Investor Insights & Outlook

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Should Your Asset Allocation Be More Tactical?

The market downturn of 2008-2009 was hard for all investors, especially retirees, many of whom questioned their game plan amid huge losses. Investors questioned the value of long-term strategic asset allocation, in particular the buy-and-hold strategy. Many investors also began thinking about being more tactical. Market volatility tests buy-and-hold investors and in many cases increases the appeal of tactical asset allocation.

Tactical asset allocation is an active portfolio management strategy by which portfolio composition and weighting are altered in the short-term to take advantage of perceived differences in relative values of various asset classes. While tactical asset allocation may look appealing on the surface, it is best left to investors who understand its complexity. Otherwise, this strategy could leave investors stuck with an asset allocation that may be unsuitable for their goals, risk, and liquidity requirements. It is also important to keep in mind that active trading increases both taxes and transaction costs.

The bottom line: Pick a strategic portfolio plan with an appropriate asset allocation for your time horizon. Your individual portfolio should address both your immediate and intermediate needs. With the right plan in place, your portfolio will be better equipped to handle volatility, allowing time to smooth out the choppy returns.

There is no guarantee that strategic or tactical asset allocation will protect against market risk. These investment strategies do not ensure a profit or protect against loss in a declining market. Please keep in mind that diversification does not eliminate the risk of experiencing investment losses. Please consult with a financial professional for advice specific to your situation.

Advisor Corner

Bill Roller, CFA, CFP®
President

billroller@brcapitalinc.com
(360) 735-1900
www.brcapitalinc.com

Bill Roller is experienced in financial planning and investment analysis. He focuses his consulting practice on estate, retirement, and financial planning for businesses and individuals. Bill started BR Capital Inc. in 2003. Before that he worked for a large Wall Street firm for over nine years. He served for seven years as a U.S. Army officer in Infantry and Special Forces (Green Beret) units. Bill is a Chartered Financial Analyst as well as a Certified Financial Planner. He is the VP of the Estate Planning Council of Southwest Washington. He earned a Bachelor of Science degree from the United States Military Academy at West Point in 1982, and a MBA from the Wharton School of Business in 1991. He provides the morning and afternoon market reports and financial commentary for AM 1360 KUIK. A link to Bill's articles and interviews is available at http://brcapitalinc.com. To subscribe to articles and daily market updates go to http://brcapitalinc.com/subscribe/

Retirement Investing Q&A

Q: Under current law, at what age can you begin receiving Social Security benefits?

A: The earliest age at which you can begin receiving Social Security benefits is 62. However, you will receive a reduced benefit if you retire before your full retirement age.

Q: What are some big mistakes that people make concerning their retirement?

A: Not contributing to an IRA, a 401(k), or both is probably the single biggest mistake that is made. 45% of current retirees utilize their personal savings for retirement income; 62% of current workers anticipate personal savings to play a role during retirement.

Q: What is the maximum contribution to IRAs (both regular and Roth) and 401(k) plans in 2012?

A: If you are age 49 or younger, the maximum contribution is $5,000 for both regular and Roth IRAs, and $17,000 for a 401(k) plan. If you are age 50 or more, the maximum contribution is $6,000 for both regular and Roth IRAs, and $22,500 for a 401(k) plan.

Q: Are distributions (payouts) taxed on regular IRAs, Roth IRAs, and 401(k)s?

A: The short answer is that if you got a tax break on the contribution, you will pay taxes on the subsequent distribution. Contributions to regular IRAs and 401(k)s are generally made with pre-tax dollars (pre-tax contributions reduce your taxable income for the year in which they are made), so distributions are taxed. Roth IRA contributions, however, are made with after-tax dollars, so distributions are generally not taxed.

Q: At what age can you generally begin taking distributions from an IRA or 401(k)?

A: You can begin taking distributions from your regular IRA, Roth IRA, or 401(k) plan at age 59 ½.

Q: Can you roll your 401(k) over into an IRA?

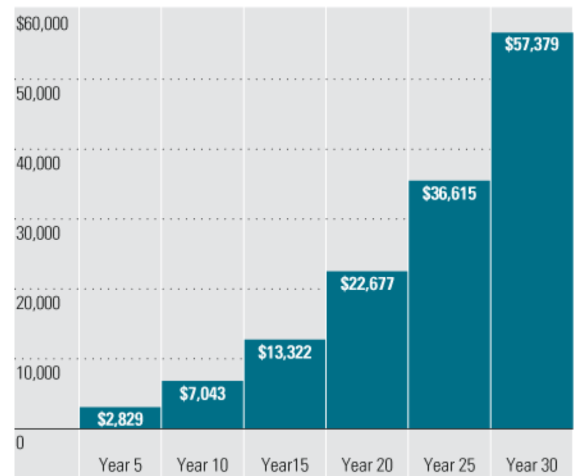
A: Yes. You can move 401(k) balances into a "rollover" IRA account without penalty. This option enables you to keep your money tax deferred, and can potentially increase your investment options, as IRAs are self-directed and 401(k) plans have investment options that are decided by the plan administrator.

Q: How can I begin saving for retirement?

