



I believe successful investors must remain patient, disciplined, and diversified through all economic cycles, especially during downturns. My firm helps manage the investments and behavioral attributes families need to pursue their goals. I trust this newsletter will help provide perspective and information as your family plans for the future.

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# THE Financial Standard

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## Is Heightened Volatility Here to Stay?

**Fears of a double-dip recession, a slowing global economic recovery and the worsening European debt crisis dominated investment news for much of 2011 and further frayed the nerves of an already anxious market.**

Despite intermittent, short-lived rallies, by October 3, 2011, the S&P 500 had declined 19.4% from its high reached on April 29, 2011, just missing the threshold that traditionally signals a new bear market.<sup>1</sup>

However, within days of the sharp decline, U.S. stocks had recovered nearly all their earlier losses, surging 17%.<sup>1</sup>

What do the market's steep declines and equally stunning advances imply for 2012 and beyond? Some would argue that heightened volatility is now part of "the new normal," whether you rely on the recent past—or historical evidence—to make your case.

### A Historical Perspective

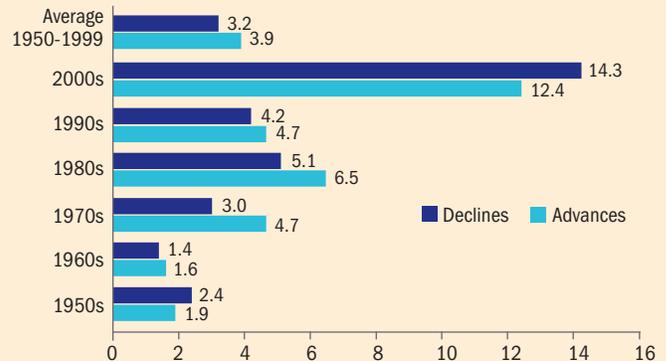
Historically, the market today is about three times more volatile than it has been in the past.

Specifically, the S&P 500 rose or fell by 2%+ an average of seven times per year from 1950 until 1999. Since 2000, however, that average has jumped to 26.7 times per year.<sup>2</sup>

Pinpointing the cause of recent market woes is a difficult—if not impossible—task.

Uncertainty about when and how fully the U.S. and global economies will recover is a major factor. So are the heightened reliance on the Federal Reserve's monetary policy, government debt troubles both at home and abroad and the U.S. credit-rating downgrade. Perhaps most important is the apparent inability of legislators in Washington to soothe market fears and improve the economy.

**Average Number of Times Per Year the S&P 500 Rose or Fell by 2%+ in a Single Day**



Source: Standard & Poor's. Based on the daily close of the S&P 500 from January 2, 1950, through October 5, 2011.

### Coping With Volatility

Regardless of the causes, heightened volatility requires individuals (under the guidance of their advisors) to employ specific investment strategies. While these are fundamental investing concepts that can be applied at any time, they are particularly important in a volatile environment.

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## Retirement Revisited

# Lessons Learned From the Recession

**The recent financial crisis and economic recession have had a significant impact on the retirement attitudes and expectations of Americans aged 55 and older—and 81% say they have learned valuable lessons as a result.**

Following are some key insights from a recent study that explored how the mindset and financial planning priorities of individuals approaching retirement have changed over the past decade.

**Delaying Retirement** – Losses in retirement savings and home values as well as steadily increasing life expectancies have convinced more Americans to delay retirement by an average of five years, to age 69. When a similar study was conducted a decade ago, most Americans expected to retire at age 64.

Almost two-thirds (65%) of those polled said the “ideal retirement” would include some work. Of that 65%, a scant 4% want to work full time, 25% prefer part-time employment and 36% said shifting back and forth between work and leisure would suit them best.

**Protecting Assets** – Stung by the economic uncertainty and market volatility of the past several years, Americans in the 55+ age group have gained new respect for having a solid financial plan that includes a strategy for providing adequate retirement income. Now, the vast majority (82%) favor “financial peace of mind” over “accumulating as much wealth as possible” (13%). And when it comes to investing, risk management is now five times more important than pursuing higher returns with higher-risk vehicles.

**Seeking Education and Guidance** – Given the realities that define retirement today: longer life spans, growing uncertainty about the future of Social Security and Medicare and ongoing market volatility, Americans nearing retirement are awakening to the need for education and advice regarding investing and planning for a secure retirement. A full 80% of workers aged 55 and older have sought retirement planning assistance in the workplace.

