THE WEALTH ADVISOR

Fall 2011

Where Have We Landed?

Debt deals, down grades, market volatility… will stocks manage to stabilize this Fall?

August of 2011 proved to be the roughest and most volatile month for the stock market in almost three years. Where exactly will this correction bottom out? How long will buyers stay on the sidelines?

Two crucial questions await answers – but before turning to those questions, consider the developments that really hurt equities in the middle of August.

Morgan Stanley and JPMorgan Chase forecasts depressed investors. On August 18, Morgan Stanley said it had cut its global growth forecasts, citing "policy errors" on the part of the U.S. and European Union. It now anticipates global growth of 3.9% for 2011 (down from the previous estimate of 4.2%) and it sees the global economy expanding by 3.8% in 2012 (down from its previous forecast of 4.5%). JPMorgan Chase revised its 4Q 2011 U.S. GDP projection down to 1.0% from the previous 2.5% on August 19; on the same day, Goldman Sachs cut its 4Q GDP prediction to 1.5%.[1,2,3]

Morgan Stanley stated that America and Europe could slide into a recession in 6-12 months – not one as severe as the downturn of 2007-09 given that many household, corporate and bank balance sheets are healthier today, but a recession nevertheless.[1]

The EU's latest attempt to curb sovereign debt looked weak. On August 16, German chancellor Angela Merkel and French president Nicolas Sarkozy offered three new measures to address the European Union's debt crises. They proposed requiring all 17 EU nations to craft and pass constitutional amendments requiring balanced budgets. They also mentioned enacting an EU-wide tax on financial transactions in 2012, and creating a new joint-governance council that would convene every 6 months to assess and plan to fine-tune the EU economy.[4,5]

This was not what Wall Street wanted to hear. The proposals seemed inadequate to many analysts. Rather than revising the business model of the European Union, Merkel and Sarkozy reaffirmed a commitment to the euro and implied that the biggest EU economies (read: Germany and France) would be taking the

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Avoiding Financial Catastrophe

How can you prepare, financially, for a disaster?

Wildfires, hurricanes, terrorist attacks, floods, earthquakes … there are many disasters, both man-made and natural, that could happen without warning. For many, preparedness is a way of life. If you've lived all your life on a fault line, for example, then making your home and belongings earthquake-ready may be a no-brainer. But are you totally prepared? Are you financially prepared?

You'll need more than nails and plywood … it's hard to "board up" something that you can't physically see or touch. For most of us, our "net worth" is simply a number and not a "Fort Knox" of dollar bills and coins stashed in our basement. So, how do you protect what you can't see? While this article can't possibly cover every angle of disaster preparedness, the following constitutes a good starting point.

Your job. It's important to find out how your job could be affected in the event of a disaster. If we look at those affected by Hurricane Katrina, for example, in many cases they had no job to return to … even if they could. Find out now if your employer has a disaster recovery plan. If the company shuts down, will you be able to collect unemployment compensation? If the shut-down is temporary, will you continue to collect a pay-check? If not, can you use sick time or vacation time in the interim? The answers to these questions can vary from employer to employer, so find out now what YOUR employer's policies are. The more you know in advance, the better you can prepare.

Your cash flow. Even if you consider yourself to be very wealthy, you could still experience serious financial woes in the days following a disaster. For example, what if all power goes out in your area? If there's no power, it's likely that ATMs and merchants bank card processing equipment will not operate. Banks may be closed. How would you pay for any immediate needs? While you may have a disaster kit in your basement that includes food, water and clothing, does it include any money? Consider adding a small (but sufficient) amount of cash to your kit, as well as quarters (for pay phones) and traveler's checks. If you're unsure how much cash to include, a good rule of thumb is to consider how much money you and your family would require over a seven-day power-outage.

Your home. Although the events that followed Hurricane Katrina certainly increased awareness, many homeowners still do not realize that homeowners insurance does not cover all disaster damage. Pay close attention to what your policy does or does not cover. You may want to opt for disaster insurance or a disaster mortgage protection plan. There are also many things you can do around your home to help prevent or reduce disaster damage. In known natural disaster zones, you may choose to take advanced mitigation measures (like having your home anchored to its foundation, or building a "safe room" in your basement).

