



# TAKING CARE OF YOU

ISSUE#: *One Hundred-Sixty-Five*

*April, 2010*

**INSIDE THIS ISSUE: *NOTE SPECIAL ANNOUNCEMENTS!***

- |  |   |                                    |
|--|---|------------------------------------|
| 1. <i>Markets Section</i>                  | = | <i>Current Market Environment</i>  |
| 2. <i>Active Investment Management</i>     | = | <i>Rebalancing</i>                 |
| 3. <i>Current Best Funds</i>               | = | <i>Issue# 165 Fund Changes/Why</i> |
| 4. <i>Comprehensive Financial Planning</i> | = | <i>Estate Planning</i>             |

## **SPECIAL ANNOUNCEMENTS!**

- **Check out R.O.I.'s I-15 billboard add, heading south, just south of the 1200 North, Lehi exit;**
- **Check out R.O.I.'s (soon to be finished) updated website at [www.ROIonWEB.com](http://www.ROIonWEB.com), and our "Personal Seminar" (audio & power point presentation) for friends, neighbors & relatives.**

## **1. MARKETS**

### **Current Market Environment**

As the stock market grinds its way higher, investors are surely asking themselves how long will this bull market last? In terms of time, **we would not presume to attempt an answer. We just don't know (and we would be skeptical of anyone who offers an answer.)**

However, we are prepared to say that the bull market still has room to run. We are by no means approaching the peak. Stocks are certainly not cheap, but neither are they overpriced. We base this on current price levels and analysts' consensus outlook for earnings. Interest rates are also a significant consideration.

Based on today's profit estimates, the market (S&P 500) could rise another 10-15% **before** valuation becomes a serious issue. In addition, something else has to be considered: **profits are not standing still.** What we have seen as the economy gains strength, is analysts continuously raising estimates. There is no reason to think that the game of analyst hounds chasing the profit hare has ended. In that sense current profit estimates understate profits and overstate market valuations.

However, it wouldn't surprise us at all at this point if the market experienced a little pullback from levels of early April. Sentiment seems a little too optimistic, and not all of the economic news is good. Also, Treasury yields have begun to rise (which could lead to higher interest rates). **However, we don't expect any pullback in equities at this point to be severe enough to justify a reduction in one's equity allocation, given such positive factors as the shrinking credit spread and positive market momentum.**

When it comes to the economy, the one number that everyone looks at nowadays is the jobs number. In that sense, March was a good month but it did not set off any celebrations on Wall Street. We were impressed by two numbers in the report. First, we had the first significant increase in private sector hiring in many, many months. What we saw was the final sign that the improvement in employment was reaching critical mass.

Second, and just as important, the report showed income growth benefited from a solid boost last month. Yes, jobs expanded last month, but that was overshadowed (in income terms) by an increase in the average work week. An estimate we have seen shows labor income growing substantially faster in the quarter just ended than

## **“TAKING CARE OF YOU”, Page 2**

in the prior quarter. These job and income numbers help explain the better consumer attitudes we have seen.

We anticipate that the economy will continue to show slow, steady improvement over the coming months. The stock market could experience a correction in the short-term (the next few months, especially with summer coming), but if we are right about the economy, the market will most likely rebound and continue to rise through the end of the year. We don't anticipate the stock market to do as well in 2010 as it did in 2009, but we feel there is a good chance the markets will be higher than they are now by year end.

## **2. ACTIVE INVESTMENT MANAGEMENT**

### **REBALANCING**

What is **Rebalancing**? Every client's portfolio involves allocating certain percentages to Asset Classes depending on the client's Target Model and Percentage – these are called **Target%**. Over time, the **Actual %** in each Asset Class differs from the **Target%** because of R.O.I.'s “Fine Tuning” strategies that manually adjust allocations, and because the Asset Classes perform differently. The gap between the **Target%** and the **Actual%** is called the **Difference%** (see the Asset Allocation Summary of your last R.O.I. Quarterly Investment Report). **Rebalancing** is the process of selling and buying until the **Actual% = Target%** (after accounting for restrictions and tax consequences in your portfolio and “Fine Tuning” strategies).

