PARTNERS
WEALTH MANAGEMENT
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(630) 778-8088/info@partnerswealth.com

How Economic Myths Distort Investment Outlook

Investors and analysts alike look to economic conditions and trends for clues to the direction of prices for stocks, commodities, and other investments. Often enough, however, what we think we can learn from the economy and what it actually tells us are two different things. Consider these widely accepted "truths" that turn out, on closer inspection, to be false.

High unemployment is a drag on the economy and the stock market. For people who can't find a job, high unemployment rates are a source of pain and anguish. However, for investors the jobless rate is one of the most misleading economic factors. That's because unemployment is a lagging indicator when it comes to economic recovery.

After the recessions of 1990-1991 and 2001-2002, unemployment remained high for 15 months and 19 months, respectively, after the economy got back on track. That means if you wait to jump back into the stock market until jobs come back, you can miss out on rising returns by two years and more.

Manufacturing jobs pay more than service or public sector jobs. When jobs start to come back after recessionary periods, critics often say too many are low-paying "service industry" jobs. They lament the long-term erosion of manufacturing jobs, which supposedly offer higher wages.

However, a check of payroll data at the U.S. Bureau of Labor Statistics gives the lie to this belief. Manufacturing workers rank sixth among the 10 basic categories of "private industry" workers, behind information, educational services, financial activities, "transportation and warehousing," and "professional and business." Bringing up the rear are workers in wholesale trade, "health care and social," retail trade, and "leisure and hospitality."

Americans are tapped out. We spent all our money in the run-up to the global economic crash, failed to save for a rainy day, and now are out of work or working fewer hours. That may be the common perception, but data from the U.S. Bureau of Economic Analysis shows that Americans' disposable personal income and personal spending are near record levels, while savings have rebounded. In fact, consumer liquidity (cash, checking, savings, and retail money market funds) is near a record, totaling 75% of annual personal income.

Core inflation isn't an accurate measure because it leaves out food and energy prices. The government says inflation remains low, yet we all see our

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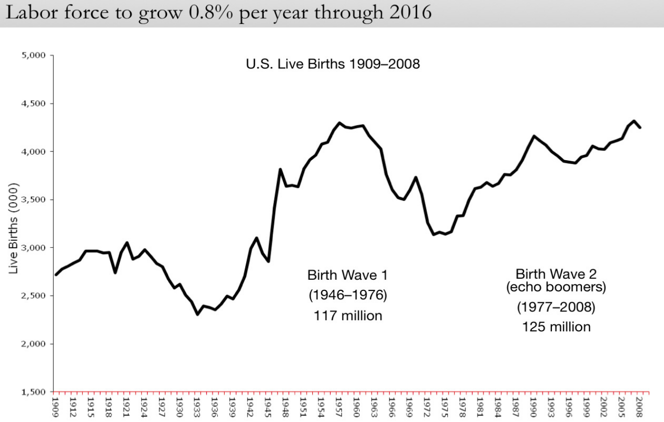
Economic Data

GDP Growth Potential = Δ Productivity + Δ Labor Force

Labor force to grow 0.8% per year through 2016



Sources: 1909 to 2004: U.S. Census Bureau, 2007 Statistical Abstract; 2005 to 2007: U.S. Department of Health and Human Services, National Center for Health Statistics; 2008: Bureau of Labor Statistics.

Celebrating 20 Years Of Service, Looking to the Future

This fall Partners Wealth Management celebrates our 20th anniversary of providing innovative, strategic and comprehensive wealth management services to our clients. We are committed to giving our clients access to the newest analytical tools for preparing and maintaining wealth management programs, implementing the latest in paperless technology to simplify the process of monitoring your portfolio and adding cutting edge security measures to protect your information.

Over the years each of you, whom we have had the opportunity to service, has become part of our business family. We thank you for sharing our journey, and for allowing us to assist you attain the financial goals that are important to you.

Partners Wealth Management wishes you a wonderful holiday season and a prosperous 2012...and as always, CLIENT SATISFACTION IS OUR COMMITTMENT TO YOU.