In addition, more preretirees are turning to professional financial advisors for assistance. Among those polled in 2011, 49% had sought retirement planning advice from a financial advisor, up

### Post-Recession Investment Priorities

#### Who Is Planning?

58%

Look into ways to protect assets

38%

Diversify investments

33%

Meet with a financial advisor

11%

Invest more aggressively

Source: SunAmerica Financial Group and Age Wave, Retirement Re-Set Study, April 2011.

from 40% in 2001. Of those who have received professional advice, 72% report feeling financially prepared. What are the most important traits individuals look for in a financial advisor? Effective communication and listening skills topped achieving competitive returns as the most important criteria.

Although the past decade has presented unparalleled financial challenges to all Americans, those saving and investing for retirement seem to have emerged with a new, more thoughtful and vigilant approach to securing their financial future.

For help reviewing your retirement investment strategy, contact a trusted financial professional.

Source: All statistics presented are from the Retirement Re-Set Study, SunAmerica Financial Group and Age Wave, April 2011.

## Of Dollars and Diversification

# How to Protect Your Portfolio

Over the past decade, the U.S. dollar has experienced a steep decline in value as measured against the currencies of our major trading partners—and the consensus among economists and analysts is that the greenback is likely to remain weak for some time.

From an economic standpoint, a weak dollar makes foreign travel and imported goods more expensive for American tourists and consumers. On the positive side, a weak dollar may help to buoy U.S. exports by making them cheaper to foreign buyers.

### Investment Opportunities and Challenges

Just as a weak dollar can be viewed as a double-edged sword from an economic standpoint, it poses potential investment opportunities and challenges for U.S. investors. General investment wisdom states that investors should allocate a modest portion of their portfolios to foreign securities in order to remain adequately diversified and to potentially benefit from the investment performance of strong companies, wherever they may be located.

One of the easiest ways to do this is to concentrate on U.S. industrial sectors that have strong sales overseas, such as consumer goods, pharmaceuticals and heavy equipment manufacturers. In this way, investors who may shy away from direct investments in foreign securities can gain some exposure to their upside potential without venturing abroad.

Those with a somewhat higher tolerance for risk may invest directly in stocks of foreign companies by purchasing shares on a foreign stock exchange or by purchasing American Depositary Receipts (ADRs) listed on U.S. exchanges. ADRs are negotiable certificates that represent the shares of a publicly traded foreign company. ADRs are issued in the United States, and their underlying shares are held in U.S. banks.

Investing directly in foreign stocks poses several challenges. Industry and company research on potential investments may not be readily available to individuals. In addition, many foreign companies do not follow U.S. accounting standards, making it more difficult for investors to evaluate and compare company financial statements. Direct investors may also need to commit substantial funds in order to build a diversified international portfolio.

### Currency Risk 101

One key factor to consider before investing in overseas markets is currency risk.<sup>1</sup> For a U.S. investor, a currency gain or loss stems from a fall or rise in the value of the dollar against the currency in which the investment is made; a fall in the value of the dollar relative to the local currency will increase your return, while a rise in the dollar will lower your return.

Currency fluctuations are due to a number of factors, including the relative economic

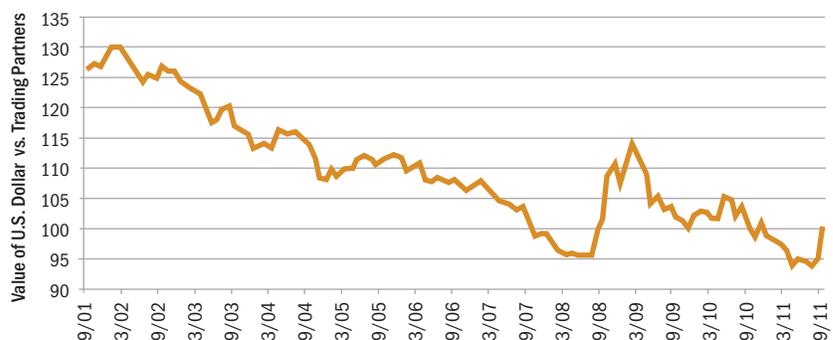
strength of each country and local political conditions. Professional investment managers use a number of strategies to manage a portfolio's foreign currency exposure, most of which use hedging tools to varying degrees to protect against currency losses.

