Conductor's Notes

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The End of the Recession

In September 2010, the National Bureau of Economic Research announced the long-awaited news: an end date for the recession that had begun in December 2007. The NBER determined the official end date as June 2009, quieting down (if not completely silencing) double-dip fears. NBER defines a recession as a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales. Looking back at the performance of the main asset classes during the recession and in the months following the official end date, gold was the best overall performer, and long-term government bonds offered consistent positive returns. Out of the investments with the worst performances during the recession, REITs posted the most-impressive return in the 18 post-recession months.

Returns During and After the Most Recent Recession

	Recession Dec 2007 to Jun 2009*	**Aftermath** Jul 2009 to Dec 2010*
Gold	19.3%	50.4%
Long-term government bonds	8.4%	8.5%
Treasury bills	1.9%	0.2%
Small stocks	–33.8%	60.7%
Large stocks	–35.5%	41.1%
International stocks	–39.7%	32.2%
REITs	–48.1%	86.6%

**Returns in table represent cumulative returns during time periods indicated, not geometric returns.*

Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. Holding a portfolio of securities for the long term does not ensure a profitable outcome, and investing in securities always involves risk of loss. International investments involve special risks such as fluctuations in currency, foreign taxation, economic and political risks, liquidity risks, and differences in accounting and financial standards. REITs are subject to certain risks, such as risks associated with general and local economic conditions, interest rate fluctuation, credit risks, liquidity risks and corporate structure. Small stocks are more volatile than large stocks, are subject to significant price fluctuations, business risks, and are thinly traded. Government bonds and Treasury bills are guaranteed by the full faith and credit of the United States government as to the timely payment of principal and interest, while stocks, REITs, and gold are not guaranteed.

Source: Gold—Wall Street Journal London P.M. closing price. Long-term government bonds—20-year U.S. government bond. Treasury bills—30-day U.S. Treasury bill. Small stocks—Dimensional Fund Advisors, Inc. (DFA) U.S. Micro Cap Portfolio. Large stocks—Standard & Poor's 500® Index, an unmanaged group of securities considered to be representative of the U.S. stock market. International stocks—Morgan Stanley Capital International Europe, Australasia, and Far East (EAFE®) Index. REITs—FTSE NAREIT Equity REIT Index®.

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Market Performance
1-1-11 to 1-31-11
DJIA ^DJI +2.72%
S&P 500 ^GSPC +2.26%
NASDAQ ^IXIC +1.78%
Russell 2000 ^RUT -(0.34%)
Source: http://finance.yahoo.com

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Types of College Financial Aid

Navigating the financial aid process

- Don't stall or procrastinate
- Begin with the FAFSA
- Go for the gold
- Seek help and advise

The costs of a college education have become increasingly unaffordable for the average American family, even before the 2008 economic crisis. A report published by the National Center for Public Policy and Higher Education found that published college tuition increased by 439% from 1982 to 2007 while median family income only rose by 147% during the same time period. The average middle class family has traditionally financed the costs of college through student loans. The weakened job market, however, has made the repayment of student loans more difficult.

Fortunately, there are many ways to get college financial aid. While we often associate financial aid with lower-income families, there are many opportunities for the average middle-income family to obtain the money needed to ease the burden of the rising costs of college.

Federal Grants: President Obama has made improving college graduation rates one of his top policy initiatives and as such, federal grants have accounted for 44% of the total grant money awarded to students in the 2009-10 school year, an increase from 34% the previous year. Federal grants are awarded to students that have not already earned a bachelor's degree. While the majority of federal grants are awarded to students with annual household incomes below $20,000, students with household incomes below $50,000 are eligible. To qualify for this grant, one has to fill out an application on the Free Application for Federal Student Aid website. The most important thing to note is that eligibility for federal grants is based on family income, and thus, it is important to avoid artificially inflating income through bad timing of capital gains and bonuses, especially in the two years before you register for FAFSA. Even if you are unsure of your child's eligibility for the federal grants, it is always useful to register for FAFSA because universities use that database to determine financial aid awards as well.

College Scholarships: Always contact your university's financial aid office to request information on any scholarships that it may offer. These scholarships are typically merit-based and will help to cover the costs of education that are not covered by federal grants. Private universities, with larger endowments than their public counterparts, traditionally offer more financial aid to students. The decline in state appropriations the past few years have also affected the amount of scholarships that public universities have been able to give out. However, one should balance the costs of attending a private university with a comparable in-state public university. At public four-year universities, the average cost per year (including room and board) is $16,140, compared with $36,993 for private four-year institutions.

Other sources of funding: There are many private organizations like Microsoft, the Gates Foundation, and Google that offer need-based merit scholarships to undergraduate students. Very often, there are stipulations on the field of study, with an emphasis on technical majors like computer science or engineering. Technically inclined students should look into applying for these scholarships because they tend to be more generous than federal grants. In addition, every university participates in the federal work-study program, which allows undergraduate and graduate students who have completed the FAFSA and are eligible for financial aid to work during the school year in both on- and off-campus jobs. Not only do these jobs help students pay for college, they also provide valuable work-related experience.

