



TAKING CARE OF YOU

ISSUE#: *One Hundred-Sixty-Two*

January, 2010

INSIDE THIS ISSUE:

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1. *Markets Section* = *Current Market Environment*
2. *Active Investment Management* = *Diversify Manager Styles*
3. *Current Best Funds* = *Issue# 162 Fund Changes/Why*
4. *Comprehensive Financial Planning* = *Long Term Care Planning*

1. **MARKETS**

Current Market Environment

2009 has come to an end and what a good year it has been. R.O.I. always tells clients that the best years for the stock market almost always come immediately or shortly after the worst years, and 2009 (coming after 2008) was no exception. R.O.I. participated well in the 2009 upswing with most of R.O.I.'s clients (those clients with a moderate asset allocation) experiencing a **25.33%** return. The major U.S. indexes experienced the following returns: DJIA (Dow Jones Industrial Average) **+18.8%**; S&P 500 **+23.5%**; Russell 2000 **+25.2%** and the NASDAQ **+43.9%**. **R.O.I. has now beaten the S&P 500 for 10 consecutive years!**

So what do we anticipate in the future? We don't claim to have the answer for sure, **but we lean toward the upside in both the economy and the market.** We expect that the quarter just ended will show the U.S. growing somewhere between **3-4%**, better than we have seen for many quarters. Europe is on the verge of growth and, of course, emerging Asia is growing rapidly, with **China and India leading the way.** An important source of growth in the U.S. right now is the turnaround in inventory spending. We have been anticipating the turnaround for months, and it has finally arrived.

Another Source of growth is **business investment.** Business spending has been cautious, but the latest (November) report covering new orders for investment goods showed a very healthy increase of **3.6%** combined with the latest report on new orders from the December manufacturing survey, the odds are that business investment is about to contribute importantly to growth.

Other factors that suggest a recovery is **interest rates** remain low across the maturity spectrum thanks to the Fed's aggressive easing of monetary policy. **Layoffs are subsiding,** and the economy should soon begin to create more jobs than we're losing, a key to a revival of consumer spending. Businesses have drastically cut costs, setting the stage for a dramatic rebound in profits even if sales only rise modestly. Analyst' consensus estimates call for the companies in the S&P 500 to report a healthy **23%** increase in 2010 operating profits.

All of the above is good news for stocks, but we want to introduce some notes of caution with regard to the short-run. **Technical analysis has shown that the market is overbought, and, there is real concern about the Federal deficits and the weak dollar possibly leading to inflation.** We may be in for a correction, but whatever the market does in the short-run, we see the economy's growth over the first half of the year as being too strong for a **punishing** correction to take hold. Therefore, we are again "straddling the fence" not significant bets on markets growing at this time, and watching closely to respond to a correction.

2. **ACTIVE INVESTMENT MANAGEMENT**

"TAKING CARE OF YOU", Page 2

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

DIVERSIFY MANAGER STYLES

What are "Management Styles"? Each Mutual Fund Manager has his own *Style*, i.e., a philosophy, approach, methodology, and/or belief system that he feels will result in the best performance for his Fund's Investment Objective. *Styles* are divided into two broad *Categories*, each Category has 2 *Parts* consisting of 3 *Factors*:

<u>Categories</u> →	<u>Stock</u>	<u>Bond</u>
Part 1 →	Quality	Term
Factor 1→	Value	Short
Factor 2→	Blend	Medium
Factor 3→	Growth	Long

(Equate: (1) "Value" to bargain priced stocks, "Growth" to high flying stocks, and "Blend" to a mix of both Value and Growth stocks; (2) "Short" to <3 year terms, "Long" to >10 year terms, and "Medium" between 3-10 year terms.)

Part 2 →	Size	Quality
Factor 1→	Large	High
Factor 2→	Medium	Medium
Factor 3→	Small	Low

(Equate: (1) "Large" to big, famous companies; "Small" to small, less known, new companies; and, "Medium" to everything else; (2) "High" to AAA grade corporate and US government bonds; "Low" to bonds of corporations and government entities that are having economic challenges; and, "Medium" to everything else.)