Your documents. Is a fireproof lockbox or safe sufficient? If a flood swept away your home, could it sweep away that safe or lockbox with it? Birth certificates, passports, deeds, titles and more can help you rebuild your life following a catastrophe. Consider enlisting the assistance of an online document back-up service to assure that you can access important information even if the originals are lost. You may also wish to have physical photocopies stored with an out-of-state relative or trusted friend.

Yourself. What if you are injured, disabled or killed as a result of a disaster? What if it happens tomorrow? It's important to have your financial affairs in order, in case the unexpected occurs. Do you have insurance, including life and disability? Do you have an estate plan? What about a living will (advance health care directive)? And have you designated a health care proxy? It's critical to have these things organized as soon as possible, because a disaster can strike at any time. It's a good idea to enlist the assistance of a lawyer and a financial professional who can help you to plan your estate and draft the associated documents.

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hit for the mistakes of their poorer, more indebted brethren. As some of these proposed measures will have to be approved by popular vote in Germany and France, who knows if they will be adopted.[4]

If stocks are to rebound in the near term, the answers to two major questions will both have to be "yes".

Q: Can the EU make decisive moves to combat its debt crises? Wall Street (and many economists) would like to see the EU create a "Eurobond" – a euro-denominated debt security backed by the EU as a whole. An EU-wide debt security could result in lower interest rates in the most debt-plagued EU nations. (Bond yields vary widely from nation to nation in the EU at present.)[6]

The EU could make another strong move by bolstering its euro stability fund. At present, Sarkozy and Merkel believe that the fund's 440-billion-euro balance is acceptable, and they do not think that a Eurobond would be the silver bullet to solve the crisis.[4]

Q: Can American consumers keep spending? We can't predict the future, but the July retail sales figures from the Census Bureau are encouraging. Overall retail sales were up 0.5% in that month, more than double the increase economists widely forecast. There were notable monthly gains in auto and auto parts sales (+0.4%), electronics and appliance sales (+1.4%), clothing store sales (+0.5%), furniture sales (+0.5%) and online retail purchases (+0.9%). So we are seeing some good signals in terms of the more discretionary kinds of spending, in addition to the 0.5% July increases in spending on food and the 1.7% advance in retail gasoline sales. Factor in the pullback in gasoline prices we've seen recently, and consumers might have even more money for discretionary purchases in August.[7]

Regardless of the near-term answers, exiting stocks might not be wise. While past performance says nothing of future results, a newly released Fidelity study really illustrates the merits of perseverance. Fidelity looked at 7.1 million 401(k) accounts within its employer-sponsored retirement savings plans to compare returns for investors between October 1, 2008 and July 1, 2011. It found that plan participants who set equity allocations to 0% sometime between October 1, 2008 and March 31, 2009 have seen account balances increase an average of 2% since that decision, while investors who simply left asset allocations in stocks unchanged during those 6 months saw their account balances rise by an average of 50%.[8]

Many market bears thought it would take years for Wall Street to recover from that downturn, and some thought the post-Lehman "new normal" would be a Dow in the 8000s – or the 4000s. Then the gloom lifted, earnings and indicators improved and stocks took off.

There's an old saying that you don't want to miss the best market days. While there's no telling if those days are weeks, months or years away, investors who stay in stocks have a chance to capture their potential.

Citations.

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Social Security Update

The Social Security Administration (SSA) recently announced that they will no longer be mailing hardcopy statements to workers under their new policy. Prior to April of this year individuals age 25 and over not already receiving benefits from the program were mailed an annual statement a few weeks before their birthday. The statement summarized earnings on which the Social Security taxes had been paid as well as an estimation of benefits that the individual could receive in the event of retirement, disability or death.

In the absence of these statements, workers will need to access the **SSA Retirement Estimator** at http://www.ssa.gov/estimator/ to review contributions and project potential benefits under the program.

To learn more about this change or about Social Security benefits in general contact The Prosperity Consulting Group, LLC at info@prosperityconsult.com or call 410-363-7211.

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