



TAKING CARE OF YOU

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

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1. **MARKETS**

Current Market Environment

As you well know, the world markets, and the U.S. market in particular, have started the year in poor fashion. In fact, the U.S. market is in a correction. The market started the year in fine fashion, gaining 2.7% in the first week. It looked as if the December rally had rolled right into the New Year. Not so. Over the rest of the month, the market dropped about 6.5%.

Despite the markets poor performance this January, we think the stock market can have a **decent** year in 2010. Corrections are likely to occur when sentiment gets overly pessimistic, but various fundamental factors lead us to believe that the market's overall direction is **likely to be upward** over the next six to 12 months. Fear and pessimism can direct a market for a while, but real economic factors virtually always prove dominant. Here are the main reasons we feel this way. **First**, some government spending will continue to prop up growth, while inventory restocking in the private industry continues. **Second**, investors are likely to increase their spending, thanks to the wealth effect of considerably higher portfolio values, versus a year ago. **Third** economy should continue to experience the growth effect for the Fed's incredibly loose monetary policy. And **fourth**, the economy actually making steady improvement, including companies are posting increasing profits.

We recently came across an article on the Fidelity web site called "'Lost Decade' shows it pays to diversify." It was written by Stan Luxenberg and we wanted to share some of the highlights of this article with our clients.

During the past 10 years, the S&P 500 Index (.SPX) dropped about 1% annually, marking a lost decade of sorts. But while blue chips sank, other segments stayed afloat.

Of the 55 mutual-fund categories tracked by Morningstar, 51 produced positive returns during the past 10 years. Top fund categories include natural resources, which returned **13%** annually for the decade, and small value stocks, with return of **8.6%**.

Among overseas categories, only Japan mutual funds lost money. Latin America mutual funds led the way with returns of **16%**, while European mutual funds returned **4.9%**. Bonds on the other hand, produced predictable results.

If so many funds rose, **why did the S&P 500 fall?** The poor showing of blue ships can be traced to the plain fact that they were **overvalued at the beginning of the decade**. In the late 1990s, investors poured into large growth stocks

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What lessons should we draw from the recent market performance? **First, it pays to diversify.** The second lesson is that **the best returns went to investors who embraced unloved sectors.** While technology floundered in the past decade, investors got double-digit returns from precious metals and energy, sectors that were shunned in the late 1990s. Real estate mutual funds returned 9.8% for the decade (in spite of 2008 and 2009!). **Diversification (and when R.O.I. says diversification, it means broad, broad diversification – your portfolio owned various concentrations of all of the above mentioned successful asset classes over the past decade!) is one of the main reasons R.O.I. substantially beat the S&P 500 for the last 10 years – another major reason is R.O.I.’s active investment management.**

These days investors should underweight some of the hot performers and emphasize sectors that trailed for the decade. For example, after returning 31% in 2009, the average real estate fund now has a sky-high price-to-earnings ratio of **31** - that’s a steep price at a time when commercial property markets remain deeply depressed. After the thumping they took in the past decade, blue chips no longer seem expensive, **and investors should maintain a significant allocation in their portfolio.** Morningstar’s large blend category, which includes the S&P index fund, **commands a reasonable multiple of 14 (P/E ratio).** **Foreign large blend funds have a P/E multiple of 12, while foreign small-mid value funds have a multiple of 11.** Another area to maintain a position in is **high-yield bond mutual funds**, ranked as one of the worst-performing bond sectors of the past decade. Now the funds yield **7.6%** - a very attractive payout.

Most investors’ long-term returns are poor. Why? **Because they ignore the two rules listed above.** They do not diversify, and they overweight their investments in areas that have done very well recently, and they believe never stop doing well. **In the long run, it pays to diversify.**

2. ACTIVE INVESTMENT MANAGEMENT

CONTROL SECTOR CONCENTRATION

What is "**Sector Concentration**"? To me and you, a "**Sector**" means the same as “industry”, e.g., Healthcare. "**Concentration**" simply implies what percent of a portfolio is being allocated. Therefore, "**Sector Concentration**" means what percent of a portfolio is being allocated to various industries. The **new** twelve sectors tracked by Morningstar fall within three “Super Sectors”:

MORNINGSTAR SECTORS WITHIN SUPER SECTORS

<u>INFORMATION</u>	<u>SERVICE</u>	<u>MANUFACTURING</u>
Software	Healthcare	Consumer
Hardware	Consumer	Industrial
Media	Business	Energy
Telecommunications	Financial	Utilities

Fund managers may invest heavily or lightly in a "**Sector**" because of:

- The Fund's Investment Objective;
- The Sector's Perceived Strength By The Manager; and/or,
- The Manager's Style.