The result is 9 *Styles* for each broad *Category*:

<u>Categories</u> →	<u>Stock</u>	<u>Bond</u>
	Large/Value	High Quality/Short Term
	Large/Blend	High Quality/Medium Term
	Large/Growth	High Quality/Long Term
	Medium/Value	Med. Quality/Short Term
	Medium/Blend	Med. Quality/Medium Term
	Medium/Growth	Med. Quality/Long Term

<u>Categories</u> →	<u>Stock</u>	<u>Bond</u>
	Small/Value	Low Quality/Short Term
	Small/Blend	Low Quality/Medium Term
	Small/Growth	Low Quality/Long Term

As you go from the top to the bottom of each *Category's* list of 9 *Styles*, the Management Style generally becomes more *volatile*, meaning there are greater potentials for Upswing Growth and Downswing Decline. Some Managers are devoted to their *Style* while others are uncommitted.

These *Styles* fall in and out of favor with *constant irregularity*, i.e., nobody knows the next winner or loser. Many factors influence *Styles'* current success, e.g., rising interest rates help High Quality/Short Term Bonds sore but cause High Quality/Long Term Bonds to crash, or, a stable, unheated economy pushes Small/Growth Stocks and Low Quality/Long Term Bonds up while suppressing High Quality/Short Term Bonds.

“TAKING CARE OF YOU”, Page 3

Style has such a great influence on a Manager's success that years ago Morningstar changed its Fund rating system to reflect *Styles*. Because Managers can be compared with other Managers using similar *Styles*, it is now easier to tell whether a Manager's success is due to his skills or because his *Style* is in favor.

Style has such a large impact on performance and volatility, it is critical to be "in" the right *Style* to participate in Upswings and to be "out" of the wrong *Style* to limit participation in Downswings. However, as mentioned above, *Styles* fall in and out of favor with "*constant irregularity*" (or "*unpredictable regularity*"?), and since Timing *Styles* equates to Timing Markets (which is widely discredited because of its unlikely long term success), the best and most feasible solution is to **DIVERSIFY MANAGEMENT STYLES**. This way you don't miss Upswings, yet you don't entirely participate in Downswings → kind of a very (un)technical theory called "***Pigs Get Fed But Hogs Get Slaughtered***" (but one that works well over the long term!).

3. CURRENT BEST FUNDS

	LAST MONTH	'09 YEAR TO DATE	1/1/97 THROUGH '09
ROI'S MPT INDEX*	2.50%	+27.90%	+82.40%
ROI'S "BEST FUNDS"***	4.05%	+25.33%	+121.08%

* 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-TWO BEST FUND CHANGES & WHY?

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

<u>STOCKS</u>	<u>BONDS</u>
Aggressive Growth	US/LT, ST, Mtg, Convertible
Fidelity Capital Appreciation Source (117%)	Fidelity Convertible (67%)
	<DWS Short Duration> (100.0%)
Growth	Delaware Extended (33%)
Morgan St Mid Cap (100%)	
Yacktman Focused (113%)	Junk
	Security High Yield <75%>
Small Cap	
Brown Cap Small (106%)	Global
Sterling Cap Small Val (50%)	Loomis Sayles Global (100%)
AIM Triamark Small Co (50%)	<TCW Emg Mkts> <62.5%>
Equity Income	<u>ANTI-INFLATION</u>
Sun America Fixed Div <125%>	Asset Manager
	Henderson European Focus (100%)

“TAKING CARE OF YOU”, Page 4

Stock Index	
Fidelity Spartan Market Index (100%)	Ntrl Res, Utilities & Metals
	MFS Utilities (75%)
Overseas: Int’l, World, SC, EM	Fidelity Sel Material Port (50%)
Janus Overseas (85.7%)	Black Rock Energy Resource (50%)
Oakmark International Gth (69.78)	Real Estate
Oakmark International (85.7%)	Fidelity Advisor Real Estate (66.75%)
Templeton Global Small I Co (42.85)	<Dryden Global Real Estate> (44.5)
<Causeway Emerging Markets> <64.28%>	
Forward Emerging Markets (85.7%)	

THE “WHYS”

Allocation Changes- We increased our allocation to the **Equity Income Asset Class (Sun America Fixed Dividend)** in order to participate more in the continued upswing that we anticipate. We decreased our allocation to our **Junk Bond Asset Class (Security High Yield)** in order to harvest profits and to have more cash to invest in more aggressive areas. We decreased our allocation to our **Global Bonds Asset Class (Fidelity Advisor Emerging Markets before we changed it to TCW Emerging Markets)** for the same reason we reduced our High Yield Asset Class.

