



TAKING CARE OF YOU

ISSUE#: *One Hundred-Sixty-Seven*

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1. MARKETS

Current Market Environment

Stocks fell sharply at the end of May. The obvious reason was the continuing saga in Europe with regard to the sovereign debt crisis in Greece and potential carryover effects to other European nations, including Spain, Portugal and Ireland. However, fears of slower growth in China and what that would imply for demand for commodities and global growth in general also contributed to the declines.

The European debt problems are large for the countries in questions but not enormous for Europe or certainly the rest of the world. This issue along with the issues in China, are likely to trim export growth for the U.S. from what it otherwise would have been. **That means that the economy here will grow a little slower and corporate earnings growth will be a little less robust than previously expected.**

The current global recovery has been driven primarily by a strong manufacturing rebound that started in Asia, with China at its core. Looking further at China, we find that a slowing in manufacturing leads to a period of slow or negative market returns. The subsequent returns depend on whether the original slowing is just a pause as the rest of the economy picks up the growth baton or the slowing is a prelude to a slide in to a serious downturn. **Continuing on, it appears that China's efforts to slow the economy have worked. It has worked so well that some financial professionals feel that China is ready to loosen the credit-tightening measures now in place.**

R.O.I. feels (along with many other financial professionals) that this 10% to 15% correction we've had already, the probability of considerably more downside is quite low. As for the U.S., we believe that even accounting for Europe (as much as we can), we believe that U.S. growth will continue at the 3% level or so. Some forecasters are looking for a considerable slower next six months, but even they are looking for a pick up to the level over the first half of next year. **The disagreement is about timing, not the eventual path the economy will take.**

As long as the global economy continues to expand, pullbacks like the one we've just had in the world's major stock markets are likely to represent a buying opportunity. If clients have dollars that they don't need in the short-term (within three years), and are not set aside as part of their emergency fund (a minimum of 3 months of living expenses, or more if a client would like), **investing these dollars now could be a good time to buy low.**

2. ACTIVE INVESTMENT MANAGEMENT

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MOTIVATE ADVISOR

Is it very important how your Investment Advisor/Financial Planner is compensated? If the advisor is **always** altruistic, the answer is **NO**. If the advisor **ever** thinks about the ongoing success and stability of his business, then the answer is a resounding **YES**. Then the client must wonder if those “thoughts” **ever conflict** with the client’s interests. How can the advisor resolve “thoughts” in the client’s interest and still have a successful and stable business? On the other hand, what good will it do the client if his advisor “folds”?

The answer? Have the best interests of the client and the advisor “**dove tail**” together in as perfect a fit as possible. How? Pay the advisor in a manner that **motivates him to maximize the client’s best interests because it maximizes the advisor’s best interests**. We believe the best compensation method is to pay the advisor a “**Retainer Fee**” for all services, calculated on a “**% Of Assets Basis**”. Thus:

1. The advisor makes more money by increasing the client’s bottom line, e.g., if your bottom line appreciates 30% in 2003, your advisor’s compensation increases 30%;
2. If your bottom line decreases, the advisor is “**punished**” with an immediate, proportional compensation decline (not on paper, but an **actual pay check reduction!**), e.g., if your bottom line decreased 7% in 2002, your advisor’s compensation decreased 7% (R.O.I. **knows** your pain, not just **empathizes** with your pain); thus,
3. The advisor is motivated to find ways to **increase AND protect** your bottom line.

Some suggest it is better to pay the advisor on a “**% Of Profits Basis**”. See the following “**ADVISOR COMPENSATION METHODS**” chart – pay special attention to the “**REALITY CHECK!!**” column. The only long term, winning relationship is a true win-win relationship that can withstand the ups and downs of reality. A “**% Of Assets Basis**” allows the advisor to participate in the client’s successes without being hoggish (remember, “**Pigs Get Fed But Hogs Get Slaughtered**”) and to share the client’s pain of downswings without going out of business (without “**Killing The Golden Goose**” for occasionally having a less than 100% golden egg). **If the advisor works on a competitive “% Of Assets Basis”, AND:**

1. **Quickly reduces the percentages as client assets grow;**
2. **Gives attention to clients’ portfolios that no one else can equal; and,**
3. **Provides real Comprehensive Financial Planning, at least Annual**

Reviews, and a good newsletter;

All at no additional cost, then clients have a really, really good deal!