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Because of these factors (and others), funds in the same broad category, or, more narrow asset class, have different "*Sector Concentrations*".

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

Sectors, *even more than Styles*, fall in and out of favor. No one knows which sector will be the next big winner or loser, or how long it will remain so, but fund managers often make large "bets" thereon. For example, in 2000 and at least part of 2001, Claire Young of Janus Olympus had over 60% in the Information Super Sector. During this time the Information Super Sector declined more than any other sector or Super Sector. Young had a wonderful history of managing Janus Olympus (e.g., in 1999 Olympus made over 100%!), but during this time it was the wrong Super Sector at the wrong time.

Because R.O.I. doesn't pretend to be able to "outsmart" the great fund managers that work with the funds we use, R.O.I. simply tries to participate in large *Sector Upswings* and not fully participate in large *Sector Downswings* without making big bets (the old "**Pigs Get Fed, But Hogs Get Slaughtered**" principle). R.O.I. does this by analyzing your entire portfolio (remember a portfolio may be made up of several assets such as one or more IRAs or Roths, and, individual, joint, or trust accounts, etc.) to avoid having very large concentrations of the *ENTIRE* portfolio in any one sector (R.O.I. usually prefers less than 20%/sector), even though there may be one or more Funds in the Portfolio that are making large "bets" on a particular sector or Super Sector.

However, via R.O.I.'s "Fine Tuning" strategies, R.O.I. will at times make larger allocations to various asset classes (in effect, to certain sectors or Super Sectors), like it did during the Secular Bull Market of the 1990s, to better participate in Cyclical Bull Markets, or, smaller allocations to limit participation in Cyclical Blah/Bear Markets like 2000-2002, and 2008. There are a few, very rare instances where R.O.I. will allocate a large portion of clients' portfolio to one certain sector or even asset class. This is only done in the **most extreme** circumstances. One of the few times R.O.I. has made such a large move was in late 2008 when our moderate allocation had about 30% in cash! This move was done to provide more protection to our clients' portfolios due to

the intense downswing, but allow for flexibility to reinvest quickly when markets started to turn up

3. CURRENT BEST FUNDS

	LAST MONTH	'10 YEAR TO DATE	1/1/97 THROUGH '10
ROI'S MPT INDEX*	-2.7%	-2.7%	+79.7%
ROI'S "BEST FUNDS"***	-2.6%	-2.6%	+118.5%

* 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

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same Moderate Asset allocation as in ROI’s MPT INDEX, but includes all of ROI’s other strategies.

ISSUE# ONE HUNDRED-SIXTY-THREE 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 Appre 1 st Source (117%)	Fidelity Convertible (67%)
	DWS Short Duration (100.0%)
Growth	Delaware Extended (33%)
<Columbia Acorn>(100%)	
Yacktman Focused (113%)	Junk
	Security High Yield (75%)
Small Cap	
<WellsFargo Admin Small>(106%)	Global
Sterling Cap Small Val (50%)	<Alliance Bern Glb Bond> (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%)
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 Inernational Gth (69.8%)	Real Estate
Oakmark International (85.7%)	Fidelity Advisor Real Estate (66.8%)
Causeway Emerging Markets (64.3%)	Dryden Global Real Estate <11.1%>
<Lazard Developing Markets> (85.7%)	

THE “WHYS”

Allocation Changes- We reduced our allocation to our **Overseas Small Cap** asset class by selling our **Templeton Global Small I Co Fund**. This change was made in order to control participation in any further correction in the markets. We have also decreased our allocation to our **International Real Estate** class (**Dryden Global Real Estate**). This move was done in order to do some profit taking in an asset class which has risen significantly over the last few months and has a very high P/E (Price/Earnings) ratio.

