Money Minute

Financial Planning & Investing Newsletter

"Smart Ideas for Secure Finances"

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Inside This Month's Issue:

PROVIDED BY

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FEATURE

Making Sense of an Odd, Volatile Stock Market in 2011

Chances are you have money invested in the stock market through an IRA, 401(k) or other investment account. If so, you're probably aware that it was quite an up-and-down year for stocks and your accounts. I ran across a great article by an advisor named Gregg Fisher that gives a neat perspective on the wild yet boring year for stocks that was 2011. All credit for this month's feature goes to him.

Mr. Investor fell into a deep sleep after drinking too much champagne and eggnog at his New Year's party on December 31, 2010. He awoke on December 31, 2011—just in time for the next bibulous New Year's party—and glanced at his portfolio. His $100,000 holding of S&P 500 Index stocks was now worth $102,100, a gain of 2.1%, with all of the return coming from dividends. My, what a boring, uneventful year it was for the market and for me, thought Mr. Investor. Just for fun, he reviewed some of the Wall Street Journal headlines and stock market action of 2011. A sampling of these follows:

***S&P Strips US of Top Credit Rating** (8/6/11)

***Downgrade Ignites a Global Selloff** (8/9/11)

***Stocks Dive Again on Europe, Economy Fears** (8/11/11)

***Stocks Log Worst Quarter Since '09** (10/1/11)

Next, looking at some 2011 charts, Mr. Investor notes a huge spike in volatility from August and some wild swings in the market. The S&P 500 index experienced daily moves of 2% or more 35 times, nearly double the average since 1927, and the average daily price movement in 2011 was nearly four times the average daily swing. Mr. Investor concedes that if he had awoken from his slumber during 2011, he quite likely would have been unnerved by the elevated volatility and made some bad investment decisions out of fear.

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QUOTE OF THE MONTH

"Be at war with your vices, at peace with your neighbors and let every new year find you a better person."

~BENJAMIN FRANKLIN, politician and statesman

IN THE NEWS…

Social networking website Facebook crossed the 800 million user mark worldwide! 80% of users are outside of the U.S., and the site is available in 70+ languages.

Source: Facebook.com

Ideas for Success

Periodically Rebalance Your Account for Best Results

"Ideas for Success" articles are hypothetical stories adapted from Money Minute readers and R1 Financial Group clients. Solutions mentioned should not be construed as investment advice or offers to purchase any product. Please consider your investment goals and risks and consult a financial advisor before making any financial decision.

SCENARIO:

The start of a new year is a time when many investors take inventory of their investment accounts, review their holdings and ponder changes. It is also a time when investors with a diversified basket of investments realize that their individual investments performed very differently from one another over the past calendar year. Some investments will have gained in value, some will have lost value, and some will have stayed relatively even. For example – in 2011:

*Large company U.S. stocks (measured by the S&P 500) returned a +2.1% gain.

*Small company U.S. stocks (measured by the Russell 2000) lost over 5%.

*International and emerging markets stocks fared even worse, losing 11-16%.

*Bonds (measured by the Barclays U.S. Aggregate Bond Index) gained over 9% for the year.

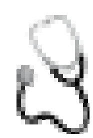
An investor who held a defined mix of these assets to start the year would have ended the year with a very different mix.

SOLUTION:

A well-established solution to this problem is known as "account rebalancing". This entails selling portions of investments that did relatively well during the previous year (and now represent a larger than intended share of one's portfolio) and using the proceeds to buy investments that did relatively poorly during the previous year (and now represent a smaller than intended share of one's portfolio). In essence, it is restoring the original investment mix to a portfolio that has become out of balance during the year....hence, the term rebalancing.

Rebalancing does not ensure a profit. What it does do is cause an investor to "buy low" and "sell high" - relatively speaking. This is the fundamental goal of most investors, and thus has the potential to enhance returns. More importantly, it restores an account's originally intended risk-reward profile - which will naturally change due to varying investment fluctuation. Lastly, rebalancing gives investor's a clear reason to sit down and closely review their accounts and reassess their overall goals and objectives.


YOUR HEALTH

3 Ways to Supercharge Your Immune System

Vitamin C is a well-known and powerful immune system booster. Here are three lesser known but also very potent ways to improve the functioning of your immune system:

***Up Your Vitamin E Intake.** Vitamin E stimulates the production of natural killer cells, those that seek out and destroy germs and cancer cells. Vitamin E enhances the production of B-cells, the immune cells that produce antibodies that destroy bacteria. Vitamin E supplementation may also reverse some of the decline in immune response commonly seen in aging.

