



# The Flavors of Investing

It is tempting to jump on the investment bandwagon when certain parts of the market soar based on a trend or analyst report. While great potential exists, sector investing can also come with great risk.

As seen in the image, what is hot one year isn't always hot the next. Interested investors should be willing to follow a sector's ups and downs, as timing the market is difficult. Investing in specific sectors can add volatility to a portfolio, but exposure to the right sectors can contribute to improved financial performance. Keep in mind that while sector investing can fill a gap or serve as a speculative play, a balanced asset allocation should be the core of any portfolio.

## 10-Year Sector Winners and Losers

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Highest return	4.3	50.3	38.1	40.8	39.4	32.9	-16.1	61.9	30.5	18.5
Basic Mat.	-6.3	41.0	32.1	14.8	36.2	27.5	-23.3	53.6	27.4	13.4
Comm. Ser.	-6.6	37.6	23.3	12.2	21.8	17.2	-28.1	50.2	24.9	11.9
Cons. Cyclical	-9.1	37.3	19.2	8.1	19.7	16.6	-38.2	35.6	24.2	6.9
Cons. Def.	-13.1	34.8	17.9	6.0	17.6	12.6	-38.4	34.0	23.4	5.1
Energy	-21.1	32.1	15.4	6.0	15.4	12.0	-39.4	29.3	23.2	4.1
Financial	-23.6	26.1	14.4	5.2	15.1	8.0	-39.8	24.0	14.5	0.6
Health Care	-23.8	24.7	12.5	3.7	15.0	0.2	-41.2	21.0	13.4	-0.4
Industrials	-23.8	19.8	10.1	3.0	11.9	-8.7	-42.0	15.6	11.8	-0.7
Real Estate	-37.3	18.9	3.5	-1.4	10.9	-17.9	-48.1	14.5	7.3	-14.1
Technology	-38.3	17.4	0.8	-6.0	6.7	-18.3	-51.3	11.8	5.1	-16.5
Utilities										
Lowest return	-38.3	17.4	0.8	-6.0	6.7	-18.3	-51.3	11.8	5.1	-16.5

This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. Past performance is no guarantee of future results. Sector investments are narrowly-focused investments that typically exhibit higher volatility than the market in general. Sector investments will fluctuate with current market conditions and may be worth more or less than the original cost upon liquidation. Returns and principal invested in stocks are not guaranteed.

Source: Sectors in this example are represented by the Morningstar Sector Indexes.



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## What's Happening at SWA

The National Association of Board Certified Advisory Practices (NABCAP) recently selected Strategic Wealth Advisors for inclusion in the NABCAP Premier Advisors list which was published in the June 8th edition of the Phoenix Business Journal. Each year NABCAP recognizes an elite group of advisory practices in the Phoenix area based on research on more than 20 categories of practice management including

client service, accountability, risk management and transparency. NABCAP is the first non-profit 501(c)(3) organization to create a discerning process to help identify the top quality advisory practices in order to better serve the investing community. The team at SWA is honored to be selected for such a list and we thank all of our clients, professional colleagues, family and friends for supporting our

mission and values. If you know of anyone who can benefit from our holistic wealth management approach, please let them know about us.

# Monthly Market Commentary

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In early September, the European Central Bank took steps to ease monetary policy and China introduced new infrastructure stimulus measures, as economic news in both regions continued to show signs of slowing. Both these actions have led many to expect the Federal Reserve to do the same with some form of quantitative easing, following poor manufacturing data and a softer-than-expected employment report in August. Morningstar economists believe that lowering rates further may do little to help the economy. Corporations are already awash with cash, while consumers are still finding it difficult to get loans at these low rates. Furthermore, commodities are on the rise again with gold setting a five-month high, and oil prices moving higher.

**GDP:** Second quarter real GDP was revised upward to 1.7% from 1.5%, which typically means that things were stronger in the last month of the quarter than originally anticipated. Overall, consumer spending was revised up, exports also improved (despite turmoil in Europe), and government spending shrank less than previously estimated. Although the quarter-to-quarter data over the last 2 years continued to be extremely volatile (ranging from 0.1% to 4.1%), the year-over-year data shows GDP growing at a slow but consistent pace (1.6% to 2.8%).

