

Frank's Comments 2011

Don't Make New Year's Resolutions, Make Commitments

January 2011

It's surprising how many people I talk to who do not know the big picture of their finances. We are about to receive annual statements for most of our financial stuff. Now is a good time for everyone to make a New Year's commitment to understand ALL of your finances.

- Do you have investment or bank accounts that you have not looked at to see how they are doing?
- Have you looked at your property casualty insurance recently?
- Have you reviewed your Will?
- Do you know the interest rate on your credit cards or mortgage?
- Do you know how long it will take to pay off any debt you have?
- If you have a retirement plan at work, are you maximizing the company match amount?
- Do you have disability insurance, and if you do, is it enough?

The list can go on and on. The point is, this is a good time to get a handle on your entire financial picture. If you need help, we are here to help you sort things out. Just give us a call and we can discuss how we may be able to help.

2010 Recap

February 2011

Now that 2010 is behind us, we can look back at the year and make some observations about market performance. Based on simple price appreciation, the S&P 500 Index ended the year up 12.8%. This is the second year in a row with a double digit gain in the market. Looking back, we sometimes forget the volatility that comes with the market. After rising almost 10% in the first quarter, the market declined almost 16% during the second quarter. From a low on July 2, the S&P 500 rallied 24.2% to end the year within 20% of the all-time high set in 2007. Over 90% of the stocks in the S&P 500 were higher over the last 6 months of the year. That is a very strong and widespread move in the market.

While there are still some scary things out there that can have a negative impact on the market, there are positives as well. Corporate earnings are rising, corporate spending is on

the rise, and consumer confidence seems to have turned the corner. We are starting to spend again.

As we have started on 2011, we need to remember why we invest in what we do and that does not change weekly or daily with the market fluctuations. Keeping a long-term view helps keep us from getting too excited when the market rallies or too nervous when the market declines.

Retirement Plan Tax Credit for Low Income

March 2011

A little known tax credit is the Credit for Qualified Retirement Savings Contributions (The Savers Credit). This tax credit is for individuals (single, qualifying widow(er), married filing single) with an income up to \$27,750, head of household with income up to \$41,625, and joint filers with income up to \$55,500 that made a retirement plan contribution for 2010. To be eligible, you must have been born before January 2, 1993, you cannot have been a full-time student during the calendar year, and you cannot be claimed as a dependent on another person's return.

The credit amount can be up to \$1,000 for an individual and \$2,000 if filing jointly. The amount of the credit is based on an IRS table with a declining credit as the income increases.

This credit is in addition to other tax benefits of the retirement plan. For example, if you make a tax-deductible contribution to an IRA, the tax credit is in addition to the deduction. For an employer matching plan, you can receive the tax deduction, tax credit, and the employer match! If the contribution is to a Roth IRA you receive the tax credit and the tax-free accumulation. To claim the credit, just use IRS Form 8880, Credit for Qualified Retirement Savings Contributions.

This may be a great gifting opportunity for working children or grandchildren. Remember, contributions to an IRA can be made up to April 18 this year for 2010. For more details, please give me a call.

Planning Services

April 2011

I recently had a long-term client say to me that they were going to a "Financial Planner" to have them prepare a plan since as to their knowledge; I did not offer financial planning services. The comment really struck me and made me think that I have not done an adequate job of informing you of all the planning services available to you. Several clients just look to me for investments, but there is much more Stifel Nicolaus can offer you that you can take advantage of.

Financial planning services are a vital part of the investment process. It not only tells you where you are now, but it looks at your goals and gives you a roadmap to pursue them. Your goal can be planning for retirement, college savings, estate planning strategies, or even buying a new car. All of these can be planned for.

I have been helping clients with investment planning, retirement planning, college savings plans, and also discussing issues related to estate planning for over 20 years. I am a Certified Financial Planner® professional and have earned the Master of Science in Financial Services degree from the American College to continue my education of the planning process and help you pursue your financial goals.

If you have not done so already, I invite you to contact me about Stifel's planning services and how they can benefit you.

College Planning We all want the best for our children, from life's simple pleasures to the benefits of a college education. In today's world, however, things sometimes don't seem so simple, like the funding of a college education. That's why it's important to work with your experienced Stifel Nicolaus Financial Advisor, who can provide the clear direction to help you prepare financially to send your children to college. Your Stifel Nicolaus Financial Advisor can help you identify investment options for meeting your college savings goals.