***Get More Zinc.** Zinc increases the production of white blood cells that fight infection and helps them fight more aggressively. It also increases killer cells that fight against cancer and helps white cells release more antibodies. Zinc supplements have been shown to slow the growth of cancer, and it increases the number of infection-fighting T-cells, especially in older people who are often deficient in zinc. Zinc-fortified cereals are a good source of zinc along with oysters, crab, beef and turkey (dark meat).

***Eat Garlic.** Garlic stimulates the multiplication of infection-fighting white cells, boosts natural killer cell activity, and increases the efficiency of antibody production. The immune-boosting properties of garlic seem to be due to its sulfur-containing compounds.

*Source(s): MayoClinic.com

Ask Money Minute

Questions can be e-mailed to: Brad@R1FinancialGroup.com

Q. "After the last few years I'm still uneasy of putting a large amount of money into the stock market. I'm curious – how often do stocks lose money?"

-Steven – Dallas, TX

A. This issue is on many people's minds, and I'm sure the answer to your question will surprise many people. Looking at calendar year returns for large U.S. stocks dating back to 1926, the stock market has produced positive returns in roughly 72% of those calendar years and negative returns in roughly 28% of those years. U.S. stocks, as measured by the S&P 500 index, have produced positive returns in every calendar year from 2003 – 2011 with the exception of 2008, when they lost 37%. In 2009, the S&P 500 index was up 27%, in 2010 up 15%, and in 2011 up 2.1%.

What is remarkable is that investors have been bombarded by negative, doom-and-gloom headlines relentlessly since the beginning of the "great recession", yet we have now witnessed three consecutive years of positive gains for U.S. stocks. The moral of the story: tune out the fear-based, emotionally-driven media headlines when it comes to making investment decisions and don't try to time the market. Also - stick to the facts and realize that stocks have historically been a superior long-term investment vehicle for investors willing to ride out the ups and downs.

Q. "I inherited an IRA from my mother and would like to know when I have to begin taking money out of the account. Thank you."

-George – McKinney, TX

A. The rules for inherited IRAs can be found in IRS Publication 590, which can be found online or by calling the IRS. The publication does a good job of explaining when a beneficiary must begin taking distributions, and I highly recommend getting your hands on a copy. To answer your question – in general, non-spouse beneficiaries must begin taking required minimum distributions (RMD) from an inherited IRA in the year following the year of the death of the original IRA owner. The RMD must be taken in the year of death if the original owner was over age 70 ½ and had not yet taken his RMD for that year. The dollar amount is based on the account balance at the end of the previous year and your age.

Some other things to know:

- -You are allowed to withdraw more than the RMD.
- -If you with draw more than the RMD amount, it does not reduce your RMD for future years.
- -Withdrawals will be taxed to you as ordinary income in almost all cases. No early withdrawal penalties will apply even if you are under age 59 ½.

Good luck and call our office if you'd like assistance.

Money Minute Trivia Question

Enigmatic leader Kim Jong Il recently died after 17 years in power. What Asian country did he lead?

A) North Korea *B) Indonesia* *C) Cambodia* *D) Vietnam*

*Visit **www.Client Portal123.com** to submit your answer. Each month one winner is randomly drawn out of all correct responders to receive a **$25 gift card to a local restaurant**!

Last Month's Winner – *George T.* of Allen, Texas

Question: Tryptophan, a chemical that is incorrectly blamed for its sleep-inducing properties, is found in what popular Thanksgiving food?

A) Cranberry sauce *B) Green beans* *C) Gravy* ***D) Turkey**

Market and Economic News

2011 came to an end with the U.S. stock market, as measured by the S&P 500 index, finishing with a modest 2.1% gain for the year, all from dividends. Of course, the year was anything but smooth as the U.S. market climbed 8% during the first half of the year, fell over 16% in late July and early August, then recovered from a low point in October to finish the year almost exactly where it began. The employment situation continued to improve as the unemployment rate ended the year at 8.6% as compared to 9.8% in December of 2010. U.S. corporate earnings rose each quarter as did gross domestic product (GDP), and while the pace of recovery is still seen as sluggish by many, the numbers clearly indicate that a recovery is indeed underway.

At a Glance…
(as of January 4) **DJIA** – 12,418 **S&P 500** – 1,277 **NASDAQ** – 2,648 **10-yr T-note** – 2.00%

Making Sense of an Odd, Volatile Market in 2011

(Continued from page 1)

The Randomness of Events

So, what should we make of 2011, a year that was so eventful in media headlines and volatility, yet so uneventful in terms of calendar-year market movement? On an index-only basis, the S&P 500 was perfectly flat in 2011. Since 1926, according to our research, the index had returned between minus and plus 1% only three times before, most recently in 1970. The S&P 500's long-term annualized return is 9%-10%, yet there has never actually been a single year with a 9% return, and 10% has only occurred twice, in 1993 and 2004.