**Employment:** August saw a disappointing 96,000 jobs being added, down from 163,000 jobs in July. Morningstar economists have highlighted a few inconsistencies over this data: at a time when new and existing home sales were up, the report indicated construction employment did not grow at all. Also, the employment at building material and garden centers was reported to have fallen by almost 10,000 people, which Morningstar economists felt was unlikely, given the better construction market. An unusually large number of employees (380,000) left the workforce in August, which caused the unemployment rate to drop to 8.1% from 8.3%. Morningstar economists believe that this was mainly because of students returning to school from their summer jobs. While seasonal adjustment factors are typically supposed to capture this change, many schools and universities are shifting the start of their school year earlier in August. The high dropout rate could also have come from more employees quitting, or ceasing to look for jobs, to go

back to school due to poor economic prospects.

**Housing:** The housing recovery has continued long enough that both leading indicators (pending home sales) and lagging indicators (Case-Shiller Home Price Index) were moving in the same positive direction. July pending home sales jumped 2.4% compared with June and 12.4% compared with July 2011. It is important to note that pending sales have been higher than closed sales all year, as the failure of homes to appraise at the agreed-upon price and tight lending conditions are holding back closings. In June, the Case-Shiller 20-city index increased 0.5% on a year-over-year basis, which marked the first year-over-year increase in two years. Although the index just broke into positive territory, the improving trend has been in place for six consecutive months. Month-to-month data showed a 2.3% increase, and all 20 cities in the index showed home price improvement.

**Manufacturing:** U.S. manufacturing in August continued to slow, as new orders fell and inventory levels increased. However, auto sales accelerated to 14.52 million units in August, the best performance since the cash-for-clunkers promotion in 2009. Year-over-year sales growth of over 20% was inflated by a strong recovery from Japanese brands that suffered supply shortages last August because of the tsunami. Pent-up demand and low cost has also resulted in the Detroit Big Three reporting year-over-year gains of more than 10%, mainly from pickup truck sales. Outside the U.S., manufacturing in Europe continued to weaken, including Germany, because of softer orders from China. China's manufacturing sector also underperformed, reporting its lowest level since 2009.

# Five Ways to Cut Housing-Related Costs in Retirement

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Housing-related costs are often the largest component of retirees' household budgets, so this article will address some of the key ways in which retirees can cut this type of costs.

1. Consider a Cheaper Location: Talk about trade-offs. The decision to relocate is a difficult one, particularly if it means venturing away from kids, grandkids, and longtime friends. It's also worth noting that the highest-cost housing markets also tend to be close to other amenities that may be important to a retiree's quality of life, such as cultural and leisure attractions. But if you reside in a high-cost locale and are assessing how you can make your nest egg last, relocating ought to be high on your list of considerations. By selling your high-priced home and moving to a cheaper location, you may be able to unlock a significant amount of equity while also reducing your housing costs on an ongoing basis.

2. Downsize in the Same Location: If you're not up for relocating, you might still be able to save money by downsizing to a smaller home in your same geographic locale. Like relocation, this decision usually doesn't come without compromise: Many people have a sentimental attachment to the homes in which they raised their families, and after a lifetime of accumulation, a move across town may seem like more trouble than it's worth. And if you stay in the same geographic locale, your non-housing costs (food, entertainment, and the like) will stay the same. But even within a depressed housing market, you may be able to unlock valuable equity by selling your larger home, and your ongoing costs for taxes, maintenance, and utilities are also likely to be a lot lower.

3. Consider Combining Households: Thanks to the economic downturn, there's a well-documented trend toward children remaining with their parents for a much longer time than in the past. But we may also start to see more people combining households later in life—grown children moving in with elderly parents, retired siblings moving in with one another, and so forth. Of course, such setups sound a lot simpler than they are in practice, but consolidating what would've been two households into one can help reduce costs greatly.

4. Don't Pay for Care Until You Need It: Seniors are increasingly gravitating to so-called continuous-care retirement communities, which allow them a great amount of independence as long as their health allows but also provide for ongoing health care and other assistance later in life. Such facilities allow seniors to transition from one life stage to the next with a minimal amount of disruption—a huge attraction given the upheaval that often occurs when seniors move from an independent home to assisted living to a hospital and back again.

As sensible as such arrangements are, however, they carry significant costs. If you've run the numbers and think there's a significant risk you could outlive your assets, a continuous-care retirement community may entail more costs than you can afford to bear, particularly if you don't yet need any help. The decision to move into a continuous-care community is a hugely complicated one that should entail a full cost-benefit analysis.

5. Refinance: One of the best financial steps you can take in the years leading up to retirement is to pay down your debt, because reducing your fixed costs in retirement will reduce the income demands you make on your portfolio. But if you still have a mortgage and are preparing to retire or you're retired already, refinancing ought to be on your radar. Mortgage rates have ticked up in recent weeks, but they're still ultralow relative to long-term averages.

