Investor Insights & Outlook

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Politics and Investment Performance

Do Elections Matter?

- My Dad once told me, "no matter what election, it's the most 'important' election of our lifetime".
- Clients who try to gauge their investments toward elections results play a risky game.
- The upshot? it's not who wins that's most important to your investments; it's being diversified. At Integrity, we constantly strive to maintain a well balanced and diversified portfolio for our clients.

With President Obama's first term in office coming to a close, 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 "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 (60% stock/40% bond) averaged the highest returns during unified years, lower returns during partially divided years, and the lowest under completely divided years.

Average Annual Returns 1926–2011

	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	1.1%	7.4%	11

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 1926–2011, and the returns are average annual returns.

Stocks—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. Bonds—20-year U.S. government bond.

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Charles Blozinski, CFP offers his clients the advantage of over 25 years of experience in financial services. He provides to his clients independent, unbiased financial advice in a fee-only environment. Charles is President and CEO of Integrity Financial Planners. The firm is a registered investment advisor in the State of Oregon.

Risk Calibration for Retiree Portfolios

Retirement Risk

- And you thought you could just relax in your hammock.
- Retirement definitely has it's risks. Our job at Integrity is help you manage them.
- No matter what the investment, there are risks involved. Whether it's low CD rates, a fluctuating stock market, or vacant rental property, the idea is to properly balance the risks.
- Think of it this way: putting more legs under a table makes it stronger. At Integrity, we make sure you have the right legs (and enough of them) beneath your "retirement table" to keep it strong. That way you and your family can enjoy what you've worked so hard for.

Managing risk during retirement has changed a lot during the past few decades. In the past, retirees enjoyed the luxury of much higher interest rates as well as pensions, which meant they could lower their equity holdings during retirement. For today's retirees, however, staying invested in low-return assets is a luxury they may not be able to afford. Instead, they should keep their eyes on the following risks.

Longevity: Longevity risk is the risk of outliving your assets. Given a long portfolio life span, retirees need more growth from their portfolios than cash and bonds can afford. Holding stocks is important for growth; however, the question remains: what's the right amount? In addition to considering a higher equity weighting, pre-retirees and retirees can also consider options such as deferring Social Security, working longer or part-time, and decreasing in-retirement spending, particularly after market downturns.

Long-Term Care: A year in a private room in a nursing facility now averages $78,000, according to a Genworth survey*, and long-term care in urban settings can be far more costly than that. If you are concerned that long-term care could eat away your retirement nest egg, you may want to consider purchasing a long-term care insurance policy. These policies are pricey, particularly if you buy one with an inflation component and/or if you're over 65, but they can provide invaluable peace of mind, too.

Inflation: Retirees living off of their investments don't receive cost-of-living adjustments (except for their Social Security and possibly their pension income), so inflation can readily translate into declining purchasing power and a reduced standard of living. Treasury Inflation-Protected Securities (TIPS) are the most direct way to hedge against an unexpected increase in inflation, providing an adjustment to an investor's principal to keep pace with inflation. Stocks are another, indirect way to guard your portfolio against the threat of inflation. They have the potential for higher returns than bonds, and inflation will take a smaller bite out of your future purchasing power. Owning companies with a demonstrated history of dividend growth is another way to help offset the effects of inflation on your portfolio.

Higher Taxes: Massive government spending and unfunded liabilities could translate into higher taxes across the board. Investors may be able to reduce tax liabilities by including tax-loss selling, Roth conversions, and municipal bonds. Roth 401(k)s and IRAs are also good options for tax-conscious investors seeking at least some tax-free treatment of their retirement assets.

*Report cited: “Genworth 2012 Cost of Care Survey, Home Care Providers, Adult Day Health Care Facilities, Assisted Living Facilities and Nursing Homes,” April 2012.

Diversification does not eliminate the risk of experiencing investment losses. Government bonds 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 and have been more volatile than other asset classes. Dividends are not guaranteed and are paid solely at a company's discretion. Municipal bonds may be subject to the alternative minimum tax (AMT) and state or local taxes, and federal taxes would apply to any capital gains distributions. TIPS are subject to risks which include, but are not limited to, liquidity risk, credit risk, income risk, and interest-rate risk. 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. Insurance guarantees are based on the claims paying ability of the insurance company.

Major Stock Market Indexes

Indices? or Indexes?

- I get a lot of questions about how the "market" is doing.
- The three major indices (or is it indexes?) help provide a quick answer. Each serves it own purpose, but many folks don't understand how or where the numbers come from. Typically the indices move together: if one is up, they all are.
- However, the most important thing to know is that with a well diversified portfolio, you might have some of your investments going up, even when the "market" is going down.
- Think of it as pistons in a car: the car runs well even though some pistons go up while others go down.
- At Integrity, that's our goal: to insulate our clients from severe drops in the market.
- While we can't eliminate market volitility or prevent your portfolio from losing value, we can mitigate the risk to help smooth out the ride.

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.

Why You Need a Financial Advisor

A Fool for a Patient?

- Even though I do this for a living, I would NEVER manage my own money.
- The reason? When you become emotional, you tend to make poor decisions. Or no decision at all. A good CFP helps manage your emotions and keep you focused on your goals.
- A lot more goes into reaching your financial goals than your money. It's my job to help you achieve them.
- I invite all of my clients to let me show you why it's worth paying me for advice.

After dismal portfolio returns during the "lost decade," investors may be wondering why they are still paying their advisors' fees. Until recently, the generally accepted (and expected) premise was that the advisor would deliver returns in excess of the market. But since many advisor-managed portfolios lost value with the market during the two major crises of the decade, many clients have begun to question the advisors' role and their justification for receiving fees even during periods of poor performance.

An advisor's value, however, may go beyond returns that beat the market. Of course, return is the first thing investors tend to think about, but there are other factors that influence the investing process and need to be carefully considered, as well. This is where an advisor can help you. Many investors do not align their portfolios with their risk tolerance; they overweigh in stocks expecting high returns and then can't sleep at night when the market fluctuates. An advisor can help manage your expectations and build a portfolio that's best suited for your risk tolerance level.

Another area where an advisor's expertise can be valuable is goal-oriented investment. Instead of accumulating all your savings in one place and investing them irrespective of a goal or timeline, an advisor can help you identify various investment goals (retirement, child's college fund, income-oriented investing) and then reorganize your portfolio according to these goals.

In addition to risk/return management and goal-oriented investment, wealth preservation, tax management, and the prevention of rash decisions are some of the additional benefits you may gain from the client-advisor relationship. When you evaluate your advisor's performance, think about how an advisor's value may extend beyond returns that outperform the market.

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