The media may harp on statistical noise like this, but it is essentially meaningless for investors. One calendar year's statistic, such as the rarely experienced flat return of 2011, does not portend the following year's return. **Market lore like this is fun to talk about, but not something that you should let influence your investment thinking or anchor your future thoughts on stocks**.

But why the great disconnect in 2011 between the almost unrelentingly scary headlines on the one side and market returns on the other? The answer may be that the underlying forces driving our economic growth are more stable than the headlines suggest. Quietly, despite the best (or worst) efforts of Congress, the US unemployment rate has steadily declined from over 10% at the peak down to 8.6% last month, its lowest level in three years. Factory output is rising, consumer spending has been surprisingly strong, and for the first time in decades, the US is a net energy exporter of refined oil products. Profits, economic growth and jobs are ultimately created by the ingenuity and hard work of millions (or, globally, billions) of people who come to work every day, put their heads down and accomplish the tasks set before them.

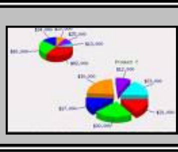
Making Fortune Tellers Look Good

Investors should beware of forecasters, so beloved by the media, who claim an ability to read the tea leaves. For instance, at the end of 2010 a Barclays Capital Global Macro Survey of more than 2,000 institutional investors concluded that equities would be the best-performing asset class of 2011. The consensus prediction called for a 15% gain for the S&P 500 in 2011. More than four times as many thought that equities would perform better than bonds. As Warren Buffett said: "We've long felt that the only value of stock forecasters is to make fortune tellers look good…. I continue to believe that short-term market forecasts are poison and should be kept locked up in a safe place, away from children and also from grown-ups who behave in the market like children."

There's a large element of randomness in one calendar year's return, shaped by events that one can neither control nor predict. Instead of succumbing emotionally to inevitable market swings, focus on what you *can* control. For instance, volatility scares people, but for long-term investors it creates opportunities to sell high and buy low; to rebalance asset allocations; and to improve returns through adroit tax-loss harvesting.

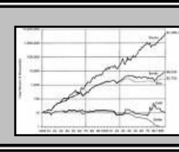
Conclusion

When investing, investors should try to filter out noise in the media and not read too much into one year of market statistics. Also - it is not easy due to human nature - but do not be swayed by high market volatility, which after all tends to follow and not precede bad stock markets. Those who bailed out after the market took any of its many tumbles in 2011 would have risked missing the year's many improbable, unpredictable recoveries. Mr. Investor came out all right–and suffered a lot less anxiety than the rest of us.



UP CLOSE

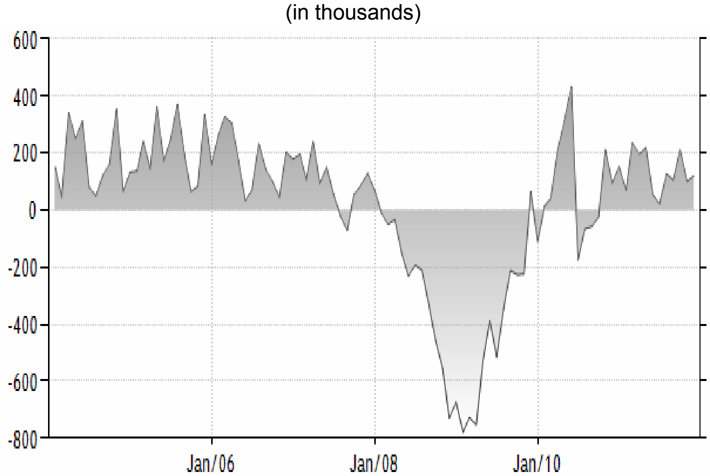
In-Depth Information for Smart Investors



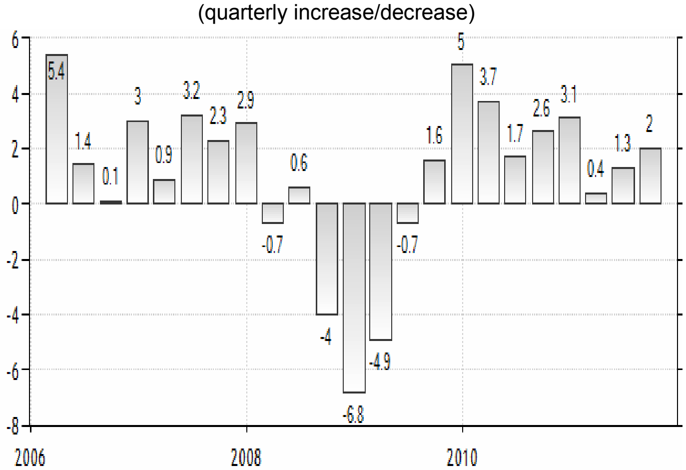
Current State of Jobs and the Economy: Better Than You Think?