# Know Your Own Inflation Rate

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The Consumer Price Index (CPI), a measure of inflation, is a monthly statistic representing the change in prices paid by urban consumers for a representative basket of goods and services. While this measure serves more as an official gauge, a lot of consumers (especially retired consumers and investors) seem to have a different sense of inflation. The question often arises: Why is it that the official rate seems to be lower than what we're actually feeling out there?

Our inflation rate may vary depending on our individual expenditures. This means that some people may experience higher inflation relative to others. For a senior, food and energy costs are a very high proportion of their total household outlay. The location where you live can also impact your personal inflation rate. If you have a fixed-rate mortgage, or if you're retired and your home is paid for, you won't experience fluctuating housing costs as a result of having an adjustable-rate mortgage or paying rent. But you may see housing costs vary from one region of the country to another. Another big swing factor in your personal inflation rate is health-care cost. If you have purchased a long-term care policy with an inflation rider, you can insulate yourself against rising nursing-home and other long-term care costs.

Anyone who has Social Security has a buffer against higher prices because Social Security includes a cost-of-living adjustment. If a Social Security paycheck is a big proportion of your total income needs, you're likely in good shape as far as inflation is concerned. If it's just a tiny portion of your total income needs, you're not in as good a shape. If you're receiving a pension with an inflation adjustment it can help you stave off inflation, and the same goes for folks who have an annuity with an inflation rider; they will have some protection against inflation. What about folks who are still in employment? If you're still working, either full-time or part-time, you may potentially be able to get a cost-of-living adjustment in your paycheck. If you're not working and not eligible for those cost-of-living adjustments, you'll need to plan for inflation accordingly.

Finally, it's also important to gauge whether your portfolio is built to withstand your personal rate of

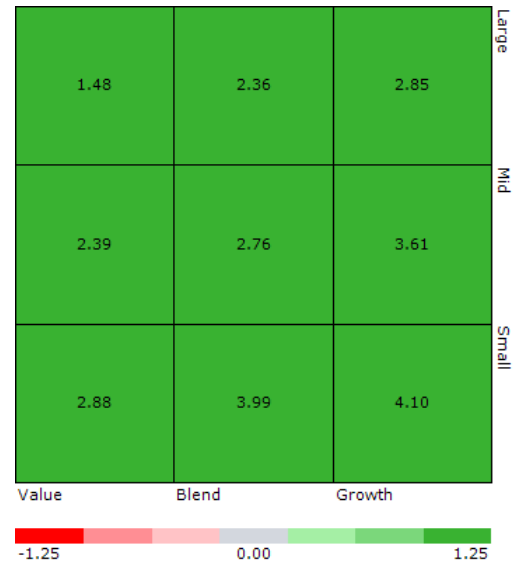
inflation. Portfolio composition is the key here. Investments such as short-term bonds and cash may not safeguard against the threat of inflation. If a high proportion of your portfolio consists of cash or short-term bonds without any inflation protection built in, you may see a large percentage of your return eaten away by inflation. Next up is your portfolio time horizon. Seniors who are quite far into their retirement and don't anticipate having a long time horizon for their investment assets probably need to be less concerned about the toll that inflation will take over time. However, if you're just starting out in retirement, you may need to plan for inflation-proofing your portfolio, because over time, even a seemingly benign inflation rate of 3% may take a bite out of your portfolio return.

Diversification does not eliminate the risk of experiencing investment losses. 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 other asset classes. Annuities are suitable for long-term investing, particularly retirement savings. Annuity risks include market risk, liquidity risk, annuitization risk, tax risk, estate risk, interest-rate risk, inflation risk, death and survivorship risk, and company failure risk. Withdrawal of earnings will be subject to ordinary income tax and, if taken prior to age 59½, may be subject to a 10% federal tax penalty. Additional fees and investment restrictions may apply for living-benefit options. Violating the terms and conditions of the annuity contract may void guarantees. Consult a financial advisor and tax advisor before purchasing an annuity.

# Monthly Market Barometer

1 Month, ending August 31, 2012. The U.S. Market returned 2.47% (YTD 13.31%).

The Morningstar Market Barometer provides a visualization of the performance of various stock market indexes. The color scale (red for losses and green for gains) allows you to assess which areas of the market performed strongly and which areas showed weakness for the time period analyzed. The nine-square grid represents stocks classified by size (vertical axis) and style (horizontal axis). There are three investment styles for each size category: small, mid and large. Two of the three style categories are “value” and “growth” while the central column represents the core style (neither value nor growth characteristics dominate). Large-caps account for the top 70% of the capitalization; mid-caps represent the next 20%; and small-caps represent the balance.



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