John

Correction Creates Buying Opportunity

The stock market's midsummer swoon took investors on a harrowing ride, culminating in several days of triple-digit losses, a few days of triple-digit gains and an overall performance that, in the process, pushed the Dow Jones Industrial Average into negative territory for the year. The reasons behind the downturn were many, but largely focused on the following:

- Washington legislators lack of unity sorely worried investors. Congress and the administration argued and dithered for weeks before finding an eleventh-hour, short-term fix to the nation's deepening long-term debt woes.
- Rating agency Standard & Poor's responded by downgrading U.S. government debt (from AAA to AA+) for the first time in history.
- And much of the economic data released in the days before the market's roller coaster ride not only reinforced the fact that the current recovery is feeble but also fed fears that a double-dip recession could be on the horizon.

While investors of all stripes endured paper losses amid the downturn, the decline gave rise to good news for those with cash in reserve and a long-term investment horizon of five years or more. Stocks, as represented by the Standard & Poor's 500 index, are now selling at levels not seen since the market meltdown in the autumn of 2008. What's more, dividend yields on the shares of many high-quality, well-established corporations now compare favorably to the scant yields on 10-year Treasury securities.

Whether you are investing for retirement or a child's college education, or you would simply like to build wealth for an undetermined long-term goal, market downturns of this magnitude create investment opportunities to purchase stock at prices that are typically available only once every few years, though past performance is no guarantee of future success.

Indeed, there's no near-term guarantee that the summer market troubles won't continue into 2012. After all, Washington politicians have yet to find a solution to the damaging debt crisis, another downgrade of U.S. government credit by S&P or another ratings agency remains a possibility (though at this juncture seems unlikely), and few seasoned market observers believe the country's economic troubles will reverse course soon. Unemployment remains very high and consumer confidence is shaky.

The best advice now may be to revisit your investing plan and overall strategy to identify opportunities that have emerged that could help you achieve your long-range objectives. If the market downturn has been unsettling for you—as it has been for almost everyone—we could also revisit the risk exposure in your portfolio to ensure that it fits your personal comfort level. ●

Take Advantage Of Fed's Low-Rate Pledge

How does the Federal Reserve's pledge to keep interest rates at historic lows for at least two more years affect investors?

It's not good news for retirees or savers, who tend to have a significant portion of assets in low-yielding money market accounts or certificates of deposits. The Fed's announcement means these investors won't see a boost to their interest income any time soon.

Yet depending on your life situation and time horizon, there may be ways to take advantage of the knowledge that interest rates will remain at rock bottom until 2013. We can work with you to explore ideas that fit your individual goals. Here are some things that may be affected.

Mortgages and mortgage-based securities. Falling mortgage rates make this a great time to get a new home loan or refinance your existing mortgage at a lower rate. Meanwhile, the prices of U.S. mortgage-backed securities are soaring, because REITs, banks, and other entities that finance higher-yielding assets can rest assured that low rates will keep volatility in check. Funds that invest in such assets and institutions stand to gain.

Treasury bonds. Many analysts believe the Fed's policies will lead to rising inflation and a weaker U.S. dollar, which can hurt bond prices. But investing in funds that rise when Treasuries fall can provide downside protection.

Foreign currencies. Similarly, investors concerned that the U.S. dollar will continue to lose value against other currencies can invest in funds that benefit from a falling greenback. Another strategy is to buy a basket of foreign currencies.

U.S. exporting companies. As emerging-market nations continue to develop their infrastructure and consumer economies, U.S. companies that export goods and services to them

Physician: Heal Your Retirement Plan

If you're a physician, you went through a lot to become successful. There were all those years of medical school and training followed by important decisions about how and where to practice. But now that you've established yourself financially, there's something else you still have to do. Looking ahead to retirement means making choices about how you'll get there and creating a financial plan that can provide a sensible roadmap to your future life.

For many people in the thick of a satisfying career, retirement planning can seem like just one more chore. You have a good income now, and it may be difficult to imagine that it won't always be like this. But taking the time to project the likely outcome of your current retirement saving and investing—and making adjustments if you're not comfortable with your result—could hardly be more crucial.

