeffrey A. Meyer CFA, CFP
Sharon Dunn
Robert Sayler

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U.S. Stocks and Bonds Before and After Taxes

Even though investors don't always realize it, taxes can have a dramatic effect on an investment portfolio, especially in today's relatively uncertain tax environment. The tax law enacted in December 2010 was only intended to last for two years, and new changes may be effected in 2013.

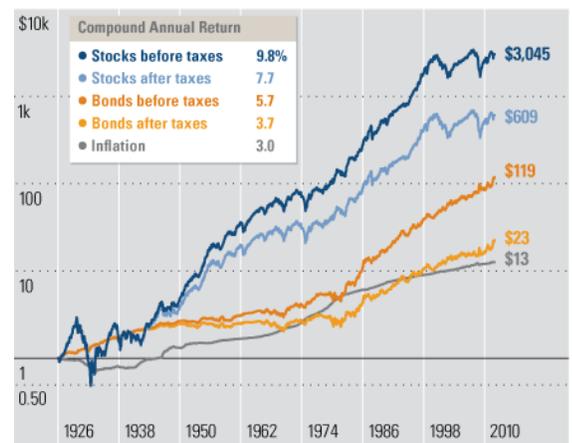
The image illustrates the hypothetical growth of inflation and a \$1 investment in stocks and bonds before and after taxes since 1926. Over the long run, the adverse effect of taxes on investment returns becomes especially pronounced. Stocks are the only asset class depicted that provided any significant long-term growth. After considering taxes, government bonds barely outperformed inflation over this time period. In a world with taxes, focusing on fixed-income assets alone has not provided investors with a substantial increase in wealth. If you desire substantial after-tax growth, you may want to consider a larger allocation to stocks. Another alternative, if you are able, is to consider tax-deferred investment vehicles.

Government bonds and Treasury bills are guaranteed by the full faith and credit of the U.S. government as to the timely payment of principal and interest, while stocks are not guaranteed. Stocks have been more volatile than the other asset classes.

Federal income tax is calculated using the historical marginal and capital gains tax rates for a single taxpayer earning \$110,000 in 2010 dollars every year. This annual income is adjusted using the Consumer Price Index in order to obtain the corresponding income level for each year. Income is taxed at the appropriate federal income tax rate as it occurs. When realized, capital gains are calculated assuming the appropriate capital gains rates. The holding period for capital gains tax calculation is assumed to be five years for stocks, while government bonds are held until replaced in the index. No capital gains taxes on municipal bonds are assumed. No state income taxes are included.

Stocks in this example are represented by the Standard & Poor's 90 index from 1926 through February 1957 and the S&P 500® index thereafter, which is an unmanaged group of securities and considered to be representative of the U.S. stock market in general. Government bonds are represented by the 20-year U.S. government bond, and inflation by the Consumer Price Index. An investment cannot be made directly in an index.

U.S. Stocks and Bonds Before and After Taxes: 1926–2011



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.

Five Key Questions About Long-Term Care Insurance

In addition to typical medical expenses in retirement, you should also consider the cost of long-term care arrangements should you need professional care in your later years, either in-home or in an assisted living facility. There's a good chance you'll need assistance, and it won't be cheap.

According to the 2011 MetLife Market Survey of Nursing Home, Assisted Living, Adult Day Services, and Home Care Costs, the average annual cost for a private room at a nursing home in 2011 was \$87,235. The national average for a semi-private room was \$78,110. The national average for an individual living in an assisted living community was \$41,724.

In most cases, long-term care health insurance coverage provides benefits for nursing homes, assisted living facilities, and home care. If you can afford the premiums, you may want to consider purchasing long-term care insurance. Here are some of the key questions to keep in mind.

How Likely Are You to Need It? This depends on your general health, family history, and expected longevity. For example, if your family has a history of serious medical conditions, dementia, or Alzheimer's disease, you may have a stronger reason to consider this type of insurance.

What's Your Asset Level? Those who come into retirement with less than \$250,000 in assets will probably have better uses for their money than paying premiums for long-term care insurance; they may also be eligible for Medicaid if they should need long-term care. Those with more than \$2 million in assets may be able to pay for this type of care out of pocket. If your portfolio falls in the middle of this range, however, you may be a good candidate for this type of coverage.

What Kind of Coverage Do You Need/Want? The key differentiator in the pricing of long-term care insurance policies is the amount of daily benefit you're buying; you'll obviously pay more

for a policy that pays \$150 of your long-term care costs per day versus one that pays just \$100. You'll also be able to specify whether you'd like your daily benefit to step up with inflation; even though such a feature will cost you, it's highly advisable given that health-care inflation rates have been far outstripping inflation as a whole during the past few decades.

Another factor to evaluate is the total lifetime benefit. For example, a policy may cover \$250,000 in lifetime long-term care benefits, or the lifetime benefit may be unlimited. Some policies are comprehensive, meaning the patient can obtain care in a variety of settings, from a traditional nursing home to care at home. Cheaper policies, however, will only pay for care in a traditional setting, usually a nursing home. Policy costs can also vary based on the length of your elimination period, which is similar in concept to an insurance deductible. If your policy has an elimination period of 30 days, for example, that means you'll have to pay for any long-term care costs you incur in the first 30 days of your illness; after that period has elapsed, your insurer will pick up all or part of the tab, up to your daily benefit amount.

How Would You Like to Pay for That? Under a traditional long-term care policy, you make regular payments during the life of that policy. But you can also customize your payment program, paying for your policy in a single payment, over 10 or 20 years, or until you hit age 65. Such payment options allow you to front-load your payments and reduce your fixed costs in retirement.

How Likely Is the Company to Pay? It probably is a good idea to check up on the insurer's financial strength. Also ask your agent about the insurer's history of raising client long-term care premiums. Although such maneuvers can improve a firm's financial health, they can also present a financial hardship to the insured, a lesson many long-term care policyholders learned the hard way during the past few years.

The Importance of Staying Invested

Investors who attempt to time the market run the risk of missing periods of positive returns. The image illustrates the value of a \$100,000 investment in the stock market during 2000–2006, which included the bear market of 2001 and the recovery that followed. The value of the investment dropped to \$57,537 by September 2002 (trough date). If an investor remained invested in the market over the next three years, however, the ending value would be \$91,488. If an investor exited the market at the bottom to invest in cash for a year and then re-entered, the ending value would be \$74,403. An all-cash investment would have yielded only \$60,252. Even though the continuous stock-market investment did not recover its initial value after three years, it still provided a higher ending value than the other two strategies. Investors are well advised to stick with a long-term approach to investing.

Ending Wealth Values After a Market Decline



Source: The market is represented by the Standard & Poor's 500[®], which is an unmanaged group of securities and considered to be representative of the stock market in general. Cash is represented by the 30-day U.S. Treasury bill. An investment cannot be made directly in an index. The data assumes reinvestment of income and does not account for taxes or transaction costs. Returns and principal invested in stocks are not guaranteed. Stocks have been more volatile than bonds or cash. Holding a portfolio of securities for the long term does not ensure a profitable outcome and investing in securities always involves risk of loss.

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SEACREST
WEALTH MANAGEMENT, LLC.

SeaCrest Wealth Management jmeyer@seacrestim.com
840 Mt. Rushmore Road, Suite 201 www.seacrestwm.com
Rapid City, South Dakota 57702