Money Minute

Financial Planning & Investing Newsletter

"Smart Ideas for Secure Finances"

MARCH 2012

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- ***ASK MONEY MINUTE:*** **- Is it true that half of Americans pay no income tax?**
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PROVIDED BY

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FEATURE

Should Stocks Be a Part of Your Investment Mix?

I have used these pages many times over the past six years to present readers with questions, facts, statistics and other information to help them examine their chosen investment mix and determine whether it is appropriate for their situation. An investor's chosen mix of **stocks**, **bonds** and **cash equivalents** (a.k.a. asset allocation) is a very fundamental but far from simple decision. It is also perhaps the most important decision to be made by all individuals when considering how their retirement and other investment accounts are set up.

With regard to stocks, individuals are notorious for altering their desired percentage of stocks based on the recent performance of the stock market. Numerous studies show that individuals tend to increase their stock holdings after years of positive market performance and decrease their holdings after years with negative performance. This month's feature story attempts to highlight a more thoughtful approach and help individuals land at at just the right mix of stocks.

The following chart cites the average annual returns of the major asset classes over the last 85+ years:

Average Annual Returns*
(1926 – 2011)

Stocks................................9.7%
Bonds................................5.4%
Cash equivalents..............3.6%

Here's how **a hypothetical $50,000 investment** would grow at these rates of return **after 20 years**:

$323,173 (Stocks)
$142,876 (Bonds)
$102,809 (Cash equivalents)

The above figures illustrate the historical advantage of investing in stocks for the long term. What they do not show is the yearly volatility associated with stock market returns. The following chart shows calendar year returns for the S&P 500 dating back to 1950, which shows the

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QUOTE OF THE MONTH

"You can discover more about a person in an hour of play than in a year of conversation."

~PLATO,
philosopher

IN THE NEWS…

The average American worker spends $1,092 per year on coffee.

Source: Time Magazine survey

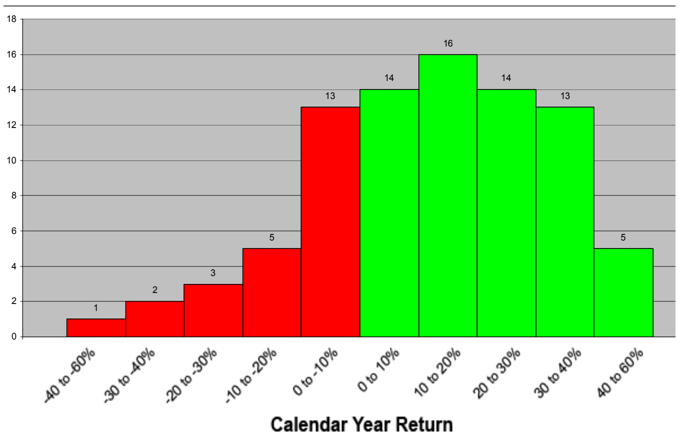
Ideas for Success

A History Lesson to Help Determine Your Asset Allocation

SCENARIO:

When it comes to deciding how to split one's invested dollars between stocks, bonds and other asset classes(a.k.a. your asset allocation) people use a wide variety of methods. Too often, those methods include making predictions about when it's a "good time to be in the stock market" and emotions instead of logic, time horizon and a solid understanding of stock market history. With regard to the later, below is a chart documenting stock market returns over the last 86 years.

History of Annual Stock Market Returns
(Positive (green) vs. Negative (red)



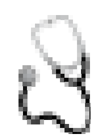
"Ideas for Success" articles are hypothetical stories adapted from Money Minute readers and R1 Financial Group clients. Solutions mentioned should not be construed as investment advice or offers to purchase any product. Please consider your investment goals and risks and consult a financial advisor before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

The chart shows that from 1926 - 2011, U.S. stocks:
*Have generated positive returns in 62 out of 86 calendar years (about 72% of the time).
*Have generated negative returns in 24 out of 86 calendar years (about 28% of the time).
The chart also shows that even though stocks have produced average annualized returns of +9.7% per year since 1926, these returns are achieved with a very wide variety of individual calendar year returns.

SOLUTION:

Unless you are a trader, you're likely much better off by putting your crystal ball away (and ignoring those who claim to have one) and taking a longer-term view when deciding what portion of your investments should be in stocks. Consider your investment objective, your time horizon and your personal tolerance for fluctuations in your account(s)....not predictions of "where the market is headed this year".