Studies show there are possible **problems** with Rebalancing, e.g.,

1. **Higher Management Costs** – for R.O.I. clients this doesn't apply because R.O.I. doesn't charge anything extra for Rebalancing;
2. **Higher Transaction Costs** – for R.O.I. clients this doesn't apply because R.O.I. almost exclusively uses no-load, no transaction fee funds (however this does apply to occasional Early Redemption Fees (ERFs)); and,
3. **Less Tax Efficient** – repeated buying and selling does have tax inefficiencies, but this has limited application to R.O.I. clients because it does not apply to tax sheltered accounts (e.g., IRAs, Employer Plans), and, because R.O.I.:
  - Uses “Tax Efficient Best Funds” in taxable accounts;
  - Modifies Rebalancing strategies in solely taxable portfolios to minimize tax consequences; and,
  - “Harvests” losses from current and prior years, where applicable.

Some of the anticipated **benefits** of Rebalancing are:

1. **Higher Returns** – Most studies show that Rebalancing increases returns over the long term (it forces “**buying low**” funds that appear to be bargains and “**selling high**” funds that appear to be loaded with “fluffy” profits). Rebalancing helps to:
  - **Participate In Upswings** that precede and follow down markets; and,
  - **Limit Participation In Downswings**;
2. **Lower Volatility** – You can see from #1 that Rebalancing can reduce the need for huge returns in a current year to make up for large losses in a previous year. This makes it easier to reach Target Return goals, and, to “sleep better” during rougher times; and,
3. **Control Expectations** – You can see from #1 and #2 that Rebalancing can reduce the focus from “last

### **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

## **“TAKING CARE OF YOU”, Page 3**

year’s” or “this year’s” terrible losses or fantastic gains, to a **focus on achieving a long term average Target Return with less Volatility**. Focusing on eventually achieving a Target Return results in accomplishing clients’ goals and needs, with expectations of **NOT** doing the very best in Bull Markets and **NOT** doing the very worst in Bear Markets. Uncontrolled expectations produce decisions controlled by **Greed and Fear** that results in consistently “**buying HIGH**” and “**selling LOW**”.

R.O.I.’s consistent **Fund Monitoring**, and, **Fine Tuning Strategies** when rougher times (e.g., “Preserving Gains Strategy” in the Spring of 2000’s Roller-Coaster Market and a similar strategy in the Summer of 2001 and again in most of 2002, the end of 2008, and beginning of 2009) and better times (e.g., the 2003 “Cyclical Bull Market” and again at the end of 2004, 2006, and middle of 2009) are anticipated, tends to accomplish some of the Rebalancing benefits throughout the year. Thus, sometimes portfolios are not much out of balance at the time of Rebalancing.

To:

1. Reduce the number of transactions in all clients’ accounts (and thus reduce exposure to possible ERFs);
2. Increase the tax efficiency in taxable accounts (by harvesting losses and waiting for short term capital gains (STCG) to mature into long term capital gains (LTCG)); and,
3. To increase the return benefits of buying low and selling high;

R.O.I.:

1. Automatically Rebalances all clients’ accounts around April of each year (there is no persuasive evidence that any particular time of year is consistently better for Rebalancing);
2. Reviews representative taxable accounts to determine how Rebalancing should be limited in order to harvest losses or wait till STCGs turn into LTCGs; and,
3. Builds a 20% allocation cushion into Rebalancing taxable accounts that allows taxable account positions to be up to 20% above the **Target%** before selling and incurring gains.

