Preferred Planning Concepts

Comprehensive Financial Services
For Individuals, Professionals and Businesses

Insights and Thoughts as the Last Month of 2011 Unfolds (12-2011)

Ever since the financial crisis of 2008, our guidance has been to remain cautious as an investor; if you are going to be allocated into the equity markets, consider doing so in a less aggressive manner. For some people, given their age, wealth, and proximity to retirement, this might mean having very little of their assets in equities. For others, it might mean being allocated about one-half of the normal percentage in stock-type assets. Still, there will be others who remain growth-minded and thus stay more heavily allocated in stocks despite the continued volatility.

As you have read in our economic updates, commentaries, and monthly newsletters, we do not believe that a long- term, stable solution to the global debt crisis can be forged simply by either printing more money or adding more debt to the equation. That being said, there are governments still attempting to use those concepts as possible solutions. In the aftermath of the financial crisis of 2008, we have seen data that indicates individuals and corporations are saving more, spending less, and borrowing less. In our opinion, such actions are both prudent and wise at this point in time, and are sound ways of trying to resolve many financial issues. We would like to see the United States and governments around the world adopt that type of approach rather than the ones they have been trying to make work. Politics seems to get in the way of these decisions, and it will be interesting to see how long people will put up with the seemingly never-ending political stalemates on so many important issues.

Until there is a clearer picture of which way countries and governments decide to take action, and unemployment and housing start to consistently improve, it will remain important to be cautious in the manner in which you allocate your hard-earned invested money.

It has been a frustrating year for investors on the equity side of the ledger. We went on Morningstar to view a list of major market indexes from around the world. Within the U.S. stock markets, there were 21 indexes listed, including, of course, the SP500, DJIA, and NASDAQ. Here is how each index started the year, and where they were as of 11/30/2011:

SP500:
12-31-2010: 1,257
11-30-2011: 1,247

DJIA:
12-31-2010: 11,577
11-30-2011: 12,045

NASDAQ:
12-31-2010: 2,653
11-30-2011: 2,620

Each index reflects either a very small decline or a very modest increase based on raw numbers. The results are a little better if you include dividends that are paid by various stocks. Using the 'total return' data from Morningstar, 11 of the 21 U.S. based stock indexes showed negative results and 10 showed positive results. The 11 with negative results had an average YTD return of about (-2.4%). The 10 with positive results had an average YTD return of about 2%. Average them together and you get almost a zero return for the year.

The data was much worse on the international side. The Morningstar list had 38 different indexes from around the world, and all were in the red. The average YTD total return of the 38 indexes was right around (-13.75%). So far, this has not been a good year to be invested outside of the U.S. The Morningstar data also included 21 indexes on the fixed income or bond side of the investment markets. All 21 of those indexes are showing positive results for yet another year. However, unlike the past few years when most bond mutual funds were showing solid returns regardless of duration, this year's results seem to depend on whether fixed income managers were willing to take on potential inflation risk by investing in longer duration bonds. Short-term bonds, be they corporate or government, have generated very low returns. But bonds with longer durations (10, 15, 20, 30 years) have continued to generate above-average returns. At the outset of 2010, because many fixed income managers were concerned that this could be the year that inflation and rising interest rates take effect, they elected to stay shorter on the yield curve to provide some protection in the event rates did rise. However, through 11 months, interest rates have stayed very low despite seeing prices rise on many commodities and basic necessities. Thus, through the end of November, 2011, someone's fixed income results will vary greatly depending on whether they were in bonds of longer or shorter duration.

Given how 2011 is playing out with less than a month to go, we would encourage all of you to make an appointment to come to our office and meet with us to develop a mutually agreed upon strategy for allocating your invested assets. As we head into 2012, it is very important that we be on the same page in terms of your allocation, and that we address and answer any questions you may have in this regard.

Until economic and financial issues around the world begin to stabilize, we will continue to be of the opinion that your focus should be on 'capital preservation.' Due to all of the ongoing uncertainty, we believe that two of the more likely scenarios could be (a) continued up and down volatility as we have seen in 2011; or (b) a significant correction to the downside if investors and the markets acknowledge that there is no easy solution to the global debt contagion. Of course, there is always the possibility of a third scenario where equity stock markets begin a steady rise, but we have low confidence in that occurring until (a) the U.S. unemployment numbers rise significantly, (b) housing values improve, and (c) a sound solution to the debt crisis is found. Once some, or all, of those things start to occur, our focus can start to shift to seeking better growth rather than seeking to preserve your capital.

As suggested above, please call us in the near future to set a time to meet and review where you stand financially, agree on a strategy for 2012 and beyond, and address any questions or concerns you may have. Until we meet, we wish you a safe and memorable holiday season, and look forward to working with you in the New Year!

Best wishes,
Your advisors and staff at Preferred Planning Concepts, LLC

For more information, contact Preferred Planning Concepts at (847) 375-0505.
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