YOUR HEALTH



Oatmeal: A Super Food to Include in Your Diet

A bowl of warm oatmeal is considered by many nutritionists to be at the top of the list when it comes to breakfast foods. Oatmeal has numerous nutritional and health benefits including:

1. **It Lowers Cholesterol.** Oatmeal contains a special strand of fiber called beta-glucan that reduces levels of bad cholesterol (LDL). High cholesterol is a major risk factor associated with heart disease and strokes. Three grams of fiber daily, the amount found in one bowl of oatmeal, can lower cholesterol by up to 23 percent and reduce the risk of heat disease by almost 50%.
2. **It Boosts the Immune System.** Oatmeal's beta-gluten fiber does more than protect your heart. Beta-gluten can also amp up our immune systems and help fight bacterial infections by helping non-specific immune cells called neutrophils (our body's first line of defense against pathogens) quickly locate and heal infected tissues.
3. **It Stabilizes Blood Sugar.** Because oatmeal is so rich in fiber, eating it in the morning will help stabilize your blood sugar throughout the day and prevent those mid-morning or mid-afternoon "crashes" that results from eating refined sugars and carbohydrates.
4. **It Lowers Risk of Diabetes.** Speaking of blood sugar, eating oatmeal can also help reduce the risk of developing type 2 diabetes. Oatmeal contains high amounts of magnesium, which help the body to properly use glucose and secrete insulin.

Oatmeal is extremely inexpensive, easy to cook (60 seconds in a microwave oven), and can be "spiced up" by adding fresh fruit (ex. banana slices) or brown sugar. *Source(s): Mayo Clinic

Ask Money Minute

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

Q. "I've read that half of Americans pay no income tax at all. Is this true, and if so how?"

-Steven – DeSoto, TX

A. It is true that roughly 46% of Americans pay no federal income tax according to the most recent statistics available. There are several reasons for this. Roughly half of those who pay no federal income tax do so because their income is low enough to be completely offset by the standard deduction ($11,600 for married couples) and exemptions for children ($3,700 per child).

The second reason is due to the fact that social security benefits for retirees are not taxed if the recipient earns less than a certain amount each year. Almost a quarter of all Americans who don't pay federal income tax are senior citizens whose income comes primarily from social security.

A third reason many Americans don't pay any federal income tax is because the tax code provides a host of tax credits for lower income families such as the earned income credit, the child credit, and the childcare credit. These credits are responsible for another 15% of those who pay no federal income tax.

In total, these 3 situations account for almost all of those paying no federal income tax.

Q. "I read that the rules for how beneficiaries can use IRAs they inherit may be changing. Could you tell me about these changes please? Thank you."

-Elizabeth – Sachse, TX

A. The Highway Investment, Job Creation and Economic Growth Act - recently introduced in the Senate - contains a provision that changes the timeframe for how long a person who inherits an IRA has to withdraw those dollars (and pay the necessary taxes to the federal government). The bill would make it mandatory that any person who inherits a traditional IRA would have to withdraw those funds within 5 years. Current law gives individuals who inherit an IRA the right to take minimum withdrawals from an inherited IRA over the remainder of their life expectancy, which generally gives them much greater freedom and flexibility. The change would more quickly generate tax revenue for the federal government.

I doubt there are many Americans who will support this proposed change, which is why the provision was slipped into a highway bill. As of the date of publication of this newsletter, the provision has been dropped from the bill. I'd say it's a safe bet that as lawmakers wrestle with the country's $14 trillion in the coming years, we'll see many similar attempts at increasing revenue. Stay tuned.

Money Minute Trivia Question

Singer Whitney Houston recently passed away. Her 1992 remake of the country hit "I Will Always Love You" was originally sung by what legend?

A) Dolly Parton *B) Loretta Lynn* *C) Dottie West* *D) Lynn Anderson*

*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 – *Ernie C.* **of Fort Worth, Texas**

Question: A cruise ship captain is now facing criminal charges after infamously leaving his sinking ship before all passengers were able to evacuate off the coast of what country?

