



TAKING CARE OF YOU

ISSUE#: *One Hundred-Eighty-Two*

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1. MARKETS

Current Market Environment

WHERE WE ARE NOW? After a brutal downswing during August, the stock market during the month of September has continued to be volatile with a significant downward trend. As of the writing of this newsletter (09/21/2011), the **S&P 500 Index was down -7.25%**. Currently most of R.O.I.'s clients (clients who have a moderate asset allocation) have a YTD return of about **-7.47%**. **Just about a week ago, R.O.I.'s clients were behind the S&P 500 Index by about 2%.** We have rapidly caught up as the markets have declined showing we are participating less and less in down swings as our main focus has been to **Control Participation in Down Swings**.

WHAT IS WRONG? Lots of things, but putting it in to one word, **FEAR**:

- Prolonged and continuing high unemployment, and **fear** of it not changing soon;
- The European debt crisis will not go away. Agreement after agreement between France and Germany "solves" the crisis and yet, a few weeks later, the crisis pops up again with world stock markets selling off **fearing** the end to the European Union;
- The August U.S. debt ceiling issue and the resulting downgrade of U.S. bonds, and continued party line fighting about job creation, the budget, debt ceiling and tax reform, and **fear** the government won't solve anything;
- Companies not hiring or expanding because of **fear** of government taxes and a continued economic slow down;
- The Fed's (Ben Bernanke) recent expressions of concern for the U.S. and world economies, and the resulting "**recession fear**" selling;
- As for China, the one existing growth engine, the **fear** is that rapid growth is slowing because of prolonged tight monetary policy. Just when it seems that policy had done enough and it was time for easing, the government issued a statement saying "not so". The government's **fear** is inflation, a **fear** that has apparently bitten deep.

As we look around at the global markets, all we can see is **FEAR** everywhere. Any one of these **fears** would be enough to send global markets down, at least for a while. All of them hitting at once have created the terrible August we have just gone through, and a September that is following a similar path. This is causing **the general public** to lose its appetite for stocks.

WHAT IS RIGHT? There are several, **solid, black and white economic factors** that are very attractive for improving markets:

- Energy prices have come down sharply on world markets. The decline has not as yet translated completely into prices in the domestic market, but it is only a matter of time;
- Japan has ramped up earthquake-crippled productions, and as a result, U.S. auto production was up 5.2% in July;
- Interest rates are historically low, making it cheap for people to build and buy homes and for businesses to borrow and expand;
- Big companies (this is why the DJIA average – only 32 large companies – is declining much less than the S&P 500) continue to report profits exceeding estimates, and are loaded with cash – they could make big hiring and expansion moves at any time, or, endure a prolonged economic slow down quite well;

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- One way of viewing the market is to see it as a valuing mechanism, tirelessly putting a value on the entire corporate universe. When **fear** grips the markets, as is the case today, the valuing mechanism seems to become overheated. Stocks are sold without consideration of their value **as pieces of ownership of a corporation**. The purpose of the sale has little to do with the merits of the company, but only to “get out of the market. While the sale accomplishes its purpose, it also drives stock prices down, resulting in a stock market with prices driven down to historically cheap levels. One could argue that these stock market levels are at levels which are discounting an assumed recession. Right now, the S&P 500 trailing price/earnings ratio (P/E) is probably about 12 (based on the last four quarters earnings of S&P 500 companies). That’s low, historically speaking, especially with interest rates so low and companies’ cash balances and balance sheets generally healthy. So, even if we get another recession and earnings fall 10%, 20% or even 30% from recent levels (instead of increasing by about 10% per typical estimates), there is a real possibility that the stock market won’t have much further to fall;
- A lot of Institutional investors are now buying up bargains but the general public is **fear** selling – this conundrum is usually a sign that things will get better soon, and maybe very quickly;
- **Sooner or later, solid, black and white economic factors overcome fear.**

WHAT IS R.O.I. DOING? One thing that 2008 has taught us, is that **fear knows no limits**. Usually the months of September and October are the worst months for the markets, followed by the best months for the markets, i.e., November and December. Also, with third quarter earnings reports not being reported until the early and middle part of October, R.O.I. feels that:

- **Maintaining a conservative allocation;** while,
- Slowly moving away **from our current** protective allocation,

is the wisest course of action. That is why, even though **we are participating less and less in downswings**, we are taking advantage of significant market drops to **slowly move back into equities**, i.e., buying low – we are kind of “**straddling the fence**”, Controlling Participation In Down Swings and using them to be ready to participate in upswings.

