Investor Insights & Outlook

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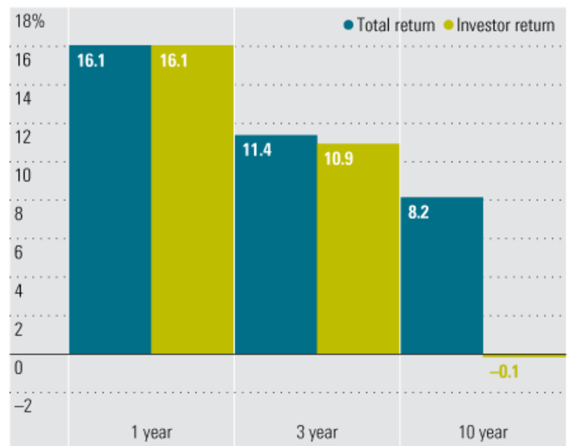
Chasing Performance

Investors often endure poor timing and planning as many chase past performance. They buy into funds that are performing well and initiate a selling spree following a decline. This becomes evident when evaluating a fund's total return compared with the investor return. Overall, the investor return translates to the average investor's experience as measured by the timing decisions of all investors in the fund.

The image illustrates the investor return relative to the total return for a given fund. Over the short term, both the total and investor returns were positive and relatively similar. Over a 10-year period, however, total return greatly exceeded investor return. Investors who attempted to time the market ran the risk of missing periods of exceptional returns.

Comparison of a Fund's Return Performance Over Time



Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. Returns and principal invested in stocks are not guaranteed. Morningstar investor returns measure how the typical investor in that fund fared over time, incorporating the impact of cash inflows and outflows from purchases and sales. It is not one specific investor's experience, but rather a measure of the return earned collectively by all the investors in the fund. Total return measures the percentage change in price for a fund, assuming the investor buys and holds the fund over the time period, reinvests distributions, and does not make any additional purchases or sales. Investor returns are not a substitute for total returns but can be used in combination with them. Data as of October 2012.

Source: The fund illustrated in this example was selected from Morningstar's open-end database.

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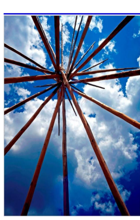

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A Partner with Proven Expertise
We understand the unique challenges that come with managing wealth. We serve as a trusted partner for individuals and families, providing wealth management guidance and solutions based on a thorough understanding of each client's situation and goals.
We bring proven expertise to bear on every aspect of a client's wealth: from accumulation and growth through preservation and distribution. By taking an objective and proactive approach that reflects the nuances and complexities of each situation, we continue to build trusted relationships.

Dividend Income During Downturns

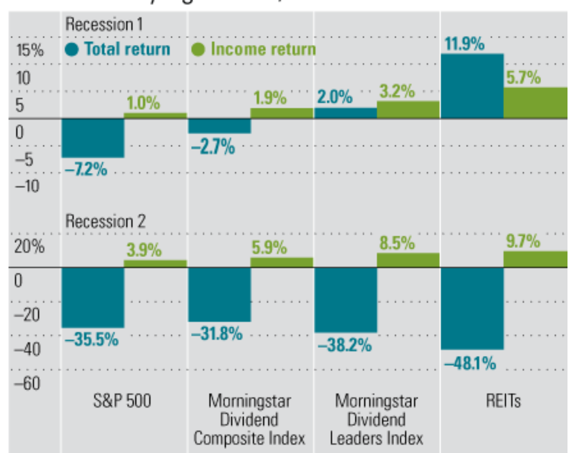
During a recession, the stock market can lose significant value. This could have a large impact on portfolio returns. Predicting the duration and extent of recessionary periods is almost impossible. During such times, income-producing investments such as dividend -paying stocks and REITs may soften losses, particularly when investors incur negative returns. This means that, if and when dividends are paid out, they have the potential to act as a cushion and are positive whether stock returns are positive or negative.

The image compares the total return and income return for the S&P 500 index, Dividend Composite index, Dividend Leaders index, and REITs for the past two recessions in 2001 and 2007. As seen in the image, dividend-paying stocks and REITs produced higher income returns relative to the S&P 500 over the given time periods (however, keep in mind that REITs are far more risky than their typical common stock counterparts). Stocks that pay dividends may serve as an income source while also providing investors with exposure to the growth potential of the stock market.

