



## ELHOFF FINANCIAL COUNSELING

### Interesting Facts:

**OUR SPENDING**—Consumer spending represents 71% of our nations' \$14.3 trillion economy (Source: Commerce Department).

**BIGGER NUMBERS. SIMILAR RATIO** - The cost of tuition, fees, room & board at an average private college for the 2009-10 school year is \$35,636, 2.3 times the \$15,213 cost that a college student would pay this year at an average in-state public college. 30 years ago (i.e., the 1979-80 school year), the cost at an average private college (\$5,013) was 2.2 times the cost at an average in-state public college (\$2,328) (Source: College Board).

**HALF AS MUCH** Through the first 9 months of 2009, the US imported \$131 billion of crude oil. At the same point a year ago (i.e., YTD through 9/30/08), crude oil imports were \$277 billion (Source: Commerce Department).

**PENSION BACKSTOP**— The Pension Benefit Guaranty Corporation (PBGC) insures the pension benefits of 34 million workers and retirees in the private sector. The PBGC was forced to take over 144 failed pension plans in its latest fiscal year that ended 9/30/09. Over the last 5 years, the PBGC took over an average of 107 failed plans per year. (Source: PBGC).

**FOR RETIREMENT** - Just over 1/4 of American workers age 55 and up (26%) have savings and investments worth at least \$250,000 not counting the value of any defined benefit pension plan or the value of the worker's primary residence (Source: Employee Benefit Research Institute).

**HEALTH CARE** - Medicaid provides health care to poor Americans. The program's cost is split between federal and state governments. Just 4% of Medicaid enrollees account for 50% of its expenses (Source: USA Today).

Thank you to all who participated in our changeover from H. Beck(after 22 years) to VSR Financial Services. My staff and I are excited about many new things such as the monitoring and reporting services we are currently becoming familiar with and expect to be sharing with you in the first quarter of 2010. Additionally Colby and I are reviewing and doing our best to absorb all the new product offerings now available. As difficult as the changeover may have been, the timing couldn't have been better and we expect to be ready to make your 2010 the best ever.

**To Roth or Not to Roth?** There will be an opportunity in 2010 to convert a traditional IRA to a Roth IRA and spread their tax from the conversion equally over the next two years, 2011 and 2012. This is a tricky calculation with many factors to consider, such as 1) forecasting future tax rates; 2) avoiding required minimum distributions (RMDs); 3) using outside taxable dollars to cover the tax liability; 4) how long the account is likely to grow and remain intact. These and other factors need to be considered as the Roth IRA has some significant advantages, but it is no panacea. We are pleased to review with you your options and help you make an intelligent decision.

**Where we've been, Where we are, Outlook going forward.** Eight months ago, in early March, it truly did feel like the world might be coming to an end. Talk of a return to a Great Depression-like economy dominated radio, television and print. Understandably, fear was rampant, and stocks responded to these nightmarish scenarios by hitting their lowest levels in years, with financials especially hard hit.

Although no one knew it at the time, that turned out to be the bottom. Since then, we've seen the economy move back from the precipice; there is a growing consensus that we'll return to economic growth in the second half of this year.

As a result, we've had a strong recovery in markets. From their bottom in the beginning of March, stock markets are up 50%, retracing a good portion of the losses since last fall.

In the meantime, here are six lessons from the past 12 months:

1. We were reminded of just how volatile stocks can be...
2. ... and of the importance of diversification.
3. Many investors discovered that they're less comfortable with risk and volatility in their portfolio than they had believed.
4. Investors were also reminded of the need to focus on what they can control, understanding cash needs, and thinking through how much risk they can live with to fund those needs.
5. In some cases, investors began rethinking retirement plans as a result.
6. Finally, we were reminded that in today's world, we need to expect the unexpected.

### Where We Are Today

Eighteen months ago, the market was characterized by rampant optimism. The market

## Interesting Facts:

**SIX MONTH PERIODS** - The 6-month period from November-April has gained +230% for the S&P 500 since 1990, more than 5 times the +44% return achieved during the 6 months from May-October. Both numbers are total return performance results from 1/01/09 to 10/31/09 (Source: BTN Research).