Fund Changes-

- We added Causeway Emerging Markets-** We added this fund in order to increase our exposure to our Emerging Market Equity Asset Class;
- DWS Duration for Janus Short Term Bond-** Janus Short Term Bond has recently began to lag behind its peers while DWS has performed well recently, has a high star rating and reasonable expense ratio;
- TCW Emerging Markets for Fidelity Advisor Emerging Markets-** TCW Emerging Markets has a strong risk return ratio and has performed well recently in the current economic environment while Fidelity Advisor has fallen behind in performance, and we think Fidelity will continue to struggle;
- Dryden Global Real Estate for Third Avenue Real Estate** – Third Avenue is no longer one of the top performers while Dryden Global Real Estate has done well recently and has a strong long-term track history.

[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.]

<i>THE PREDICTION WAS:</i>			<i>THE DJIA WAS:</i>		<i>THE PREDICTION WAS OFF BY:</i>	
<i>MADE</i>	<i>FOR</i>	<i>DJIA</i>	<i>ACTUALLY</i>	<i>POINTS</i>	<i>PERCENT</i>	
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%	
No Issue						
06/09	12/09	8668	10428	-1760	-16.80%	
TWELVE MONTH ERROR RANGE =				-1760/+5006	-16.8%/+68%	

!!R.O.I. believes it is impossible to predict the short-term future. If the “experts” can’t reliably do so what

“TAKING CARE OF YOU”, Page 5

chance do you or R.O.I. have? Should we make large bets on short-term prediction.

4. COMPREHENSIVE FINANCIAL PLANNING LONG TERM CARE PLANNING

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

WHAT IS LONG TERM CARE? Assistance at a cost, over a longer period than a hospital stay, with one or more basic personal needs (e.g., bathing, eating) that the adult, spouse, or family cannot (or no longer desires) to provide. Assistance can be at a Nursing Home, Assisted Living Facility, or at Home.

WHAT ARE THE COSTS OF LONG TERM CARE? The cost of Long Term Care can vary greatly, especially from one geographic area to another, but the costs below are reflective of costs in Utah for Nursing Home Care as of a few years ago:

Room Rate	= \$130/day
Prescriptions	= \$ 15/day
Therapy	= \$ 15/day
Daily Cost	= \$160/day

With 4%/year inflation, Long Term Care Costs for different periods could be:

<u>30 Days</u>	<u>3 Months</u>	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>10 Years</u>
\$ 4,800	\$14,400	\$58,400	\$182,301	\$316,313	\$701,157

Obviously, long term costs can be staggering!

WHAT ARE THE ODDS OF NEEDING LONG TERM CARE? According to studies (future studies will result in higher percentages needing long term care):

- (1) 43% of people age 65 will enter a *nursing home* at some time;
- (2) But 66% of people age 65 will never be in, or will spend less than 3 months, in a *nursing home*;
- (3) 13% of women will spend 5 years+ in a *nursing home*, but only 4% of men will;
- (4) Together, there is about a 17% chance of one spouse spending 5 years+ in a *nursing home* (current studies peg this **closer to 30%** – thus insurance companies are significantly raising rates because of reality); and,
- (5) The chances of needing **home health care** are substantially greater than needing *nursing home care*.