WATCH OUT!

With **fear** governing many persons’ and families lives during these times, scams and pressure selling will become more and more prominent. For example:

- Time Shares are more commonly becoming a disappointment and financial burden to owners (especially to older couples and widows who don’t use them often). There is at least one company that is offering (via fast talking, pressure selling, with strict, self-imposed time lines) to take time shares off of owners’ hands if the owner will **pay this company \$4,000+ and will walk away** from the time share. After getting the payment (usually via a credit or debit card) the salesman puts two dates into the “three day free look” notice that causes the owner to hold on beyond the earlier date, and thus the “three day free look” period expires before the deal can be cancelled and a full refund granted;
- The “End of America” scare – maybe you’ve heard it on radio, seen it on TV, or read it in the book you received in the mail. It is primarily a scare to subscribe to their newsletter. A hint is their amazing, almost secret, investment (that they won’t name or describe without subscribing to the newsletter), that works best **if few people know about it** - but the promoters then **tell everyone in America about it** via free books, radio and TV;
- Annuity salesmen, hour long radio adds for meetings in Salt Lake next Tuesday, with guarantees of only making money and never losing money, etc. Sounds too good to be true? Well, it is either that, or “the devil is in the details”.

Before you do anything out of fear or under heavy pressure, please contact R.O.I. and have us review what you are getting into, so we can fulfill our pledge to **TAKE CARE OF YOU!**

2. ACTIVE INVESTMENT MANAGEMENT – None

3. CURRENT BEST FUNDS

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	LAST MONTH	'11 YEAR TO DATE	1/1/97 THROUGH '11
ROI'S MPT INDEX*	-5.1%	-1.10%	+96.0%
ROI'S "BEST FUNDS"***	-12.2%	-4.98%	+131.1%

* 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.

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

STOCKS	BONDS
Aggressive Growth	US/LT, ST, Mtg, Convertible
Value Line Larger Co (17%)	Franklin Convertible (67%)
	<Madison Mosaic Gov> (33%)
Growth	Deleware Extended Duration (33%)
Wells Fargo Advantage <175%>	
Hennessy Focus 30 (156%)	Junk
<Dreyfus Tax-Managed Gth> (119%)	<Credit Suisse> (50%)
Small Cap	Global
AIM Triamark Small Co (106%)	Alliance Bern High Inc. (63%)
	TCW Emerging Market <50%>
Equity Income	Western Asset Emergin Mkts (50%)
PIMCO Stock Plus Ttl (16%)	ANTI-INFLATION
Burnham A <50%>	Asset Manager
	<Permanent Portolio> (100%)
Stock Index	Pro Funds Short RE (150%)
Fidelity Spartan Market Index (117%)	Rydex Inverse S&P 500 2xs (50%)
Overseas: Int'l, World, SC, EM	Ntrl Res, Utilities & Metals
John Hancock Int'l Gth (117.22%)	<Invesco Utilities> (50%)
Allianz RCM Global SC (43%)	
<Virtus Emg Mkts> (85.7%)	Real Estate
	Old Mutual Heitman RE (106%)

THE "WHYS"

Asset Allocation Changes and Why – Our **Aggressive Growth** asset class (**Value Line Larger Co**) allocation had a typo last month, i.e., 67% - it should have been 17%. We have increased our allocation to our **Growth Growth** asset class (**Wells Fargo Advantaged**) and our **Equity Income** asset class (**Burnham A**) in order to buy low and **gradually** move our portfolios from a very protective allocation to a more moderate allocation. These two allocation changes are in anticipation of the U.S. stock market possibly rising by the end of the year. We also decreased our allocation to our **Global Emerging Markets Bond** asset class (**TCW Emerging Markets**), in an effort to sell high and use the funds raised to buy low into the equity asset classes listed above (**Equity Income & Growth Growth**).

