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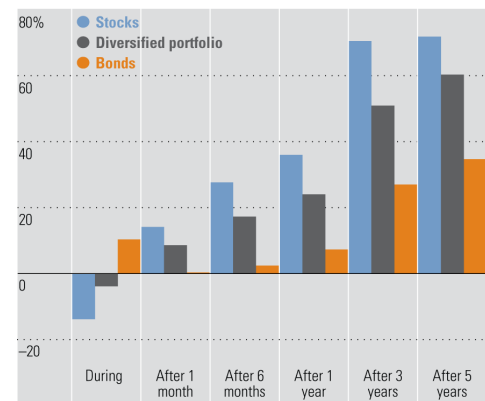
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After the Storm

Severe market declines can scare investors into selling at the worst possible time: when prices are at their lowest. Sticking with your investment strategy through tough times requires careful planning and discipline, but it is more likely to pay off in the long run.

The image illustrates the average performance of stocks, bonds, and a diversified portfolio during and after four U.S. recessions. During recessions, stocks performed the worst and bonds the best, while the diversified portfolio offered a middle ground. However, after the recessions and in the long run, stocks provided the highest returns, followed by the diversified portfolio; bonds did not measure up. There are two lessons here: 1) Since you cannot know for certain when the market will bottom out, if you are invested, stay invested, and 2) Diversify in order to reduce downside risk.

Performance During and After Recessions



Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. Recession data is from National Bureau of Economic Research (NBER). The average cumulative returns are calculated from the end of each of the longest four recessions in U.S. history (1929–2008). The four recession periods considered herein as defined by the NBER are as follows: Aug. '29 – Mar. '33; May '37 – June '38; Nov. '73 – Mar. '75; and July '81 – Nov. '82. The recession that began in December 2007 is still occurring and is not included in the analysis. The diversified portfolio consists of 60% stocks and 40% bonds, and is always rebalanced. Please keep in mind that diversification does not eliminate the risk of experiencing investment losses.

Source: Stocks are 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, and bonds by the 20-year U.S. government bond. 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 bonds. An investment cannot be made directly in an index. The data assumes reinvestment of income and does not account for taxes or transaction costs.

Advisor Corner

The future of wealth management



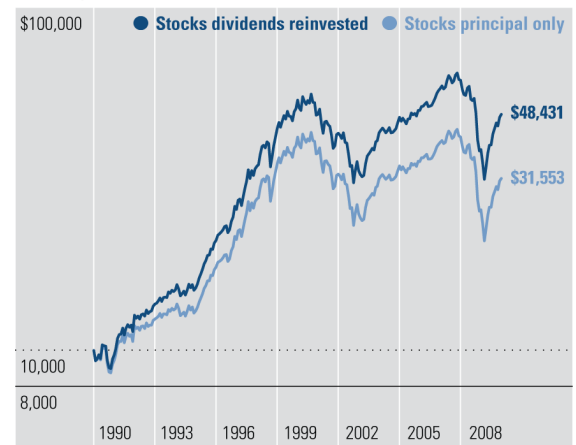
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Dividend Discussion

For many investors, the only reward that matters is an increase in share price. But if you look beyond capital gains, you might find a dividend offering significant benefits. A dividend can (1) provide regular income, (2) grow over time through reinvestment opportunities, and (3) offer significant tax benefits. Prior to the 2003 Tax Act, dividends were taxed at ordinary income-tax rate levels, which could be as high as 35%. Now investors pay significantly less taxes, ranging from 5% to 15%.

Despite these advantages, dividends seem to be an often overlooked component of total returns. The image below illustrates the impact that reinvested dividends have on investment returns over time. These paying investments can add value to a portfolio, but keep in mind that it is possible to lose money by investing in them, and that companies cannot always guarantee their dividend payments.

Growth of \$10,000:
Principal Versus Reinvested Distributions



This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. Past performance is no guarantee of future results. Returns and principal invested in stocks are not guaranteed.

Source: Stocks with dividends reinvested—Standard & Poor's 500®, which is an unmanaged group of securities and considered to be representative of the stock market in general; Stocks principal only—Standard & Poor's Capital Appreciation.

Borrowing from Your Retirement

Barbara is 40 years old, has a child in college, and needs to take out a loan to help with tuition. She is considering either a home-equity loan or a loan from her 401(k), and is not sure which would be the better choice. She has heard that taking out a loan from a 401(k) is painless, since “you don’t pay penalties and pay the interest to yourself, not to a bank.” What should she do?

Many 401(k) plans offer a loan provision and the process is fairly easy. There is no credit check (since you are borrowing from yourself); the interest rate is usually low (maybe a percentage point or two above prime); you can generally borrow up to 50% of your vested account balance to a maximum of \$50,000; you have up to five years to repay the loan (longer for loans used to purchase a primary residence), and the plan administrator usually deducts the loan payments automatically from your paycheck.

However, the real cost of borrowing from your 401(k) is not the rate you pay yourself in interest, but the amount you would have earned on your balance had you just left the money in the account. This is called an “opportunity cost,” and it can be significant. In addition, if Barbara loses or changes jobs, a 401(k) loan will most likely come “due in full” within a limited amount of time, while a home-equity loan will not. The balance is taxed as if it were ordinary income and, unless she is at least 59½ years old, failure to pay the 401(k) loan back by the due date triggers a 10% penalty.