A) Spain B) Portugal C) France ***D) Italy***

Market and Economic News

U.S. stocks continued to gain ground in February after posting their best January performance in 15 years. The S&P 500 index gained 2.5% for the month through Feb. 27th, and stocks are up roughly 8.8% for 2012. Most recent economic data points to a dramatically improving economy. The unemployment rate continued to fall last month and now stands at 8.3%, its lowest level in 3 years. The economy added 243,000 jobs last month – making it one of the 5 best months in the last 5 years for job gains. Existing home sales have increased for 4 straight months and are at their highest level since May 2010, though prices remain depressed. Consumer sentiment has risen for six consecutive months and is now at its 2nd highest level in 4 years.

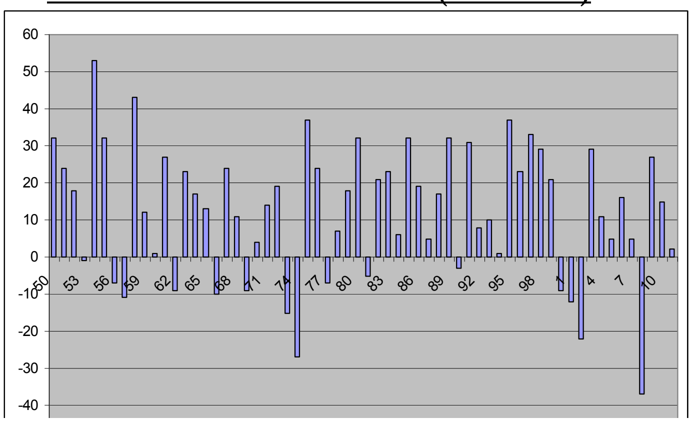
At a Glance…
(as of February 27) **DJIA** – 12,960 **S&P 500** – 1,364 **NASDAQ** – 2,970 **10-yr T-note** – 1.92%

*Should Stocks Be Part of Your Investment Mix?

(Continued from page 1)

wide variety of outcomes in any given year for the stock market:

Annual Stock Market Returns* (1950 – 2011)



*S&P 500 Index. Dividends reinvested.

Among periods with negative returns were:

*1957-58 *1974-75 *2000-02 *2008.

-In fact there have been 11 market declines of greater than 20% since 1940.

-Average recovery time from market declines has ranged from 2-4 years.

-It's been roughly 3 years since the end of the recent stock market downturn that ended in March 2009, and the S&P 500 index is now within a few % of its previous high.

-In spite of these unpredictable temporary declines, stocks have produced average gains of just over 10% per year since 1950 – far exceeding the returns available from bonds and cash equivalents. So - what is a reasonable person to do with these facts and figures that make us want to both dive into stocks and at the same time shy away?

Do's and Don'ts for Determining Your Allocation to Stocks

Virtually all financial planners agree that investors young and old should have some portion of their invested dollars allocated to stocks.

Do:

-Use your time horizon above and beyond anything else. Consider investing in stocks with money you can part with and leave invested for at least 5+ years.

-Attempt to eliminate the influence of your emotions on your investment decisions.

-Make sure you have cash and other shorter-term investments available for emergencies or needs that may arise within the next 3-4 years.

-Attempt to eliminate the influence of your emotions on your investment decisions.

Do not:

-Use recent history as a guide for how you expect stocks to perform in the near future.

-Waste your time predicting how the market will perform in any given time period or listen to anyone who does. It cannot be done consistently, nor is it necessary.

-Forget that past history is no guarantee of what will happen in the future.

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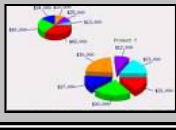
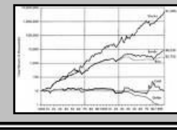
*As always, please consider your individual investment goals, financial objectives and risk tolerance when investing, and consult a financial advisor to help you determine which investment mix is appropriate for your situation.