### **3. CURRENT BEST FUNDS**

	<b>LAST MONTH</b>	<b>'10 YEAR TO DATE</b>	<b>1/1/97 THROUGH '10</b>
<b>ROI'S MPT INDEX*</b>	+4.7%	+4.00%	+86.5%
<b>ROI'S "BEST FUNDS"***</b>	+3.71%	+4.73%	+125.8%

\* 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-FIVE BEST FUND CHANGES & WHY?**

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

<b>STOCKS</b>	<b>BONDS</b>
<b>Aggressive Growth</b>	<b>US/LT, ST, Mtg, Convertible</b>

**“TAKING CARE OF YOU”, Page 4**

Fidelity Capital Appre 1 <sup>st</sup> Source (117%)	Fidelity Convertible (67%)
	DWS Short Duration <33%>
<b>Growth</b>	Delaware Corporate Bnd (33%)
Morgan Stanley Inst. Mid Cap (100%)	
Aston/Optimum Mid Cap (113%)	<b>Junk</b>
	Security High Yield <50%>
<b>Small Cap</b>	
Marshal Small Cap Gth (153%)	<b>Global</b>
Sterling Cap Small Val (50%)	Alliance Bern Glb Bond (100%)
AIM Triamark Small Co (50%)	TCW Emg Mkts (62.5%)
<b>Equity Income</b>	<b><u>ANTI-INFLATION</u></b>
Sun America Fixed Div (125%)	<b>Asset Manager</b>
	Oppenheimer Global Opp (100%)
<b>Stock Index</b>	
Fidelity Spartan Market Index (100%)	<b>Ntrl Res, Utilities &amp; Metals</b>
	MFS Utilities (75%)
<b>Overseas: Int’l, World, SC, EM</b>	Fidelity Sel Material Port (50%)
Janus Overseas (85.7%)	Black Rock Energy Resource (50%)
Oakmark International Gth (69.8%)	<b>Real Estate</b>
Oakmark International (43%)	Fidelity Advisor Real Estate <83.7>
Causeway Emerging Markets (64.3%)	Dryden Global Real Estate (14.5)
AIM Dev. Mkt (85.7%)	

**THE “WHYS”**

**Allocation Changes** – We have decreased our allocation to our **Short-Term U.S. Bond asset class (DWS Short Duration)** and our **Junk Bond asset class (Security High Yield)**. We have noticed in our spreadsheets that these asset classes have lagged other classes consistently throughout the recovery and we anticipate this to continue. We have increased our allocation to our **U.S. Real Estate asset class (Fidelity Advisor Real Estate)**. This asset class has done well during the recovery and we anticipate this might continue, but we are watchful because of continual real estate related issues. The reason this class has done well, isn’t because the price of real estate has gone up, but because the properties owned in these funds (which are mostly commercial property) have high yields. This high yield is due to the price of these properties decreasing but still being able to produce reasonably high rents.

**Fund Changes**- NO FUND CHANGES THIS MONTH

[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.]

<b><u>THE PREDICTION WAS:</u></b>			<b><u>THE DJIA WAS:</u></b>	<b><u>THE PREDICTION WAS OFF BY:</u></b>	
<b><u>MADE</u></b>	<b><u>FOR</u></b>	<b><u>DJIA</u></b>	<b><u>ACTUALLY</u></b>	<b><u>POINTS</u></b>	<b><u>PERCENT</u></b>
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					

## **“TAKING CARE OF YOU”, Page 5**

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%
08/09	02/10	8808	10325	-1517	-14.7%
No Issue					
<b>TWELVE MONTH ERROR RANGE =</b>				<b>-1760/+5006</b>	<b>-16.8%/+68%</b>

*!!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 predictions?*

### **4. COMPREHENSIVE FINANCIAL PLANNING**

#### **ESTATE PLANNING**

Estate Planning can be divided into three areas:

- A. **Transferring Inheritance** According to Preferences;
- B. **Special Planning Objectives** for Kids’, Family Members and Entities; and,
- C. **Reducing Estate Taxes**, Related Costs, Time Involvement and Anguish.

Below is a brief discussion of these three areas.

Simply put, **Transferring Inheritance According To Preferences** means getting the desired amount of inheritance into the hands of the desired heirs. This is generally accomplished using the following tools:

1. Wills;
2. Asset Ownership;
3. Beneficiary Designations; and/or,
4. Trusts.

If you don’t have special concerns about “B” and “C”, above, then Transferring Inheritance According to Preferences can usually be accomplished using tools 1-3 above.