Fund Changes-

1. **Columbia Acorn for Morgan Stanley Mid Cap-** Columbia has done well over the past few months and has a good risk return ratio. Morgan Stanley has lagged behind its peers for some time now;
2. **Wells Fargo Administrative Small for Brown Small Cap-** Brown’s performance over the last few months has been struggling when compared to its peers. Wells Fargo has done well, it has a reasonable expense ratio, and a high star rating;
3. **Lazard Developing Markets for Forward Emerging Markets-** Lazard has a strong track history, a high star rating and has

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done well recently in our current environment. Forward Emerging Markets has performed poorly when compared to its peers and we anticipate this might continue;

4. **Alliance Bernstein Global Bond for Loomis Sayles Global**- Loomis Sayles’ performance has been struggling lately and we anticipate this may continue, while Alliance has recently been one of the top competitors in this asset class, and has a low expense ratio.

[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>
09/08	02/09	12480	7947	+4533	+57.0%
10/08	03/09	12268	7262	+5006	+68.0%
11/08	04/09	12255	8022	+4233	+53.0%
12/08	05/09	10955	8306	+2649	+32.0%
01/09	06/09	9567	8859	+708	+8.0%
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	-11.0%
No Issue					
06/09	12/09	8668	10428	-1760	-16.8%
07/09	01/10	8824	10067	-1243	-12.3%
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 chance do you or R.O.I. have? Should we make large bets on short-term prediction.

4. COMPREHENSIVE FINANCIAL PLANNING

DEATH & DISABILITY PLANNING

Death and disability planning involves planning for contingencies that can happen at anytime. We call them “contingencies” because it is one of the goals of Comprehensive Financial Planning (hereinafter referred to as CFP) to eventually become “self insured”, i.e., have enough Working Assets (e.g., stocks, bonds, mutual funds, retirement plans, real estate, etc.), Pension and Social Security benefits, to provide for a surviving spouse and children. Therefore, the financial concern is replacing sufficient amounts of the lost income that would have otherwise been generated, except for the untimely death or disability of a spouse/parent, so the surviving spouse and children can have an acceptable life style. There are generally five pieces, usually looked at in the following priority, to replacing the lost income:

1. Social Security benefits;
2. Working Assets;
3. Income, if any, generated by a surviving spouse and/or children;
4. Employer insurance benefits; and,
5. Personal insurance benefits.

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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

One of the benefits of an R.O.I. CFP is to accurately project future income needs, in conjunction with: Future goals and concerns (e.g., Retirement, Kids' Goals, Long Term Care, etc.); Inflation and taxes; and, to then apply the above five pieces to see how sufficiently the lost income is replaced, what additional emphasis on which pieces needs to be made, and when being self insured might be accomplished. One can use very rough estimates, like “five years of salary” for the needed amount of life insurance, but such estimates are usually “barely a step in the right direction” and usually result in being significantly under or over insured.

Relative to employer and personal insurance benefits, the following general guidelines might be helpful:

1. Employer provided insurance benefits are usually much cheaper and easier to obtain than personally provided insurance benefits (especially disability insurance);
2. Employer benefits are often not portable (i.e., you can't, or they are too expensive to, take them with you when you leave). If there has been a health change during employment, one might not be able to replace those benefits with personal insurance benefits or equivalent benefits from a new employer. For these reasons, it might be wise to have some personal insurance benefits even if you haven't maximized all the less expensive and easier to obtain employer insurance benefits, or to factor into the planning, income to be generated by a surviving spouse and/or children ;
3. Because a CFP pursues the goal of becoming self insured, term life insurance is usually much better to have than permanent life insurance. Then the only question is how long should the term be – again, a CFP can greatly help with this question;
4. Social Security Disability benefits are very difficult to qualify for, and individual disability insurance is very expensive (like medical and long term care insurance). Therefore, employer provided disability insurance can be a very important benefit, even if it seems quite expensive;
5. Disability insurance benefits (employer and personal insurance), in conjunction with any Social Security Disability benefits, almost always are calculated to provide less than the lost income (usually 60%-70%), so even if you maximize all your employer and personal disability insurance benefits you will probably have to consider income generated by a surviving spouse and/or children or cutting back on expenditures and/or goals. Often, the cost of providing personal disability insurance is prohibitive because it requires the sacrifice of other goals that are either more important or more likely to happen (e.g., retirement, kids' goals), and clients elect to simply gamble on the risk, plan on income generated by a surviving spouse and/or children, or making substantial changes in expenditures and/or goals.

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