Currency risk is an essential consideration when investing internationally—but it is by no means the only risk. Others include possible increased taxation as well as political uncertainties.

Potential risks aside, international investing is an important component of a long-term portfolio diversification strategy. Your financial advisor can explain the risks and rewards of international investing in more detail.

<sup>1</sup>Changes in foreign currency exchange rates will affect the value of currency investments. Foreign investments may entail greater risks than domestic investments due to currency exchange rates; political, diplomatic or economic conditions; and regulatory requirements in other countries. Financial reporting standards in foreign countries typically are not as strict as in the United States, and there may be less public information available about foreign companies. These risks can increase the potential for losses.

### The Value of the U.S. Dollar vs. Global Trading Partners



Source: The Federal Reserve. For the period from September 2001 to September 2011.

# Unsung and Unpaid Heroes



**Family support is essential to enabling elderly, disabled and/or chronically ill adults to remain in their homes and in the community. But such care comes at a great cost to the caregivers and their families.**

A recent report from AARP found that in 2009, there were 42 million unpaid family caregivers in the United States. The value of their service was estimated at an astonishing \$450 billion.

To help put this sum into perspective, consider that \$450 billion:

- Exceeds the combined total of federal and state Medicaid spending in 2009.
- Represents nearly \$1,500 for every person in the United States.
- Is equivalent to about 3.2% of the U.S. gross domestic product for 2009.

According to the study, the “average” caregiver is a 49-year-old female who juggles a job while providing 18.4 hours per week of unpaid care. The average hourly dollar value of care was estimated at \$11.16.

## Caregivers at Financial Risk

For all their selfless service, caregivers face the very real potential for financial hardship, especially if they cut back on work hours or stop working entirely. AARP cites a recent analysis of lifetime income-related losses for caregivers over the age of 50 who leave their jobs to care for a parent at about \$115,900 in lost earnings, \$138,000 in lost Social Security benefits and \$50,000 in lost pension benefits.

The study goes on to suggest that assuming the role of caregiver for aging parents in midlife may have a great economic impact on female caregivers’ retirement years and increases their risk of living in poverty in old age—a tragic outcome for such a selfless commitment.

## Seek Help

If you or someone you know is caring for an adult family member and are concerned about the impact it may have on your personal finances, contact a financial professional to help you assess your current situation and chart a course toward a more secure financial future.

Source: AARP Public Policy Institute, “Valuing the Invaluable: 2011 Update, the Economic Value of Family Caregiving in 2009,” Fact Sheet #229, June 2011.

The opinions voiced in this newsletter are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested in directly.

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**Don’t panic.** When markets become volatile, the gut reaction for most of us is to panic. Many investors do exactly what they should not do: Buy when everyone else is buying—when prices are highest; and panic sell on the downside—when prices are depressed. Panic selling also exposes you to the risk of missing the market’s best-performing days.

For example, missing just the five top-performing days of the 20 years ended December 31, 2010, would have cost you more than \$19,000 based on an original investment of \$10,000 in the S&P 500.<sup>3</sup>

**Take advantage of asset allocation.** During volatile times, more risky asset classes such as stocks tend to fluctuate more, while lower-risk assets such as bonds or cash tend to be more stable. By allocating your investments among these different asset classes, you can help smooth out the short-term ups and downs.

**Diversify your stock allocation.** Within stocks, it is important to diversify by sector, size, style and location. Why? Because different types of stocks, like different asset classes, often take turns outperforming one another.

**Keep your long-term priorities in focus.** Regardless of how well you diversify, you are still likely to see some fluctuation in your portfolio when markets turn volatile. But making major changes in response to market performance over relatively short time periods may not be prudent. Instead, review your portfolio and rebalance (if necessary) on a regular schedule, such as once or twice a year.

<sup>1</sup>Source: Standard & Poor’s Equity Research Services, “Baby Bears and Near Misses,” October 31, 2011. The S&P 500 is an unmanaged index that is generally considered to be representative of the U.S. stock market. Individuals cannot invest directly in any index. Past performance is not a guarantee of future results.

<sup>2</sup>Source: Standard & Poor’s. Based on the daily close of the S&P 500 from January 2, 1950, through October 5, 2011.

<sup>3</sup>Source: Standard & Poor’s. For the period indicated. Stocks are represented by the S&P 500, an unmanaged index that is generally considered representative of the U.S. stock market.