WHAT SOURCES ARE AVAILABLE TO PAY LONG TERM CARE COSTS? The **first source** is the patient’s cash flow and assets (**including home equity via a Reverse Mortgage**). When a poverty level is reached, then the **second common source** begins paying, i.e., state Medicaid (**not** Federal Medicare) - but there are requirements to qualify for Medicaid which limit choices and places of services (generally, substantially lower quality care facilities). Because these requirements result in using lower quality facilities, the **third source**, i.e., other family members’ cash flow and resources, are often used instead of Medicaid. The **fourth source** is Long Term Care insurance - a newer kind of insurance that may become as common as medical, car, home and life insurance as a part of individuals’ and families’ planning.

WHAT ARE SOME GENERAL GUIDELINES RELATIVE TO LONG TERM CARE INSURANCE?

Because long term care insurance is generally very expensive and usually requires a financial commitment long in advance of a contingency that may **never** occur, R.O.I. generally recommends that it be used only:

1. To cover potential costs that cannot be covered out of future cash flow and Reverse Mortgages; and,

“TAKING CARE OF YOU”, Page 6

2. If premiums can be comfortably paid from cash flow without significant standard of living sacrifices.

WHAT IS A REVERSE MORTGAGE? As mentioned above, a major disadvantage of buying long term care insurance is committing large amounts of cash flow, long in advance of a contingency that may never occur. A Reverse Mortgage can provide tax free long term care benefits and avoid this major disadvantage. A Reverse Mortgage is a loan on your home’s equity (tax free cash flow in a “lump sum”, fixed “annuity payments”, or “draw as you need” basis), but you don’t need to tap into it **until and unless a long term event actually occurs**. A Reverse Mortgage **does not require any payments** back to the lender – the lender gets paid the principle borrowed and the accruing interest when the home is sold after **BOTH** spouses’ deaths, so the surviving spouse who may never go to a nursing home can live in the family home without having to make debt payments (home sale proceeds in excess of the principle and accruing interest would go to the kids).

IF YOUR ARE CONSIDERING LONG TERM CARE INSURANCE, the following guidelines may help:

1. **Choice of Qualified or Non-Qualified Plans** (a non-qualified plan might be best for many):
 - a. **A Qualified Plan**’s premiums MAY be deductible on Schedule A, the same as medical insurance premiums are, which means they are only deductible if medical expenses exceed a certain percentage of Adjusted Gross Income. Even if premiums are deductible, there is currently a rather small dollar limit on how much is deductible. **For many clients this means little if any of the premiums are currently deductible**. Also, Qualified Plan benefits will probably be income tax free. However, the choices of where, when and what services are provided are limited, e.g., no benefits are payable unless the patient cannot provide for him/herself **at least TWO of the six basic needs** – for many, these limits are too distasteful;
 - b. Currently, **Non-Qualified Plan** premiums are not deductible and benefits MAY be treated as income (but it might be years and years, if ever, before you receive benefits, and then they might be in a lower tax bracket or even tax free by then, like medical insurance benefits), but choices of where, when and what services are provided are more flexible, e.g., benefits are payable if the patient cannot provide for themselves only **ONE of the six basic needs**;
2. Some reasons why long term care insurance might be considered are -
 - a. The financial inability to provide dignified care;
 - b. Relieve burdens of a spouse or family members to provide desired care;
 - c. Protect assets for the benefit of a spouse or family;
 - d. Children protecting their inheritance or their own assets (**children might pay the premiums**);
3. Like a medical insurance deductible, select the longest elimination period you can afford;
4. Be sure benefits after the elimination period are based upon “accumulated”, **not** “consecutive”, days;
5. Like a medical co-insurance payment, insure against possible costs you can’t afford – not 100% coverage, e.g., provide the lowest daily Nursing Care benefit you think you can afford, and the same for Home/Community care (but probably 50% of daily Nursing Care benefit);
6. Buy compounding benefit increases, and, provide benefits for as long a period as you can afford.

TAKING CARE OF YOU is a publication of R.O.I., a Registered Investment Advisor (RIA), a member of, and is produced for the sole benefit of R.O.I.’s clients. Editors: Benjamin A. Olson, and J. Grant Olson. 351 East 140 North, Lindon, Utah 84042-2004, 801-785-3254, 801-785-3244 (Fax), 801-580-7672 (Mobile), ronaldolsoninc@gmail.com (e-mail), www.roionweb.com (Web Site).