Estate Planning The protection and transfer of wealth to future generations is often overlooked. With the incredible transfer of wealth expected to take place in the upcoming years, planning for the transfer of an estate takes on greater importance. You might wonder whether you need an estate plan. Anyone who has a home, a car, investments, real estate, a retirement plan, business interests, or personal property should have an estate plan. An estate plan allows you to provide for the management of your assets while you are alive. In addition, it allows you to indicate how and to whom you would like your estate distributed at your death. If you do nothing, your estate will be distributed according to the intestacy laws of your state. This does not allow you to control the distribution of your estate, and often it disposes of assets differently than you would have if you had the opportunity to plan. Estate planning encompasses more than the distribution of your estate to your heirs. It is a process designed to identify ways to accumulate, preserve, and protect your wealth, by implementing a plan to help you pursue all of your objectives. A carefully prepared estate plan can help you address lifetime management issues, as well as death transfer issues.

Financial Planning A road map can show you the best way to get to where you want to go. In reaching financial goals, the same can be said of a solid plan-of-action. Stifel has created the tools necessary to allow you to effectively assess your current financial situation and create a plan-of-action to meet your needs and objectives. The financial planning process provides you the opportunity to assess financial and non-financial assets, saving and investing practices, and the ability of these to meet stated long-term financial goals.

Retirement Planning For over a century, Stifel Nicolaus has provided the assistance clients need to get to where they want to go tomorrow. We can help executives and corporations establish retirement plans, understand guidelines, and determine how best to meet specific, long-term objectives. Stifel's Retirement Plans Department provides broad experience in all types of plans, including: Individual Retirement Accounts, Education Savings Accounts, Roth IRAs, Conversion Roth IRAs, SIMPLE IRAs, SEP IRAs, Profit Sharing Plans, Money Purchase Pension Plans, 401(k)s, and Lump-Sum Distributions for Qualified Plans. Upon your request, a report can be prepared estimating how much you need to save for retirement.

Beware of Performance Chasing

May 2011

At one time or another, every investment professional has probably received a call from an investor who wants to know what the “hottest” investment is, and what he or she can do to get in on it. While it can be quite tempting to jump on the bandwagon after a highly publicized IPO or when a company comes out with a hot new product, investors should be careful about trying to time the market or “performance chase.”

To avoid making a move that may have a drastic impact on their investments, investors should remember a few basic fundamentals of investing. The first of which, we’ve heard time and time again, is to buy low and sell high. Seems logical, right? Unfortunately, many investors find themselves falling into the trap of wanting to take advantage of a popular stock. Because of the stock’s popularity, they may find that it may be overvalued and perhaps they are paying more than the stock’s true value.

Many investment professionals believe that investors should be willing to stay in the stock market for the long term, typically at least five years. By utilizing a buy-and-hold strategy, investors may be able to ride out volatile markets and can eliminate the added expenses of commissions tied to frequent trading.

Please give me a call for more specific guidelines on how to avoid “performance chasing” and trying to time the market.

Preferred Stocks

June 2011

With bond yields very low now, preferred stocks have become an attractive alternative for income for some investors. If you like the thought of investing stocks, but value the income that a bond offers, then preferred stocks might be right up your alley. Like common stocks, preferred stocks represent partial ownership of a company. Although preferred stocks do not come with voting rights, they do provide investors with fixed income from dividends paid on a regular basis. Similar to the interest on a bond, preferred stocks generally carry with them a set dividend, unlike dividends of common stock which may rise, fall, or be omitted completely. Another attractive feature is that they are considered “preferred” over common stocks because any dividends must be paid to holders of the preferred stock before shareholders are paid.

The dividend on many preferred stocks is qualified dividend income. This means it may be taxed at a lower rate than ordinary interest. As no investment is without risk, preferred stocks are subject to market risk, and an investor’s shares, when redeemed, may be worth more or less than the original cost. Please call me if you have any questions or to discuss if preferred stocks are right for you.

Government Finances

July 2011

The budget deficit crisis in our country continues and Social Security and Medicare are projected to go broke. Everyone sees the problem, so why can't it be fixed? I generally stay away from political topics, but I believe this is an important one.

In my opinion the basic problem is politics. I believe both parties understand that if nothing is done, Social Security and Medicare will likely go broke and cease to exist. It seems that neither party wants to come to the table with a proposal that will actually fix the problems. Whichever party does may be demonized by the other as being cruel, hurting the seniors, hurting the children, and on and on. I think the real answer is that it will, in some way, hurt everyone. However, that is better than the alternative of doing nothing.

I think someone needs to step forward and be more concerned with having the courage to do the right thing so the fear of being demonized can be diminished. Please contact all your political representatives to tell them we need to get something done. I think it is time to stand up and get this fixed.

So Who Really Pays the Taxes?

August 2011

Recently, we have been hearing a lot about who should pay what in taxes, in the attempt to try and fix the financial mess. When they say "tax-breaks for big corporations" or "raise taxes on big corporations", who really pays?