**Wills** generally accomplish the following: Name Guardian(s) (substitute parents) for minor children; Name Executor(s)/Personal Representatives (temporary positions to finalize the decedent’s estate in probate court); and Transfer inheritance according to preferences (who gets what and when). Any inheritance passing via a will is subject to Probate Court approval, but unless an estate is complicated, or there are concerns about challenges by heirs, or there are multiple pieces of real estate in more than one state, Probate is now much quicker and less expensive than the horror stories of past years. Every married person, and single persons who have significant assets, probably should have wills.

**Asset Ownership** passes inheritance according to the type of ownership designation, e.g., Joint Tenancy passes ownership of a jointly owned asset to the surviving joint tenant without going through probate. The simplicity of passing inheritance by Asset Ownership has attractions, but transfers by Asset Ownership are usually not the best planning method because of a host of reasons that are too many to discuss at this time.

**Beneficiary Designations** is the method for passing interests in life insurance, annuities and retirement plans (e.g., 401ks, IRAs, ROTHs, et. al.). They provide for a Primary Beneficiary, and if a Primary Beneficiary predeceases the insured/annuitant/retirement plan owner, Contingent Beneficiaries are named.

**Trusts** pass inheritance in much the same manner as wills do, but avoid probate because the trust actually owns

## **“TAKING CARE OF YOU”, Page 6**

the assets in its own name and doesn't "die" when the Grantor/Trustor (the person who created the trust and transferred assets to the trust) does. If titles to assets are never actually transferred to the trust, much of the trust's benefits are missed. Trusts name Trustees and Successor Trustees to administer the trust and distribute its assets according to the terms of the trust. Trusts can be revocable (the Grantor/Trustor can amend or even terminate the trust) or irrevocable (cannot be changed). In addition to transferring assets, trusts can do so in a manner that maximizes various Estate Tax (i.e., taxes due at death) deductions and credits, and, are excellent

tools for handling **Special Planning Objectives** (e.g., provisions for child(ren) who have special gifts or limitations, dealing with complicated situations resulting from multiple marriages and "yours/mine/and ours" kids, etc.). Thus, why trusts are so valuable for special concerns about "B" and/or "C", above.

Other tools that are much simpler than trusts or wills that can be very helpful in planning for **Special Planning Objectives** are Living Wills ("turn off the machine and let me die", e.g., the Terry Shiavo case) and Powers of Attorney (they give someone else authority to make medical and financial decisions on your behalf when you are incapacitated).

What we anticipate current law to be after 2010's "infinite" exemption amount, if your net estate (including life insurance and retirement plans) is less than \$3.5 million, and you don't have **Special Planning Objectives**, a basic estate plan package of: Simple (everything goes to my surviving spouse) Wills (if you have minor children, possibly including Testamentary Trusts, i.e., trusts that come to life after both parents die); Living Wills; and Powers of Attorney, may suffice. Otherwise: Pour-Over (everything goes to my trust) Wills; Revocable Trust(s) (possibly Irrevocable Trusts); Living Wills; and Powers of Attorney, may be a more appropriate estate plan. If you have business interests, and/or a net estate over \$7.0 million, LLCs/LPs, corporations, gifting, and maybe life insurance for

estate liquidity purposes, may need to be weaved into your estate plan. In any case, ROI, with our client's cooperation, will try to help "full service" clients obtain the proper estate plan for their situation.

Unfortunately, a part of life includes experiencing the death of a loved one. In this regard, R.O.I. has included in previous newsletters that have discussed this topic a letter titled "WHAT TO DO WHEN A LOVED ONE DIES." R.O.I. has previously asked you to retain that letter in a place (maybe with your wills, trusts, living will, and powers of attorney) where you can find it when it is needed. If you don't have that letter, please feel welcome to call or e-mail us to send you a copy. Thanks, R.O.I.

**"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](mailto:ronaldolsoninc@gmail.com) (e-mail), [www.roionweb.com](http://www.roionweb.com) (Web Site).