A: Little changes can make huge differences. For instance, have a regular coffee ($1.75) instead of a latte ($3.50) every morning before work. Invest the savings each month ($1.75 X 22 workdays = $38.50), and you could end up with quite a hill of beans!

Sources: Employee Benefit Research Institute, 2012 Retirement Confidence Survey.

A "Latte" Savings



This is for illustrative purposes only and not indicative of any investment. The data assumes reinvestment of all income and does not account for taxes and transaction costs. The image assumes a hypothetical 8% annual return and that savings are invested at month end.

Monthly Market Commentary

Although several bellwether stocks, such as Intel, Texas Instruments, FedEx, Norfolk Southern, and Caterpillar announced earnings warnings, investors mostly shrugged-off weaker fundamentals and placed their hopes on growth through coordinated easing. Investors were not disappointed, as additional quantitative easing (QE3) was announced on September 13th. Riots in Spain caused markets to react negatively, durable goods orders took a dive because of airline orders, and income and consumption numbers were hit hard by a quick spike in inflation rates. However, year-over-year data for almost every report continued to look a lot better than the volatile month-to-month statistics.

GDP: Second quarter real GDP growth was unexpectedly revised downward in September to 1.3%, after initially being revised upward to 1.7% from 1.5% in August. Adjustments were across the board, which included a slowdown in personal consumption, inventory growth, and negative net exports.

Employment: The recent jobs report revealed a surprise drop in the unemployment rate to 7.8%, down from 8.1% in August. In September, 114,000 jobs were added, but more importantly, the job numbers were revised substantially higher for July (+40,000 jobs) and August (+46,000 jobs). These revisions are likely to produce meaningful increases in both personal income and consumption growth.

Housing: Housing data was mixed as house prices rose but pending home sales seemed lighter than expected. The Case-Shiller 20 City Index rose 1.2% sequentially and is now 7% to 8% above lows reached this spring. The relatively consistent improvement in prices over the past few months should help the appraisal process that has kept many pending homes that went under contract from actually closing. Consistent price increases, along with near-record low mortgage rates and skyrocketing rents, could push potential buyers off the fence.

Manufacturing: New orders for durable goods were down a whopping 13%. A major air industry show in July often causes a huge boom for airline orders in that month, followed by a collapse in August. If volatile categories such as airliner orders and other transportation equipment are ignored, new orders were down a modest 1.6% in August. Morningstar economists believe that while the export news looked particularly bleak, a combination of ramp-up in jetliner productions from Boeing and continued improvements in the auto industry (auto sales hit a new recovery high in September) should prevent a rout of the manufacturing industry in the U.S.

Quarter-end insights: The initial fears at the end of the second quarter that the U.S. would be pulled back into a recession because of slowdowns in Europe and China, has not come to pass. Markets were surprisingly strong in the third quarter, mainly from actions by central banks around the world that drove markets higher. Although the housing recovery has been improving for most of 2012, it has yet to have any significant impact on overall economic activity since residential housing only represents 2% to 3% of GDP. This excludes spending that typically follows home purchases, such as new furniture and landscaping. Morningstar sector analysts' quarter-end outlook highlighted lackluster fundamentals that showed no definitive signs of either a collapse or a boom. During the third quarter, cyclical and more economically sensitive stocks generally did well while more staid industries, such as utilities, generally underperformed the market. There is also concern of a stronger dollar undercutting sales growth with a general fear that the higher dollar may likely depress margins in the months ahead. High margins and conservative capital spending have resulted in higher levels of cash at major corporations, which is finding its way into the mergers and acquisitions space. Much of the merger and acquisition activity as well as general corporate growth stories continue to be built around emerging-markets growth, despite near-term pressures in some of those markets.

Why You Need a Financial Advisor

After dismal portfolio returns during the "lost decade," investors may be wondering why they are still paying their advisors' fees. Until recently, the generally accepted (and expected) premise was that the advisor would deliver returns in excess of the market. But since many advisor-managed portfolios lost value with the market during the two major crises of the decade, many clients have begun to question the advisors' role and their justification for receiving fees even during periods of poor performance.

An advisor's value, however, may go beyond returns that beat the market. Of course, return is the first thing investors tend to think about, but there are other factors that influence the investing process and need to be carefully considered, as well. This is where an advisor can help you. Many investors do not align their portfolios with their risk tolerance; they overweigh in stocks expecting high returns and then can't sleep at night when the market fluctuates. An advisor can help manage your expectations and build a portfolio that's best suited for your risk tolerance level.

Another area where an advisor's expertise can be valuable is goal-oriented investment. Instead of accumulating all your savings in one place and investing them irrespective of a goal or timeline, an advisor can help you identify various investment goals (retirement, child's college fund, income-oriented investing) and then reorganize your portfolio according to these goals.

In addition to risk/return management and goal-oriented investment, wealth preservation, tax management, and the prevention of rash decisions are some of the additional benefits you may gain from the client-advisor relationship. When you evaluate your advisor's performance, think about how an advisor's value may extend beyond returns that outperform the market.

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Bill Roller, CFA, CFP®
President

BR Capital, Inc.
4400 NE 77th Avenue, Suite 275
Vancouver, Washington 98662-6857

billroller@brcapitalinc.com
www.brcapitalinc.com

Tel:(360) 735-1900
Fax:(360) 838-1597