Fund Changes and Why

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1. **Dreyfus Tax-Managed Growth for American Century International Growth** - We sold out of **American** in order to decrease our equity exposure overseas and increase our equity position in our **U.S. Growth Value asset class** by buying **Dreyfus**. We feel that currently there is less risk in the U.S. Growth Value asset class than in the International Overseas asset class. Also, we think the U.S. stock market has a higher chance of finishing 2011 strong than the overseas stock markets because of the current strength and stability of large U.S. companies.
2. **Virtus Emerging Markets for Allianz AGIC Emerging** - **Allianz** has fallen out of the top 25% in performance over the last few months and doesn't look like it will be returning anytime soon. **Virtus** has a strong star rating and has performed well when compared to its peers over the last few months.
3. **Madison Mosaic Government for Thompson Plum Bond** - **Thompson's** performance has lagged its peers for some time - we feel this may continue. **Madison** has a strong risk return ratio and a reasonable expense ratio.
4. **Credit Suisse for SSGA High Yield** - **Credit's** performance as of late has been better than most of its peers, has a reasonable expense ratio, and a strong track history. **SSGA's** performance has fallen out and stayed out of the top 25% in this asset class.
5. **Permanent Portfolio for Legg Mason Strategic Real** - **Legg Mason's** performance has lagged its peers for some time. **Permanent** has a strong track history and a reasonable expense ratio, and has a position in precious metals which has been a good hedge for our portfolios when the stock market drops.
6. **Invesco Utility for Fidelity Advisor Utilities** - **Fidelity's** performance has fallen behind its peers. **Invesco** has done well against its peers as of late and has a reasonable expense ratio and high star rating.

[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>
03/10	09/10	10112	10788	-676	-6.3%
04/10	10/10	10425	11118	-693	-5.7%
05/10	11/10	10788	11006	-218	-2.0%
06/10	12/10	11008	11558	-550	-4.8%
07/10	01/11	10778	11891	-1113	-9.4%
08/10	02/11	10551	12130	-1579	-13.0%
09/10	03/11	10695	12320	-1625	-13.2%
10/10	04/11	10393	12810	-2417	-18.9%
11/10	05/11	10393	12441	-2048	-16.5%
12/10	06/11	10879	11935	-1056	-8.85%
01/11	07/11	11121	12143	-1022	-8.42%
02/11	08/11	11550	11613	-63	-.54%
TWELVE MONTH ERROR RANGE =				-2417/-63	-18.9%/-5.4%

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

R.O.I.'s ACTIVE RETIREMENT PLANNING –

PART 3 –

FUNDING RETIREMENT PLANNING CONCERNS

Due to all of the: "free" retirement seminar dinners; new books on retirement; insurance products such as variable annuities, indexed annuities, and variable and indexed universal life insurance; investment strategies such as bond ladders and

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percentage of asset withdrawals; and the prevalent media attention about retirement planning; R.O.I. has felt that our clients (and their friends, relatives, et. al.) could greatly benefit from a clarion call for a reality check about retirement planning, from a trusted source.

Thus, instead of reviewing Comprehensive Financial Planning as we normally do, we are providing a three part explanation of R.O.I.’s Active Retirement Planning, starting with the two prior issues of “Taking Care of You” where we covered in Part 1 and Part 2. The three parts are:

Part 1 - Understanding Retirement Planning Concerns;

Part 2 - Forecasting Retirement Planning Concerns; and,

Part 3 - Funding Retirement Planning Concerns.

We will also cover Active Retirement Planning, as applicable, in client Annual Reviews over the next year.

PART 3 – FUNDING RETIREMENT PLANNING CONCERNS

ANY RETIREMENT INCOME PLAN SHOULD BE FOUNDED UPON:

- A Substantial Emergency Fund (Minimum 6 months?);
- A Large, Zero Balance Home Equity Line (Not for everyone?);
- A Large, Zero Balance Credit Card (Not for everyone?);
- Other Emergency Cash Resources (401-k borrowing provision, life insurance cash values, etc.);
- 72 Hour Kits for Each Person, and Other Emergency Supplies (What makes sense in your situation?); and,
- A Comprehensive Financial Plan based upon a detailed budget, spending changes, and contingencies, using Monte Carlo Probabilities (chooses a random investment return and inflation rate for each year of 5,000 different life times, resulting in a percentage of lifetimes that will result in having at least \$1 left over after both deaths).