**LOOKING BACK** - In spite of losing 1.9% in October 2009, the trailing 12-month total return of the S&P 500 was positive (up +9.8%) as of 10/31/09 for the first time in 22 months. Prior to the 21 straight months (i.e., 1/08 to 9/09) when the trailing 1-year performance was negative, the stock index had a 55 month streak when the trailing 1-year performance was positive (Source: BTN Research).

**HOW LONG?** - Following the end of our nation's 8 month recession in November 2001, the Federal Reserve first raised interest rates on 6/30/04 or more than 2 1/2 years later (Source: National Bureau of Economic Research).

**UNCLE SAM** - Series EE Savings Bonds bought from the US government as of 11/01/09 will earn +1.2% per year throughout the life of the bond and will be credited for as many as 30 years (Source: Treasury Department)

**FIXED, NOT MOVEABLE** - 70% of the 51 million mortgages in the USA today are fixed-rate loans. The average interest rate available today nationwide for a 30-year fixed-rate mortgage is 4.91% (Source: Freddie Mac).

**GOLDEN YEARS** - Americans that are working today expect to live an average of 21 years in retirement (Source: Wells Fargo).

**LOTS OF MONEY PUMPS** - Income received by Americans that are at least age 65 is derived from multiple sources, including 1) 39% of their income is from Social Security, 2) 26% comes from job wages, 3) 20% is from defined benefit pension plans 4) 13% is income generated from assets the seniors own, and 5) the remaining 2% of income is from other sources (Source: Congressional Research Reports)

**BANKS IN CHINA** - 5 years ago, none of the largest dozen banks in the world were based in China (determined per the banks' stock market capitalization). At the end of last month, Chinese banks now occupy 3 of the top 5 positions in this ranking (Source: Financial Times)

had hit a new high the previous fall, and any concerns were set aside as minor annoyances.

By contrast, eight months ago the market was overwhelmed by absolute pessimism—there was no sign of hope anywhere.

As a general rule, I think a certain level of healthy anxiety is positive—what gets investors in trouble is an excess of either optimism or pessimism. While today's mood may be erring on the side of being a bit too pessimistic, I think being cautious in the current market makes sense, provided that prudent caution doesn't cross the line into panicked inertia.

The good news is that there are still opportunities for investors who are prepared for short-term volatility. I spend a lot of time listening to the best market minds and to managers who have lived through multiple cycles. I am reassured that most say that they are still finding very good value—not to the extent that they did earlier this year, but still well ahead of what they would have seen a year ago.

### The Outlook Going Forward

In August, Business Week ran a cover story called “The Case of Optimism.” The premise was simple: beyond the issues facing the global economy, there are many underlying positives that give cause for optimism if we look out two or three years and beyond.

There are things happening under the surface that may drive economic growth, and with that economic growth generally comes growth in stock prices. Examples include the positive impact of technology, the recovering housing market, the revitalization of the American economy currently taking place, and the incredible energy from the developing world's educated youth and emerging middle class.

Let me close by talking about market volatility.

In 1907, financier J. Pierpoint Morgan single-handedly averted a banking panic.

Later in life, someone asked him his best guess on the direction of markets. His answer: “They will go up and they will go down.”

One hundred years later, that's still the best answer to someone looking for a short-term market forecast. No one can predict market movements in the immediate period ahead—all we can do is understand clearly how much short-term volatility we can live with, adjust our portfolios accordingly, and stay focused on the horizon as we deal with the rough waters. No one likes volatility, but for most of us, it's the necessary price for arriving at our ultimate destination.

In the meantime, my team and I are constantly looking for opportunities to realign portfolios to give our clients the best trade-off between risk and return.

Over the past while, I've talked to most clients about their portfolios. If I missed you for some reason, or if you would like to discuss your investments in more detail, I am always delighted to have that conversation.

Thank you for the continued opportunity to work together. Remember, my team and I are always here should you have any questions or wish to talk about anything related to your portfolio or your finances.

Securities and Advisory Services Offered Through VSR Financial Services, Inc.

A registered investment Advisor and Member FINRA, SIPC.

Elhoff Financial Counseling is independent of VSR

\* by appointment only