UP CLOSE

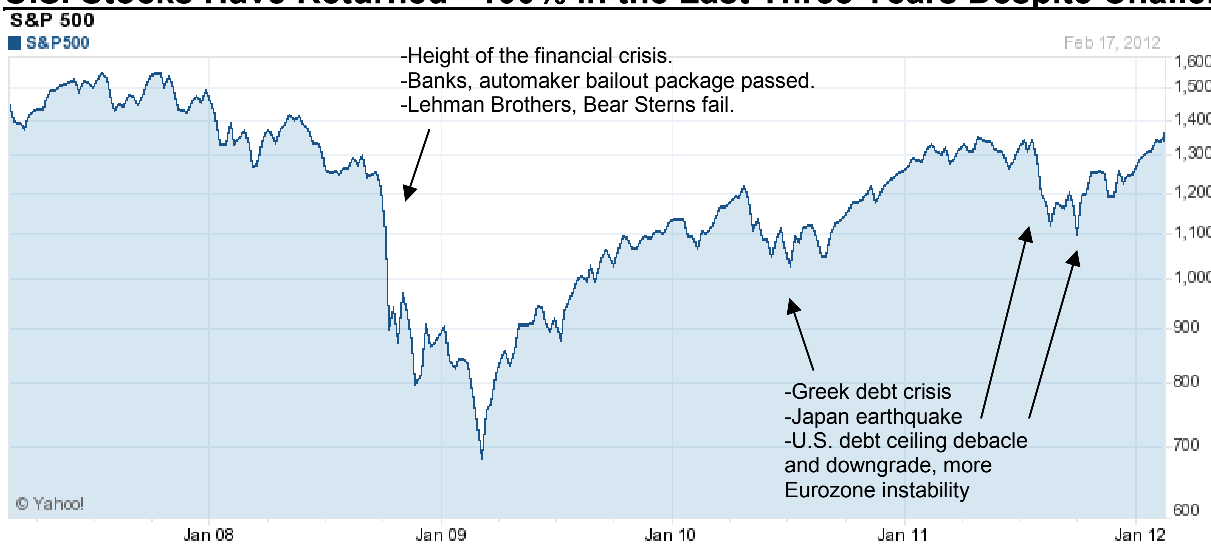
In-Depth Information for Smart Investors



U.S. Stock Market Continues to "Climb a Wall of Worry"

You may have heard the saying "stocks climb a wall of worry" in the past, and this statement holds a great deal of truth. It means that despite ongoing economic and political challenges, stock markets inevitably rise over time – and in fact tend to produce some of their biggest gains in times of turmoil and recovery from recession. It has turned out that the fallout from the financial crisis of 2008-2009 was a prime example of this phenomenon:

U.S. Stocks Have Returned ~100% in the Last Three Years Despite Challenges



Source: Yahoo Finance.

There has been no shortage of things to worry over the past 3+ years, and the newest worry seems to be Iran's persistence in pursuing a nuclear weapons program and possible military intervention by Israel. Despite these challenges - along with stubbornly high unemployment and a still struggling housing market - the S&P 500 index has almost doubled in value over the past 3 years. The lesson for investors is clear: if you want to capture stock market gains in your investment accounts, you can't wait until the economy improves to invest. Market advances historically happen in spite of external challenges, not in their absence.

Billionaire and famous investor Warren Buffett wonderfully summed up this phenomenon in a New York Times op-ed piece in 2008, stating "If you wait for the robins, spring will be over." In other words, if you're waiting until the economy is roaring again, unemployment is down to 5% or less, and the headlines are rosy to invest in stocks, you will have already missed a huge period of stock market gains.

Money Minute *Tip of the Month:* Shopping Around For Cheaper Gasoline: Waste of Time?

Gas prices have risen by about $.30 per gallon nationally in the past two months and now stand at a national average of $3.54 for a gallon of regular, according to Gasbuddy.com. This rise has prompted renewed interest in shopping around for lower gas prices, and it prompted me to determine just how significant a savings is possible by shopping around. Gasbuddy.com showed that prices for a gallon of regular unleaded on Feb. 23rd were $3.38 - $3.40 per gallon (cheapest) and $3.69 - $3.79 (most expensive). Assuming an average difference of $0.35 per gallon and a 15 gallon gas tank., that is a $5.25 difference per fill-up. Assuming you fill up once every 10 days, or roughly 36 fill ups per year, this equals a roughly $191 savings per year. Surely this is not an insignificant amount, but it is less than the potential savings from shopping around for other services. I saved $320 for two cars by changing my auto insurance carrier a couple of months ago. I saved over $500 by changing homeowner's insurance carriers last year. Lastly I will save 20% on my electricity bill each month for the next year after switching providers last month, a $250-350 savings for the year. The moral of the story: it may feel good to shop around and save on gasoline, but your time may be better spent looking for the best price on these and other big ticket services.

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Additional Content About Subjects Mentioned in this Newsletter:

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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