Poll 100 people walking down the street about their thoughts on the U.S. economy, and the majority of responses will be decidedly negative. Clearly the economy is still suffering a hangover from the recession of 08-09, and daily headlines over concerns in Europe do nothing to improve public perception. Sentiment aside, what story do the facts tell us currently about the state of the union? This month's Up Close looks at two critical pieces of information - monthly job growth and gross domestic product (GDP) - to see if they tell a different story.

Monthly U.S. Job Growth (or Loss)
(in thousands)



% Change in U.S. Gross Domestic Product
(quarterly increase/decrease)



Source: Trading Economics, Bureau of Labor Statistics

*__Job Growth__ – after almost 2 years of massive layoffs from 2008 - 2010 (and a brief spike in hiring due to temporary census workers), the economy has produced **14 consecutive months of positive job growth**. Last month, 120,000 net new jobs were created last month. This is short of the 200K+ jobs per month that is considered enough to meaningfully reduce the unemployment rate, but 2011 was clearly an important step in the right direction.

***Economic Growth (GDP)** – gross domestic product (GDP) is loosely defined as the overall dollar amount of goods and services produced by the U.S. economy, and official definitions of when recessions begin and end are largely based on these numbers. The "Great Recession" officially lasted 18 months and ended in June 2009. Since then, the economy has grown for 9 consecutive quarters (over 2 years). Last quarter's estimate of 2% growth is short of the 3%+ growth that is considered healthy, but like the job growth trend – at least we are headed in the right direction.

I find this apparent disconnect between public perception/sentiment and the facts fascinating. Hopefully 2012 brings continued progress in both job growth and economic growth and eventually catches the public's attention.

Money Minute *Tip of the Month:* **Get Savvy About Your Healthcare Costs and Medical Bills.**

The heath care system in the U.S., where prices and services are largely controlled by health insurance companies and providers, leaves consumers largely in the dark and unable to do what consumers naturally do: comparison shop for goods and services. There are, however, a few things that you can do to potentially save. First – educate yourself about the true cost of medical procedures. The website HealthcareBlueBook.com shows what large insurance companies with reimburse healthcare providers for their services. These numbers are usually a fraction of the inflated list prices. If and when you have to pay out-of-pocket for a service, you'll have an idea of what a fair price is for that service. Second – negotiate and ask for discounts if you're paying cash. Customers routinely get 30-50% discounts by offering to pay cash for services, and notoriously inflated emergency room bills can typically be negotiated down even further. A recent article in Forbes magazine tells of a $6,000 emergency room bill for a 4-hour visit in Pennsylvania negotiated down to $2,000 and a man in Texas with a $13,000 E.R. bill that was later negotiated down to $4,500. Bottom line: many medical bills today are seriously inflated. If you want to get a fair deal - educate yourself, ask questions and be prepared to negotiate.

<u>Important Information</u> – This newsletter and its contents are produced for educational and informational purposes only and are not intended to be personal financial advice, nor are they an offer to purchase any financial product. Opinions voiced in this material are for general information only and are not intended to provide specific recommendations for any individual. To determine which investment(s) may be appropriate for you, or for more information about financial and investment planning, please contact R1 Financial Group (see below).

<u>Additional Content About Subjects Mentioned in this Newsletter</u>:

Bond yields are subject to change. Certain call or special redemption features may exist which could impact yield.

CD's are FDIC insured and offer a fixed rate of return if held to maturity. Annuities are not FDIC insured. Annuities are long-term tax-deferred investment vehicles designed for retirement purposes. Gains from tax-deferred investments are taxable as ordinary income upon withdrawal. Withdrawals prior to age 59 ½ are subject to 10% IRS penalty. Early surrender charges may apply. Guarantees are based on the claims paying ability of the issuing insurance company.

Stock investing involves risk including loss of principal. All indices are unmanaged and cannot be invested into directly. All performance reference is historical and is no guarantee of future results.

High yield / junk bonds are not considered investment grade securities, involve substantial risks, and generally should be used as part of the diversified portfolio of sophisticated investors.

Past performance is no guarantee of future results.

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R1 Financial Group uses research-based investment strategies and proven financial planning techniques. It endorses fee-based services and strongly emphasizes client education. We offer complimentary initial consultations to prospective clients.

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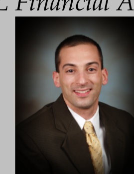

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