Dividends are not guaranteed and are paid at the discretion of the stock-issuing company. 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 and REITs are not guaranteed and have been more volatile than the other asset classes. REITs are subject to certain risks, such as risks associated with general and local economic conditions, interest rate fluctuation, credit risks, liquidity risks and corporate structure. REITs must distribute at least 90% of taxable income annually to shareholders.

The Morningstar Dividend Composite Index captures the performance of all stocks in the U.S. Market Index that have a consistent record of dividend payment and have the ability to sustain their dividend payment. Stocks in the index are weighted in proportion to the total pool of dividends available to investors. The Morningstar Dividend Leaders Index captures the performance of the 100 highest yielding stocks that have a consistent record of dividend payment and have the ability to sustain their dividend payments. Stocks in the index are weighted in proportion to the total pool of dividends available to investors. Recession data is from National Bureau of Economic Research (NBER) and defined by the periods March 2001–November 2001 and December 2007–June 2009. NBER does not define a recession in terms of two consecutive quarters of decline in real GDP. Rather, a recession is a recurring period of decline in total output, income, employment, and trade usually lasting from six months to a year and marked by widespread contractions in many sectors of the economy.

Returns of the S&P 500®, Dividend-Paying Stocks, and REITs



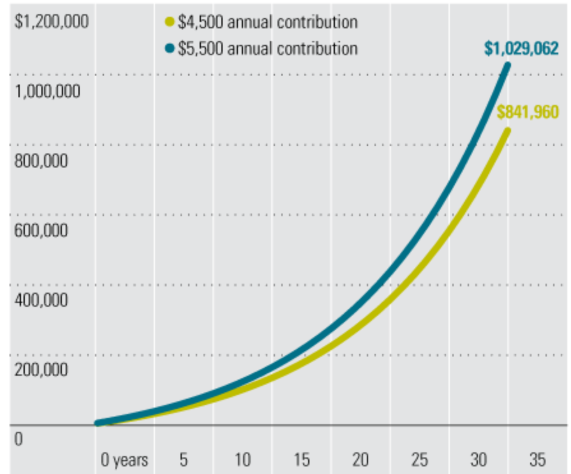
Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. S&P 500 is represented by the Standard & Poor's 500®, which is an unmanaged group of securities and considered to be representative of the stock market in general. REITs are represented by the FTSE NAREIT All Equity REIT Index®. Morningstar Dividend Composite is represented by the Morningstar Dividend Composite Index, and Morningstar Dividend Leaders by the Morningstar Dividend Leaders Index. Income return and total return are represented by the compound annual return over the given time period.

Don't Forget to Raise Your IRA Contribution

In 2013, contribution limits for both traditional and Roth IRAs (individual retirement accounts) will increase to $5,500 a year for those 49 years of age or younger. If you are 50 or older, the maximum contribution is $6,500. This limit can be split between a traditional and a Roth IRA. These annual contribution limits are imposed by the Federal Government.

The graph shows both a $4,500 and $5,500 annual contribution growing at a hypothetical 8% annual return. Notice the dramatic impact on the ending value of the portfolio. This may be a great time to re-evaluate your financial situation and increase your annual investment to your IRA. Even if you are unable to max out your contribution, any increase you can afford may help you reach your savings goals more easily in the long run.

Hypothetical Growth of Annual IRA Contribution



This is for illustrative purposes only and not indicative of any investment. Funds in a regular IRA grow tax-deferred and are taxed at ordinary income tax rates when withdrawn. Contributions to a Roth IRA are not tax-deductible, but funds grow tax-free as money withdrawn is not taxed. Penalties may apply for withdrawals prior to the age of 59 1/2.

Gold Rush

Gold prices reached an all-time high of $1,895 per ounce in September 2011 as investors, weary of volatile equity markets and a U.S. credit downgrade, poured money into tangible assets.

