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TAKING CARE OF YOU

ISSUE#: *One Hundred-Sixty*

November, 2009

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R.O.I.'s new e-mail address ronaldolsoninc@gmail.com

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Ron will be returning home on 12/05/09!

1. MARKETS

Current Market Environment

Many of you may have noticed that the markets experienced a pull back during the last few weeks of October. We feel the reason for this is due to **profit grabbing** (when investors sell in order to take some of the large profits that have made over the last few months). This selling also happened over seas as well on a larger scale compared to the U.S markets. R.O.I. has been moving more aggressively over the last several months in order to participate more in the upswing that we anticipate will continue for the next few months which made us vulnerable to this recent downswing. Our year-to-date return in most of our clients accounts (those with a moderate allocation) by the **end of October** was **17.24%** which is down from the **end of September's** year-to-date return of **20.83%**.

During this small downswing we were anticipating things to rebound, which they have. As of the day that I am writing this news letter (November 18, 2009) our moderate allocation is up **23.72% year-to-date** with the DJIA = **+18.9%**, S&P 500 = **+22.9%**, NASDAQ = **+39.7%** and the Russell 2000 = **20.6%**. As you can see, R.O.I. has done a good job of participating in the 2009 upswing which we expect will continue for the next couple of months.

In this issue of the newsletter we wanted to take some space and review with clients the advantages of having international stock as part of a well diversified portfolio. One of the benefits of having equities invested overseas is this further diversifies ones portfolio which **generally** reduces volatility. Between September 2008 and March of 2009 markets around the world plummeted almost in unison with foreign stocks as a whole falling **even further** than U.S. stocks, worsening losses for many globally diversified investors. **Despite this difficult period, the case for diversifying internationally remains as sound as ever.** In fact, we believe that for those investors who have more than two years before they need their investment should have some portion in stocks. That said, a decent portion of **that stock** exposure should be international. Why? The historical record, including the events of the bear market, continues to show that over time, combing foreign and U.S. stocks reduces a portfolio's risk while boosting its potential return. Allocating a decent amount of your equities to foreign stocks may sound overwhelming; however, some 21% of individual investors surveyed in March 2009 said they thought people should keep less than 10% of their portfolios in foreign stocks. On the surface this avoidance of international is understandable. But when you consider that **most of the world's stock market capitalization is now outside of the U.S., you may be missing out.** Although these investments have historically had greater economic, political, and currency risks, the case for international today is compelling.

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Historically, in any given year, there's about an equal likelihood that either foreign or U.S. stocks will post better performance. The degree to which U.S. and foreign stock returns are similar to each other is referred to as their "correlation." But any correlation less than 100% offers diversification benefits. The lower the correlation between the two, the greater the diversification benefits gained by combining them. During the 12-month periods from December 1970 to August 2009, correlations waxed and waned considerable over time. During this period of time stocks worldwide, U.S. and foreign, have had a tendency to fall during periods of extreme market or economic stress (correlations moved up), just as they did during the recent crisis. But historically, U.S. and foreign returns generally diverged after the crisis passed (correlations move down).

The fact that U.S. and international stocks posted similar returns during the financial crisis was not unusual, based on the historical record. What's more, we're likely to see correlations decline from current highs going forward, if they follow historical patterns, meaning foreign stock should continue to offer diversifications benefits. While investing internationally can provide diversification benefits, there are also risks. We always encourage clients to take advantage of R.O.I.'s annual reviews, and visit with us about your current financial situation and timeline. This will help us determine your overall allocation to stocks based on your particular situation.

We are continuing to see a recovery in the economy. That leads us to the question of what type of recovery will it be. Will it be a "V" shaped recovery, a "W" shaped recovery or an "L" shaped recovery. Currently, we feel that the likelihood of the recovery "fizzling out" is at best, premature. In addition to anything else, the economy is going to receive another **jolt** of stimulus over the next six months as inventory investment turns from negative to positive. In fact the first installment of the inventory stimulus occurred last quarter. The stimulus from inventories, when combined with the ongoing improvement elsewhere (**manufacturing, housing, exports**), should be enough to keep the economy growing close to 3.0%, maybe a bit more, through the first half of next year. There is nothing particularly far out about our view. **It is consistent with the outlook offered by the Fed's staff in the last Minutes of the Open Market Committee.**

It is difficult to see growth doing much better than the 3% or so rate once the inventory stimulus ends. It might do worse. The outlook for the consumer implies that there is a ceiling on the growth we can expect as next year winds down. In turn, this implies some ceiling on profit growth over the same period. **Bottom line, we anticipate things to get better, but at a slower pace, especially when compared to the improvement we have seen since March of 2009.**

2. ACTIVE INVESTMENT MANAGEMENT

USE BEST FUNDS

In the previous two issues we reviewed the first two principles of "ACTIVE INVESTMENT MANAGEMENT" (review the left hand column of this first page), i.e.,

OBJECTIVE

- " Participate In Up Markets
- " Control Participation In Down Markets

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ALLOCATIONS

- " Asset Allocation (Secular/Cyclical Markets)