When a company produces a product, they calculate the total cost of doing business. That cost includes income taxes, unemployment taxes, etc. After they have calculated that, they add on the profit margin – how much profit they expect to make. This is true whether it is your plumber, Mom's café, or Apple computer. So when the tax part goes up, who actually pays it?

When costs go up, prices go up to reflect the higher cost and maintain the profit margin. Bottom line is, we pay the taxes, businesses just write the checks. We pay more for the plumbing job, dining out, or for the computer. We pay the tax!

So when a big business gets a tax-break, who does that benefit? This can be one of two groups. Generally, the tax-break is used to expand business, which can be either more people hired or more equipment purchased. Either way, it stimulates growth. If the company benefits, who is the final beneficiary? Most large companies are owned by mutual funds, retirement accounts, education accounts, etc. Each of us that have these kinds of accounts are the ones that make money when businesses do.

Please keep all of this in perspective when you hear both sides in Washington struggle about taxes and big business.

The Sky is Not Falling...

September 2011

Seems like every year we get nervous about the stock market. Most of what we hear on TV is whatever the new crisis is that we need to be scared about. As I write this, the S&P 500 is down 6.36% year to date. The market has been gyrating up and down by large amounts. Let's keep this in perspective.

During July 2010, the S&P was down 9% year to date, then went positive year to date later in July. In August, the market went down again to minus 6.8% year to date before ending the year up 12.8%. The truth is, there is at least one 10% correction in the market just about every year. We tend to forget the market fluctuations from one year to the next, especially when the year ends with a positive return. There has always been, and probably will always be, scary stuff out there in the market. Just don't focus on it.

Keep these facts in mind if you get nervous about the market. Also, please remember that past performance does not guarantee future results.

Where do Rate go from Here?

October 2011

As I write this, the five-year Treasury Notes are at 0.77%, ten-year at 1.70%, and the 30-year Treasury bond is at 2.76%. It is not realistic to assume interest rates will go down too much further. There is also no reason to believe they will rise significantly before 2013.

The Federal Reserve has made moves to get the interest rates down to this level to try to pump life into the economy. Problem is it does not seem to be working. With interest rates this low it's supposed to get people and businesses to borrow to buy things or expand. This is also supposed to get us to invest in bonds or dividend paying stocks to get income to help the markets.

With inflation over 3%, even by investing in the long-term Treasury, you lose money to the cost of living. With rates so low, we have several options:

- Hiding in short-term investments waiting for rates to someday rise.
- Buying a little bit of extra maturity and/or lower quality for extra yield.
- Buying long-term Treasuries because we feel the world is coming to an end.

With rates this low, it's important to decide what risk you are willing to assume. If you chose not to take any risk of principal, you know you may lose to inflation. If you don't want to lose to inflation, you have to take some level of risk to come out ahead. Please give me a call if you have any questions.

It is important to note that when investing in bonds, as interest rates rise, bond prices will fall.

The Market Can Be Like Going to the Dentist

November 2011

Recently, I had a cap put on a tooth. I'm a dental wimp so it took three Novocain shots and the laughing gas to get me ready. When the drill started, every ounce of my body focused on the one tooth, scared to death the dentist would hit a nerve. Lately, the stock market has been like going from one tooth to the next.

The market is going from one crisis to the next, like the dentist going from one tooth to the other. With all the media hype, it seems every scary thing out there is the next new crisis. There has always been scary stuff out there and there always will be.

For the month of September, the S & P 500 index was down almost 8% and made the quarterly statements look very ugly. In October, the S & P 500 Index was up almost 10%. That has more to do with emotion than changing economics.

We need to keep our focus on our long-term investment objectives and not worry so much about the daily gyrations.

Holiday Gifting

December 2011

As the holidays approach, you're undoubtedly searching for unique and thoughtful gifts for the children in your life. This season, perhaps you should consider giving a gift that may provide rewards long after a toy is forgotten, outgrown, or broken.

If some type of college savings program has been established for your child, grandchild, or child of a loved one, a cash contribution to their plan may be much appreciated. If you have a family member or friend who has yet to start saving for their child's education, now may be a great opportunity to provide a cash gift with a note that you'd like the money to be used to open a college savings account for the child.

This year, current market conditions are providing for great opportunities to purchase securities, as many company stocks are now available at lower prices. You can purchase shares of a company with which most kids are familiar. For the teenagers in your life, giving them stocks can be a wonderful learning experience for them, introducing them to business, investing, and the economy.

If you're looking for a lower-risk investment to give to a loved one, U.S. Savings Bonds are relatively easy to purchase and may make a nice addition to a child's piggy bank. Before gifting to a minor, you should contact your tax advisor for information on legal or tax issues. If this is something that you are interested in, please give me a call.