So, what are Barbara’s choices? In general, if she can take out a home-equity loan at a lower after-tax cost than the return she expects to receive on her 401(k), she should choose the home-equity loan.

Investing in Emerging Markets

Emerging-market economies offer tempting rewards and are becoming more standard among investors willing to take on additional risk. Commonly called developing-market economies, they are in transition but are beginning to see a substantial increase in living standards and income, rapid economic growth and a relatively stable currency. They can be small or large economies and can be found all over the globe. Examples include China, India, Korea and Thailand in Asia; Poland, Israel, Egypt, and Turkey in Europe and the Middle East; and Brazil, Chile and Mexico in Latin America. As of May 2010, MSCI Barra identified 22 emerging countries worldwide.

Since these economies are still developing, the risk of an emerging-market investment is higher when compared to a developed market. Some of these risks include currency fluctuations, foreign taxation and political, social and economic upheaval. However, such added risk comes with the potential for higher returns.

Perhaps the easiest way to include emerging markets in a portfolio is to buy an emerging-markets mutual fund. This is a mutual fund that holds various investments in emerging countries, bringing you the added benefit of diversification. Make sure to read the mutual fund's prospectus very carefully before investing or sending any money.

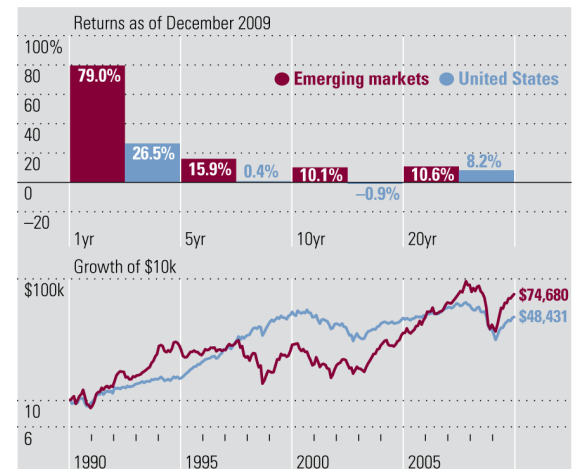
Another way to invest in emerging markets would be to buy stocks of foreign companies directly—much more difficult and risky to do on your own. You may also hear the term ADR connected with international investing. It stands for American Depositary Receipt, and it is an instrument allowing the stock of a foreign company to trade on a U.S. exchange. However, no matter how you decide to invest, always keep in mind the risks associated with international and emerging-market investments.

The graph illustrates the historical short- and long-term performance of emerging markets compared with U.S. markets. Emerging markets

posted very respectable returns, beating those of the U.S. market in every time period. However, these returns came with additional risk, as shown by the volatility of the line graph. A hypothetical \$10,000 invested in emerging markets would have grown to \$74,680 over this 20-year time frame, compared to \$48,431 for domestic investments.

While the emerging markets' ending wealth value easily surpassed that of the U.S. investment, it accumulated over a rather long time horizon. Note that emerging markets can experience a much greater upside and often a deeper downside in any particular year (2008, for example). Consequently, this type of investment is more appropriate for long-term investors who can handle potentially large fluctuations in returns.

Undeveloped Opportunities: 1990–2009



International investments involve special risks such as fluctuations in currency, foreign taxation, economic and political risks, and differences in accounting and financial standards. Emerging-market investments are riskier than developed-market investments. Liquidity is typically lower in emerging markets than in developed markets. An investment cannot be made directly in an index. Returns and principal invested in stocks are not guaranteed.

Source: U.S. stocks are represented by the Standard & Poor's 500® index, which is an unmanaged group of securities and considered to be representative of the stock market in general. Emerging markets are represented by the Morgan Stanley Capital International Emerging Markets Index.

The Rising Cost of Health

While many people are putting aside money for college costs, retirement nest eggs, and other predictable financial goals, not many make it a point to save money for health care costs. Whether they think that their insurance will cover most costs, or they aren't planning for the unexpected, many Americans find themselves unprepared to pay medical bills.

Health care insurance plans through a place of employment or Medicare can take care of many medical bills, but these plans have limits that can quickly be exceeded. In addition to the costs not covered by insurance, there is the rising cost of the insurance policy itself. As baby boomers get older, there will be a surge of insurance claims, which may increase the overall cost of health care policies. To make matters worse, in May 2009 the government stated that the Medicare fund that pays hospital bills for older Americans is expected to be depleted in 2017, rather than 2019 which had been previously projected.

We cannot predict the rate of increase for medical costs in the future, but recent history tells us that medical costs have been rising at an alarming rate. According to the Bureau of Labor Statistics, medical costs have risen by an average of 4.6% per year over the last 20 years (1990–2009). This is a significant increase in prices: The average annual increase for all goods and services over that time frame was 2.7%.

In order to improve the struggling health-care system, President Obama signed the Patient Protection and Affordable Care Act on March 23, 2010. The legislation brings about a series of changes, some of which will be seen immediately, and some of which will not take effect until 2014. One probable consequence of this new law is that insurers, faced with additional costs, will probably raise premiums in order to compensate. The best strategy is to prepare for these rising costs by saving and investing enough to meet these needs as they arise.

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