Predicting commodity returns is difficult enough given the very broad spread, high volatility, and problems associated with this type of investment. It has become even harder as a result of the uncertainty created by E.U. sovereign debt issues and their potential impact on the United States. Gold, however, could remain favored by many investors worried that a far worse fate awaits. Scarce supply and strong demand may keep prices high for a while. However, investing in gold can be speculative and the role of commodities in a long-term asset allocation is typically small compared with that of equities and fixed income.

Gold (London PM price per oz.)

Gold prices are from the London Bullion Market Association and represent the London P.M. daily closing prices per troy ounce in USD. Diversification does not eliminate the risk of experiencing investment losses. Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. Transactions in commodities carry a high degree of risk and a substantial potential for loss. Trading in commodities is not suitable for many members of the public. You should carefully consider whether this type of trading is appropriate for you in light of your experience, objectives, financial resources and other relevant circumstances. Gold, like any other coin or bullion, is subject to investment risks like perceived scarcity, its quality, current demand, market sentiment, and economic factors. There are material differences between investing in gold versus investing in stocks and bonds. Such differences may include investment objectives, costs and expenses, liquidity, safety, fluctuation of principal or return, insurance, tax features, and any other investment characteristics.

IRA Dos and Don'ts

Do

Think of the IRA as a way to take control of your finances amid an unpredictable market: You know that old saying about having the wisdom to know what you can and can't control? Well, you can't control the market's ups and downs, but you certainly can make sure that your investments are as good as they can be, that your investment costs are low, and that you're taking advantage of every tax-sheltered opportunity available, such as contributing to an IRA.

Bear in mind your overall asset-allocation plan: Size up your whole portfolio's stock/bond/cash mix and take note of any big sector or style biases; also note any gaping holes in your portfolio. You can also compare your portfolio with a target-date fund designed for someone in your age range. If you find that you need to add to your holdings in a certain asset class or investment style, your IRA is a logical place to start.

Use an IRA calculator: These tools (make sure they are on a trusted and reputable Web site) can help you identify the IRA type that you're eligible to contribute to and will allow you to maximize your return once taxes are factored into the equation. Moreover, they can provide valuable guidance in determining whether converting from a traditional IRA to a Roth makes sense.

Don’t

Forget about your spouse: Married couples that include a working and non-working spouse can maximize their after-tax results by setting up IRAs for both individuals. A so-called spousal IRA is an option as long as you file a joint return and the working spouse has earned enough qualifying income (be aware of limitations) to fund both his or her own IRA and that of the spouse.

Assume that you need a lot of cash on hand to invest in an IRA: A strategy, called dollar-cost averaging, is a systematic way of investing equal dollar amounts at predetermined times. It allows an investor to purchase more shares of an asset when the price is low, and fewer shares when the price is high. It also makes an IRA a more-affordable option if you don't have the full contribution amount on hand.

Assume that you don't need to contribute to an IRA if you already contribute to a 401(k): If you're maxing out your 401(k), you should consider an IRA as well because IRAs can help you diversify the tax treatment of your retirement assets. For example, if you're contributing the max to your 401(k), you'll owe taxes on a considerable amount of assets when you retire and begin tapping the assets. Withdrawals on Roth IRA assets, meanwhile, will be tax-free. By hedging your bets among the two vehicles, you have less riding on a wager about whether tax rates will be higher or lower in the future; you also maximize your tax-deferred savings.

Shelter investments with tax benefits inside an IRA: IRAs already offer tax-deferred (or in the case of a Roth, tax-free) compounding, so there's no need to stash tax-advantaged instruments like municipal bonds within them. Save those for your taxable accounts and consider IRAs only after you've maxed out your tax-sheltered options.

Be sure to consult with a financial advisor or tax professional for the latest rules and regulations. Stocks are not guaranteed and have been more volatile than bonds. Municipal bonds may be subject to the alternative minimum tax and state/local taxes, and federal taxes apply to any capital gains distributions. Funds in a traditional IRA grow tax-deferred and are taxed at ordinary income tax rates when withdrawn. Contributions to a Roth IRA are not tax-deductible, but funds grow tax-free, and can be withdrawn tax free if assets are held for five years. A 10% federal tax penalty may apply for withdrawals prior to age 59 1/2. Please consult with a financial or tax professional for advice specific to your situation.