ADVISOR COMPENSATION METHODS

A MODEL 5 YEARS

							<u>Advisor Compensation As</u>	
<u>Year</u>	<u>Beginning Value</u>	<u>Yearly % Profit</u>	<u>Yearly \$ Profit</u>	<u>Ending Value</u>	<u>1.00% Of Assets</u>	<u>9.00% Of Profits</u>	<u>REALITY CHECK!!</u>	

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

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1	\$10,000,000	9.00%	\$900,000	\$10,900,000	\$104,500	\$ 81,000	Even though Total and Average compensations are about equal, how does your advisor stay in business with the uneven cash flows that result from “% of Profits”, including, nothing in one of five years?
2	\$10,900,000	0.00%	\$0	\$10,900,000	\$109,000	\$0	
3	\$10,900,000	26.00%	\$2,834,000	\$13,734,000	\$123,170	\$255,060	
4	\$13,734,000	20.00%	\$2,746,800	\$16,480,800	\$151,074	\$247,212	
5	\$16,480,800	5.00%	\$824,040	\$17,304,840	\$168,928	\$ 74,164	
	Totals =	60.00%			\$656,672	\$657,436	
	Average =	12.00%			\$131,334	\$131,487	

A WEAK 5 YEARS

<u>Advisor Compensation As</u>							<u>REALITY CHECK!!</u>
<u>Year</u>	<u>Beginning Value</u>	<u>Yearly % Profit</u>	<u>Yearly \$ Profit</u>	<u>Ending Value</u>	<u>1.00% Of Assets</u>	<u>9.00% Of Profits</u>	
1	\$10,000,000	9.00%	\$900,000	\$10,900,000	\$104,500	\$ 81,000	How does your advisor stay in business with the uneven cash flows that result from “% of Profits”, including nothing in two of five years, and, average income that is 50% less?
2	\$10,900,000	0.00%	\$0	\$10,900,000	\$109,000	\$0	
3	\$10,900,000	0.00%	\$0	\$10,900,000	\$109,000	\$0	
4	\$10,900,000	16.00%	\$1,744,000	\$12,644,000	\$117,720	\$156,960	
5	\$12,644,000	5.00%	\$632,200	\$13,276,200	\$129,601	\$ 56,898	
	Totals =	30.00%			\$569,821	\$294,858	
	Average =	6.00%			\$113,964	\$58,972	

A GREAT 5 YEARS

<u>Advisor Compensation As</u>							<u>REALITY CHECK!!</u>
<u>Year</u>	<u>Beginning Value</u>	<u>Yearly % Profit</u>	<u>Yearly \$ Profit</u>	<u>Ending Value</u>	<u>1.00% Of Assets</u>	<u>9.00% Of Profits</u>	
1	\$10,000,000	12.00%	\$1,200,000	\$11,200,000	\$106,500	\$ 108,000	How do you feel about your advisor who gets paid \$400,000/53% more than others’ advisors (\$1.15 mill. - \$750k = \$400k, or, \$400k/\$750k = 53%)?
2	\$11,200,000	12.00%	\$1,344,000	\$12,544,000	\$118,720	\$ 120,960	
3	\$12,544,000	24.00%	\$3,010,560	\$15,554,560	\$140,493	\$ 270,950	
4	\$15,554,560	20.00%	\$3,110,912	\$18,665,472	\$171,100	\$ 279,982	
5	\$18,665,472	22.00%	\$4,106,404	\$22,771,876	\$208,187	\$ 369,576	
	Totals =	90.00%			\$743,500	\$1,149,469	
	Average =	18.00%			\$148,700	\$ 229,894	

Note that no advisor compensation method is perfectly matched with every clients’ interests, all of the time*, but R.O.I.’s long experience has been that a fully disclosed Retainer Fee, calculated on a “% of Assets Basis”, has worked wonderfully for R.O.I. and R.O.I.’s clients for a very, very long time.

* For example, as disclosed in R.O.I.’s Disclosure Document and Agreement (see current Agreement attached), a conflict could arise relative to R.O.I. advice about a client’s use or allocation of manageable assets if it resulted in a reduction in R.O.I.’s compensation

3. CURRENT BEST FUNDS

	<u>LAST MONTH</u>	<u>'10 YEAR TO DATE</u>	<u>1/1/97 THROUGH '10</u>
ROI'S MPT INDEX*	-6.2%	-0.50%	+82.1%
ROI'S “BEST FUNDS”**	-7.3%	-0.40%	+120.7%

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* 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-SEVEN 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 Apprec 1 st Source (117%)	Fidelity Convertible (67%)
	DWS Short Duration (33%)
Growth	Delaware Corporate Bnd (33%)
<Wells Fargo Adv> (100%)	
<Hotchkis & Wiley> <125%>	Junk
	Security High Yield (50%)
Small Cap	
Marshall Small Cap Gth (153%)	Global
AIM Triamark Small Co <119%>	Alliance Bern Glb Bond (100%)
	TCW Emg Mkts (62.5%)
Equity Income	<u>ANTI-INFLATION</u>
<Invesco Mid Cap Val> (125%)	Asset Manager
	Oppenheimer Global Opp (100%)
Stock Index	
Fidelity Spartan Market Index (100%)	Ntrl Res, Utilities & Metals
	MFS Utilities to Gabeli (75%)
Overseas: Int'l, World, SC, EM	Fidelity Sel Material Port (50%)
Janus Overseas (85.7%)	Black Rock Energy Resource (50%)
Oakmark International Gth (69.8%)	Real Estate
Oakmark International (43%)	Fidelity Advisor Real Estate (92%)
Causeway Emerging Markets <52.65%>	Dryden Global Real Estate (14.5)
AIM Dev. Mkt (85.7%)	

THE “WHYS”

Allocation Changes – We increased our allocation to our **Growth Value Asset Class (Hotchkis & Wiley)** in order to increase our exposure to the Value style investment strategy. The Value style goes up when the market goes up but usually does better than the Growth style when the market goes down. We decreased our allocation to our **Emerging Market Asset Class (Causeway Emerging Markets)** in order to provide our portfolios more protection to further downside volatility.