In this issue, we will review:

FILL ALLOCATIONS

- " Use Best Funds

ACTIVE INVESTMENT MANAGEMENT

OBJECTIVE

- Participate In Up Markets
- Control In Down Markets

ALLOCATIONS

- Asset Allocations (Secular/Cyclical Markets)
- Opposite Categories
- Different Classes
- Independent Classes

FILL ALLOCATIONS

- Use Best Funds
- Monitor Choices

CONTROL SWINGS

- Diversify Manager Styles•
- Control Sector Concentration
- Allow Fund Managers To Make S/T Decisions
- Rebalance
- Fine Tuning Strategies

ADVISOR/CLIENT

- Motivate Advisor
- No Conflicts
- % Of Assets Basis
- Help Build Business

At least monthly (unless avoiding new Fidelity "Early Redemption Fees"), for each asset class and sub-asset class that ROI uses in your portfolios, ROI first develops a list of every available mutual fund in the Fidelity Investment Advisor Network. From these long lists that are from dozens to hundreds of funds long, ROI uses the following criteria to develop a short list of the very best funds in each asset class and sub-asset class: Returns Over Different Periods (this is used, along with crediting points and bonus points as ROI's initial filtering to identify the top performing 25% in each asset class and sub-asset class); Manager Styles; Risk Measurements; Rankings & Ratings; A Wide Variety of Ratios; Geographic & Sector (industry) Concentrations; Market Cap; Fund Size & Growth Rate; Number & Concentration of Holdings; Expenses; Bond Maturity & Quality Ratings; and, Who The Manager(s) Is, Experience & Tenure. Depending upon the asset class/sub-asset class, some criteria are given more weight than others. For example: Fund Size is a greater concern in the Small Cap asset class than in the Stock Index asset class.

Once the short lists are created, ROI reviews the criteria again to identify the two or so funds from each asset class/sub-asset class's short list that will make it to ROI's "Best Funds" list. At this point, some new criteria is added to the "Best Funds" list recipe: Each considered fund in each asset class/sub-asset class has to be considered in light of all the other funds already on the "Best Funds" list so that the first Active Investment Management principle of obtaining a smoother investment return ride by Participating In Up Markets and Controlling Participation In Down Markets is maintained. This may result in conscious decisions not to use what appears to be the very best fund in a particular Asset Class because it does not mix as well as another fund does with all the other funds on the "Best Funds" list.

With so much criteria to review, you can imagine what a big job it is to create a short list and then finally a "Best Funds" list, and the amount of experience and knowledge that must be applied with a mix of science and art. The time commitment and procedures have become tremendously greater and more complex with the creation of Fidelity's "Early Redemption Fee" rule. The process is not fool proof - no process is - but it has performed well for us.

The bottom line objective of creating the short lists and the "Best Funds" list is to identify the best funds in each asset class/sub-asset class that have performed, and, hopefully will perform, the best in up and down markets. It is one thing to identify those that have performed the best, and it is still another thing to identify the ones that hopefully will perform the best. And because these are two different things, as you are well aware, the "Best Funds" list is constantly changing. This is because the "Best Funds" are constantly monitored in comparison to their competition. Monitoring is the next Active Investment Management

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principle to be discussed in the next "Taking Care of You" newsletter.

3. CURRENT BEST FUNDS

	LAST MONTH	'09 YEAR TO DATE	1/1/97 THROUGH '09
ROI'S MPT INDEX*	-1.8%	+21.8%	+76.3%
ROI'S "BEST FUNDS"***	-3.59%	+17.24%	+112.99%

* ROI's MPT INDEX = An index based solely upon one Modern Portfolio Theory type of Asset Allocation to each of the following 12 Asset Classes, assuming from: (1) 1/1/97, an 11% Target Return (i.e., 70% in Stocks; 15% in Bonds; 15% in Anti-Inflation); and, (2) 3/1/03, a Moderate allocation (i.e., 50% in Stocks; 25% in Bonds; 25% in Anti-Inflation); using the average returns of all mutual funds in each Asset Class, Rebalanced on a monthly basis (data supplied by Morningstar).

** ROI's "BEST FUNDS" = Using the accumulated yearly IRR % of an actual client's account that uses the same Moderate Asset allocation as in ROI's MPT INDEX, but includes all of ROI's other strategies.

ISSUE# ONE HUNDRED-SIXTY BEST FUND CHANGES & WHY?

(Funds or % in < > are new funds and allocations replacing prior choices. Current through Newsletter date.)