Assessing the Student Loan Landscape

These days, borrowing to pay for college has become a lot more defensive. Not only may student-loan terms be less attractive than they were in the past, but new graduates may also get squeezed if they have to begin repaying their loans before they land a job. Owing in no small part to the still-anemic economic recovery, the student loan default rate has been on the rise, according to the U.S. Department of Education (September 2012).

As with mortgage borrowers, student-loan shoppers face a bewildering array of options that carry varying interest rates, fees, and terms. In all, it pays to do your homework and investigate other alternatives before signing on the dotted line for a student loan.

Determine Your Need: The first step in the college-funding process is to determine how much of your child's education expenses your family will likely be on the hook for. Submitting the Free Application for Federal Student Aid (FAFSA) is the way to officially check on financial aid eligibility, and your specific package will vary by school.

Discuss the Payoff: If it looks like you and/or your child will have to borrow a sizable sum to cover the cost of college, it's wise to begin discussing those numbers in the context of your child's expected career path. If your child will graduate with $100,000 in student-loan debt but plans to venture into a field where starting salaries are in the $25,000 per year range, it doesn't take a math major to see that it will take many years to retire that debt, and doing so could impede your child's ability to reach other financial goals.

Know the Different Types: College loans come in a number of different varieties, but there are a few key categories to be aware of. The first choices for most students seeking additional funding are those extended by the federal government. Perkins loans are available exclusively to low-income students. Stafford loans come in two key varieties. With subsidized Stafford loans, students aren't on the hook for interest until after graduation, but with unsubsidized Stafford loans, interest begins accruing immediately. Students applying for subsidized Stafford loans must demonstrate financial need, whereas students needn't demonstrate financial need to qualify for unsubsidized Stafford loans. The second key category is federal loans made directly to parents, usually called PLUS loans. On the positive side, parents can typically borrow much more than students. However, interest begins accruing immediately and payments must also begin immediately. The final student-loan category is a private loan extended by a bank. In general, the cost of a private student loan can be much higher than that of a federal loan.

Don't Overestimate the Value of the Interest Deduction: You may have heard that you'll be eligible to deduct the interest on student loan debt. That's true, but don't overestimate the value of that deduction. In 2012, you can only deduct $2,500 in student loan interest per year; single parents earning more than $75,000 and married couples filing jointly who earn more than $150,000 per year cannot deduct the interest at all.

Consider Additional Options: Rather than assuming student loans are the only way to cover the cost of college, it's important to take a step back. Fully exploring financial aid packages, scholarships, and work-study programs can help reduce the strain that such loans can impose on families and new graduates; some grandparents may also have the wherewithal to help defray college costs. Parents may also contemplate tapping home equity lines of credit or using their own savings plans to fund college.

Please consult with a financial or tax professional for advice specific to your situation.

Risk, Not Volatility, Is the Real Enemy

What would you do if your investments lost 10% in a single day? A) Add more money to my account. B) Hold steady with what I've got. C) Yank my money; I wouldn't be able to stand any more losses.

If investors buy the right investments but sell them at the wrong time because they can't handle the price fluctuations, they may have been better off avoiding those investments in the first place. Most investors are poor judges of their own risk tolerance, feeling more risk-resilient in up markets and more risk-averse after market losses. However, focusing on an investor's response to short-term losses inappropriately confuses risk and volatility. Understanding the difference between the two and focusing on the former is a potential way to make sure you reach your financial goals.

Volatility encompasses the changes in the price of a security, a portfolio, or a market segment, both on the upside and downside, during a short time period like a day, a month, or a year. Risk, by contrast, is the chance that you won't be able to meet your financial goals or that you'll have to recalibrate your goals because your investment comes up short. So how can investors focus on risk while putting volatility in its place? The first step is to know that volatility is inevitable, and if you have a long enough time horizon, you may be able to harness it for your own benefit. Diversifying your portfolio among different asset classes can also help mute the volatility. It helps to articulate your real risks: your financial goals and the possibility of falling short of them. Finally, plan to keep money you need for near-term expenses out of the volatility mix altogether.

Investing in securities always involves risk of loss. Diversification does not eliminate the risk of experiencing investment losses.

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