Fund Changes-

1. **Wells Fargo Adv for Morgan Stanley Inst. Mid Cap-** Morgan Stanley's recent performance has struggled when compared to Wells Fargo Adv. Wells Fargo has a high star rating and a reasonable expense ratio.
2. **Hotchkis & Wiley for Aston/Optimum Mid Cap-** Hotchkis and Wiley has done well during the last month and

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multiple month periods. It also has a strong risk return ratio and low expense ratio.

3. **AIM Triamark Small for Sterling Cap Small-** We sold out of Sterling and moved those dollars to AIM mainly to consolidate this asset class. AIM has been performing a little better lately than Sterling.
4. **Invesco Mid Cap Val for Sun America Fixed Div-** Sun America Fix Div’s performance has fallen out of the top 25% in this asset class. Invesco has risen to the top and has a strong risk return 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>
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%
08/09	02/10	8808	10325	-1517	-14.7%
No Issue					
10/09	04/10	9332	11009	-1677	-15.2%
11/09	06/10	9440	10136	-696	-6.87
TWELVE MONTH ERROR RANGE =				-1760/+2649	-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 predictions?

4. COMPREHENSIVE FINANCIAL PLANNING

PROTECT YOURSELVES FROM VERY INCONSIDERATE RELATIVES

“This is a test, only a test! If this had been an actual emergency, WOULD YOU BE IN DEEP TROUBLE?”

Assume that right now – not later next week when you can get around to it, not tomorrow or even later today, but right now – an emergency occurred (for example, all the Arab countries joined the Israel conflict, Iran launched a nuclear weapon, and power grids failed because of heat waves) that affected you so that you:

1. **Could not access your cash held in institutions (checking, savings, money market accounts in banks, credit unions, investment accounts, et. al.) for two weeks** – Do you have enough food, clothing and fuel, or enough cash on hand, to take care of you for two weeks? **ROI’s counsel is that you should have two weeks of budget stashed away, safely, at home;**

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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

2. **Do not have your regular cash flow (salary, social security or pension checks, rental income, et. al.) for three months** -- Do you have enough cash in your checking, savings, and/or money market accounts in your bank or credit union, and/or cash values in your life insurance policies, to take care of you for three months, or will you have to access your long-term investment accounts (401-k, ROI managed accounts) and liquidate positions during bad markets and incur income taxes and penalties? **ROI’s counsel is that you should have at least three months of budget in money market accounts, and/or life insurance cash values;**

3. **Do not have income past your three month emergency fund account** – Do you have a pre-approved equity line already set up on your home, do you know how to access borrowing provisions on your employer retirement plan and life insurance cash values, and do you have some credit cards, or will you have to access your long-term investment accounts (401-k, ROI managed accounts) and liquidate positions during bad markets and incur income taxes and penalties? **ROI’s counsel is that you should have a pre-approved equity line (for the maximum available) already set up on your home, you should know how to access your employer retirement plan and life insurance cash values, and that you should have some credit cards (that you otherwise don’t use) as additional sources of longer-term emergency cash resources before you have to access your long-term investment accounts;**

[**NOTE:** Accessing long-term investment accounts during emergencies that **you should have prepared for**, e.g., #2&3 above, **compounds the pain** of your emergencies and **extends the recovery time** because it turns “paper” losses into “real” losses and **adds income tax and penalties to the cost** of your emergency, when all this extra pain and cost may have been avoided by being prepared for such emergencies. **You should consider emergency planning as a “when”** (it is going to happen, you just don’t know when), **not an “if”** (maybe it will, maybe it won’t happen).]

4. **Had Scenarios 1-3 happened together, or all cash and investment assets were gone** – Are you out of debt and do you have a seventy-two hour kit you can put your hands on, enough food, clothing and fuel to carry you through months and maybe a full year. **ROI’s counsel is that you should have a seventy-two hour kit and a year’s (or what makes sense in your situation) supply of food, clothing and fuel.**

Remember, personal, employment, local, regional and national emergencies are “very inconsiderate relatives” – they don’t call first to let you know they will be visiting your lives on such and such a date for such and such a period of time. BE WISE – PROTECT YOURSELF FROM SUCH “INCONSIDERATE RELATIVES”.

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).