STOCKS	BONDS
Aggressive Growth	US/LT, ST, Mtg, Convertible
Fidelity Capital Appreciation Source (117%)	Fidelity Convertible (67%)
	Janus Short Term Bond (100.0%)
Growth	Deleware Extended (33%)
Morgan St Mid Cap (100%)	
Yacktman Focused (113%)	Junk
	Security High Yield (100%)
Small Cap	
Brown Cap Small (106%)	Global
Sterling Cap Small Val (50%)	Dreyfus International (100%)
<AIM Triamark Small Co> (50%)	Fidelity Advisor Emg Mkt (113%)
Equity Income	ANTI-INFLATION
Sun America Fixed Div (75%)	Asset Manager
	Henderson European Focus (100%)
Stock Index	
Fidelity Spartan Market Index (33%)	Ntrl Res, Utilities & Metals
	Gabelli Utilities (75%)
Overseas: Int'l, World, SC, EM	Fidelity Sel Material Port (100%)
Janus Overseas (85.7%)	Black Rock Energy Resource (50%)
PIMCO International Stock (69.78)	Real Estate
Oakmark International <85.7%>	Neuberger Real Estate (66.75%)

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Templeton Global Small I Co (42.85)	Third Avenue Real Estate (44.5)
Forward Emerging Markets (85.7%)	Pro Funds Real Estate (18%)

THE “WHYS”

Allocation Changes- We increased our allocation to our Overseas Small Cap Asset Class (Oakmark International). We anticipate international to continue to do well over the next few months. It was really hit hard in 2008 and is showing continued signs of improvement. **Fund Changes-**

1. **Bought AIM Triamark Small Co** – We bought this fund in order to increase our allocation to our U.S. small cap asset class. This asset class usually does well during recoveries and we anticipate this recovery to continue. This asset class has recently suffered some heavy selling due to its recent run up since March of 09 but we anticipate strong growth in this area over the next few months.

[R.O.I. tracks each month’s consensus predictions for the Dow Jones Industrial Average (DJIA) for the upcoming six months, by the panel of “experts” in the Investment Advisor Magazine.]

<u>THE PREDICTION WAS:</u>			<u>THE DJIA WAS:</u>	<u>THE PREDICTION WAS OFF BY:</u>	
<u>MADE</u>	<u>FOR</u>	<u>DJIA</u>	<u>ACTUALLY</u>	<u>POINTS</u>	<u>PERCENT</u>
06/08	11/08	12725	8495	+4230	+49.8%
07/08	12/08	12939	8697	+4242	+49.7%
08/08	01/09	12844	8026	+4818	+60%
09/08	02/09	12480	7947	+4533	+57%
10/08	03/09	12268	7262	+5006	+68%
11/08	04/09	12255	8022	+4233	+53%
12/08	05/09	10955	8306	+2649	+32%
01/09	06/09	9567	8859	+708	+8%
02/09	07/09	9644	8883	+761	+8.6%
03/09	08/09	9152	9325	-173	-1.8%
No Issue					
05/09	10/09	8641	9713	-1072	-11.03%
TWELVE MONTH ERROR RANGE =				-1072/+5006	-11.03%/+68%

!!R.O.I. believes it is impossible to predict the short-term future. If the “experts” can’t reliably do so what chance do you or R.O.I. have? Should we make large bets on short-term prediction.

4. COMPREHENSIVE FINANCIAL PLANNING

TEACHING KIDS/GRANDKIDS TO "FISH"

This title comes from this line of thinking: What is better to do, to teach a needy father how to fish, or simply give him a fish? You could certainly afford to give the needy father a fish, maybe even enough to feed his whole family a meal of fish - wouldn't you be stingy or worse, if you didn't? Why go to all the trouble to teach the father to fish - the time invested would certainly cost you more than the cost of one fish and probably less than the cost of feeding the whole family a meal of fish - so why not feed him and his family a meal... after all, are we "cheapskates?"

Here is why. You can't afford to feed the needy father, and especially his whole family, for a lifetime, and, lifetimes to come. But if you teach the needy father how to fish, it is likely **he can feed himself, and, his family,**

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not for just one meal, but **possibly for life**. And, if he is a good father, what will he teach his children? He will teach them how to fish, and encourage them to find ways to fish even better than he. Thus, you may not only help the father, **you may help generations**. Now what is better to do, to help the father just once, or to help an individual, a family and a generation, for possibly lifetimes?

COMPREHENSIVE FINANCIAL PLANNING

INCOME & EXPENSE

- Emergency Planning
- Budgeting
- Taxes

KIDS/GRANDKIDS' GOALS

- "Teach Them To Fish"
- Missions, Education, Marriages, and Home Down Payments

RETIREMENT

LONG TERM CARE

DEATH & DISABILITY

IDENTITY THEFT PROTECTION

ESTATE PLANNING

BUSINESS & ASSET PROTECTION PLANNING

Now, father and mother (grandfather/grandmother), who do we love most and owe the most to - some stranger, or our own children (and grandchildren)? **Have we taught any children (or grandchildren) how to "fish" lately, i.e., to budget their allowance, have an emergency fund, reconcile a checking account, work-save-invest for their own mission, marriage, education and home down-payments (it is o.k. to financially help kids and grandkids, but it is so much better to do it in a way that develops their attitude they did most or all of it by themselves)? Or in other words, are you preparing them to financially take care of themselves? Or, are you teaching them to be always financially dependent upon you?** Have you been willing to spend the time and effort required to teach, or are you going to just keep "handing out fish" to your children and grandchildren (by the way, relative to kids' mission, marriage, education and home down-payments, we are talking about **TRUCK LOADS OF FISH!**)?

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