Source: Measuring Up 2008 The National Report Card on Higher Education, The National Center for Public Policy and Higher Education; Trends in Student Aid 2010, The College Board; Trends in College Pricing 2010, The College Board.

The Late-Start Guide to College Savings

529 Plans

- Ask your Horwitz Advisor about your own States 529 plans. For our Illinois Clients - 529 plans just got a whole lot better with our recent state tax hike!
- Call your advisor for information on Upromise and how to start saving for college today.

Is your child hurtling toward college but you haven't given more than a few anxious thoughts to how you're going to pay for it? School is drawing closer and tuition projections seem to grow more outlandish by the year. Avoiding the issue won't make it go away, and the sooner you tackle it, the better off you are. Read on for some tips.

Resist the urge to stand still: If you haven't done anything yet, you think, why start now? Well, with compounding, a dollar saved today is much more valuable than a dollar saved 10 years from now. And even if you manage to save only a small amount between now and the time your child is ready for college, he or she is going to have to borrow that much less for tuition. The key is taking that first step.

Don't play catch-up by chasing overly risky investments: Instead of sitting still, some parents who fear that they won't be able to afford skyrocketing college costs might be tempted to do the opposite: swing for the fences in the hope of hitting it big. The best way to save for college isn't to concentrate in a single risky stock or sector but instead to build a well-diversified portfolio with a stock/bond mix that suits your child's time horizon. Bear in mind that if your child's college years are drawing near, you'll want to be taking fewer risks with any money you have earmarked for college, not more. While savings for children under 10 may be invested in stock funds, storing more and more of your child's college savings in cash and bonds as they make their way through high school is sensible.

Consider a 529 plan: 529 college-savings plans can have their downsides, which include high expenses and substandard investment choices. But given that 529s permit extremely generous contributions and offer tax benefits to boot, these programs can be ideal for late-start college savers who need to sock away as much as possible in a short period of time. The key is to choose carefully.

Although Section 529 prepaid-tuition programs essentially allow you to lock in today's tuition rates, such plans can be somewhat inflexible. If your child wants to go to school in another state, for example, some of the tuition costs may not be covered.

In contrast to the prepaid programs, money invested in Section 529 college-savings plans can be used at any college in the United States. Your contributions to a 529 plan can grow free of federal taxes, you can take tax-free withdrawals to pay for college expenses, and you may also enjoy a state-tax break. Finally, the 529 assets are held in the parents' names, meaning that these assets receive more favorable treatment than the child's assets in financial-aid calculations. Make sure to speak with your financial advisor/tax professional to get information on the latest rules governing 529 plans.

Cheap out: If your investment horizon is relatively short, it's all the more important to pay attention to how much you're shelling out in fund fees. Cash and bonds—which should form the bulk of your child's portfolio as college draws near—have low returns to begin with. If you layer on excessive expenses, your take-home return will be that much lower. Moreover, late-start college savers should pay attention to brokerage charges and other administrative fees.

Government bonds and Treasury bills are guaranteed by the full faith and credit of the U.S. government as to the timely payment of principal and interest, while stocks are not guaranteed and have been more volatile than bonds. Diversification does not eliminate the risk of experiencing investment losses.

The Rollover IRA, Taking It With You

Did you have a job change?

- Rollover your 401k with us into a self directed IRA. Contact your advisor for more information.

One of the most convenient and flexible options for dealing with a retirement plan from your ex-employer is to transfer the money to a Rollover Individual Retirement Account. A Rollover IRA is, in essence, a traditional IRA where you can park the cash you're transferring from your old employer's retirement account. The money you invest in a Rollover IRA accumulates tax-free until you take it out in retirement, just as it does in a defined-contribution retirement plan (401k). You can open a Rollover IRA with just about any investment firm, including mutual fund companies, insurance companies, and online brokers. You're allowed to invest the money in stocks, mutual funds, bonds, and other types of investments. That's why the Rollover IRA is your most flexible choice when leaving a job.

You have a number of options after you open your Rollover IRA, too. Of course, you can leave it alone until you retire. But if you move on to a new job, you may be able to transfer the money you have invested in your Rollover IRA into your new employer's retirement plan (assuming the qualified retirement plan has language permitting such rollovers). And if a Roth IRA is more to your liking, you can convert your Rollover IRA into a Roth IRA, if you meet the criteria.

Keep in mind that you can't take a loan from a Rollover IRA as you can from some employer-sponsored retirement plans. Moreover, Rollover IRAs are also subject to the same withdrawal limits as other tax-deferred retirement accounts. So, if you take any money out before you turn 59½, you'll pay a 10% early withdrawal penalty in addition to taxes.

Returns and principal invested in stocks are not guaranteed. Stocks have been more volatile than bonds.

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