THE BIG QUESTIONS ARE:

1. How to provide the “difficult to predict” Additional Income Need from investment assets;
2. How to cover contingencies (no matter what forms, amounts, and multiple times contingencies do or do not occur); and,
3. How to assure unused assets are transferred to heirs?

The following illustration and explanations describes how R.O.I. answers all three of the BIG QUESTIONS.

CASH IN HAND

Current year’s cash need.

SHORT-TERM ACCOUNTS

Up to 3 year’s future cash needs (cash, bonds & anti-inflation allocation).

LONG-TERM ACCOUNTS

Beat inflation and taxes (Conservative, Moderate &/or Aggressive Allocations).

During each Annual Client Review, the client’s situation is updated, the Comprehensive Financial Plan is reviewed and periodically updated, AND,



If S-T accounts become empty (4+ consecutive down years), 1 year’s need at a time.

These 2 buckets provide 4 yrs’ protection for L-T Accounts

These 2 buckets are: (1) Liquid; (2) Diversified; and, (3) Actively managed.

- **Where possible, start filling S-T accounts 4 years before retirement w/ CFP (or MRD) projected withdrawals → Protects against multiple down years just prior to retirement.**

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First, think of the client’s investment assets divided into three buckets of money:

1. **Cash in Hand Bucket** = This is the client’s own money market account to which is deposited the current year’s cash need as projected by the Comprehensive Financial Plan (CFP). This is for the client to manage over the next twelve months;
2. **Short-Term Bucket** = This is a R.O.I. managed account containing three more years of projected cash needs. This account is managed for protection of principle and uses only three asset classes, i.e., cash, diversified bonds, and anti-inflation (e.g., utilities, real estate, oil & gas, gold and other precious metals, etc.); and,
3. **Long-Term Bucket** = This is the client’s regular R.O.I. managed accounts designed to beat the long-term effects of inflation and taxes.

Very important to the success of Active Retirement Planning, are regularly held **Annual Client Reviews** during which: The client’s situation is updated; and, The CFP is reviewed and periodically updated. During this Annual Client Review, **the next year’s cash need is transferred** from the **Short-Term Bucket** to the **Cash in Hand Bucket** for the client to manage during the next year. If markets were up during the year, the **Short-Term Bucket** is filled via transfers from the **Long-Term Bucket**. If there are four consecutive down years – *something that has never happened* – and the **Short-term Bucket** becomes empty, yearly cash needs are transferred from the **Long-Term Bucket** directly to the **Cash in Hand Bucket**, and the client is encouraged to “tighten his belt”.

Notice that:

1. This strategy avoids “selling low” from the Long-Term Bucket to fund projected cash needs – this helps returns beat effects of inflation and taxes;
2. The Cash in Hand and the Short-Term Buckets provide four years of protection for the Long-Term Bucket so it has time to recover from down year(s), again helping returns beat the effects of inflation and taxes;
3. The Short-Term and the Long-Term Buckets are –
 - a. Liquid, so they can be tapped into at any time to meet contingences whenever they interfere with life, i.e., not locked up in insurance contracts and/or fixed pension payments;
 - b. Diversified, so contingency needs can hopefully be met by “selling high” from positive performing asset classes; and,
 - c. Actively Managed by R.O.I. to Participate In Upswings and Control Participation In Downswings, which increases the likelihood of beating the effects of inflation and taxes; and,
 - d. Unused Buckets will be inherited by clients’ heirs because they will pass according to their estate plans and not go to an insurance company or the government.

Where possible, Active Retirement Planning should be **started four years before** retirement or the commencement of Minimum Required Distributions so the client has four years of protection against downswings just prior taking out projected cash needs. **Therefore, if you are four years or less from retiring or commencing Minimum Required Distributions that will be consumed rather than re-invested in another long-term account, you should not wait for the next Annual Client Review, but should contact R.O.I. right away to get started on your Active Retirement Planning. If you have friends, neighbors, relatives, business associates, who you really care about, who are in a similar situation, you should invite them to contact R.O.I. with a reference from you so they can learn about Active Retirement Planning.**

“TAKING CARE OF YOU” is a publication of R.O.I., a Registered Investment Advisor (RIA), and is produced for the sole benefit of R.O.I.’s clients. Editors: Ben, Grant and Ron 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). R.O.I. is a member of