Consider the hypothetical example of George and Maria Frazier, who live in California. At the beginning of 2011, George, a physician, is age 55, while Maria is 50. George earns \$300,000 a year from his medical practice while Maria works as a volunteer and doesn't have any current income. The couple's goal is to retire when George reaches age 65, and they have established retirement planning as the top priority of their financial plan.

George has \$1 million in a simplified employee pension (SEP) plan that he created when he started his practice. He anticipates contributing at least \$10,000 a year to the SEP for the next 10 years, until he retires. He also has a traditional IRA with assets worth \$200,000 on January 1. George no longer contributes to the IRA, so future growth will depend on how the plan's investments perform. George is a conservative investor, more concerned with preserving wealth than with achieving strong returns, and he keeps half of the money in his retirement plans in cash and cash-equivalents, 25% in large-cap value stocks, and 25% in large-cap growth stocks.

The Fraziers own their home, currently worth \$750,000, free and clear. George also owns unencumbered real estate valued at \$500,000. For simplicity and strictly for the purposes of this example, we will disregard any other personal investments and assets owned jointly or by Maria alone, their projected Social Security benefits, any expected inheritances, and George's ownership interest in his medical practice.

Using professional financial planning software, the Fraziers' financial advisor can calculate the likelihood that they'll achieve their main financial goals. The number crunching assumes they'll earn an average annual return of 7.46% on their investments and face an average inflation rate of 3%. Of course, their actual returns will vary according to how individual retirement plan investments perform.

Without any changes in the couple's financial plan, the software calculates the chances of success at less than 40%. This is based on total lifetime spending during the plan of \$5,079,600, projected to a life expectancy of age 90 for George and age 92 for Maria. When asked to "solve" their situation by projecting a success rate of 75%, the software produces a simple solution: The couple will achieve an acceptable result if George waits until age 67 to retire.

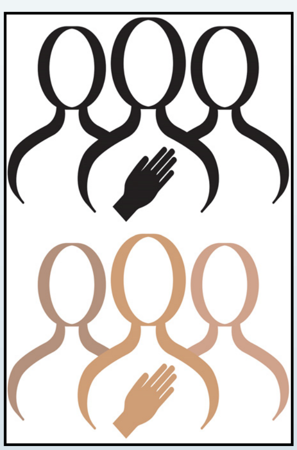
Naturally, this oversimplified example leaves aside many other kinds of adjustments a physician might need to make in a financial plan. The outcome could also be affected by changes in George's investment strategy, how much he contributes annually to his retirement plans, and income he may receive from selling his medical practice or the couple's real estate. Taxes, inflation, and the possible impact of moving to another state during retirement are among other key factors not included here that could influence the outcome of the Fraziers' plan.

What's more important than those hypothetical details is the whole idea of taking stock of your financial situation while there's still time to make adjustments. Though retirement savings may be a principal goal, you're probably also thinking about how to pay for your children's education and fulfill your philanthropic commitments. You can factor in such variables as the timing of various outlays, how much investment risk you're comfortable taking, and what other resources or liabilities you may have.

We can help you weigh all of these factors in establishing a financial plan that can move you toward the kind of future you want. The time you take now to sort out your priorities and preferences will pay enormous dividends down the road. ●

stand to gain. We can help you find companies that export everything from consumer goods to construction and utility machinery.

Emerging market stocks. Many mutual funds and exchange-traded funds now offer exposure to stocks of companies in the developing world, where growth is continuing. Because the Fed's rate announcement reflected its belief that the U.S. economic recovery has slowed, it might make sense to shift some investment assets to growing areas of the world such as China and Brazil.



Your business. If you are a business owner, now may be an opportune time to consider expansion or other investments. Knowing that loan rates will remain low helps you plan for the future.

Consumer purchases. The federal funds rate directly affects interest rates on most credit cards, so as a consumer you can expect rates to remain stable during the next two years. That could make this a good time for purchasing furniture, a vehicle, or other big-ticket items. ●

Children In College Need A Health Proxy

Have you just sent your child off to college for the first time? For your offspring, this marks a new, exciting chapter in life. But your child will also face new challenges and perils, and it makes sense to take precautions, such as obtaining a "health care proxy" (also known as a "health care power of attorney") for your son or daughter. This document will give you access to your child's medical history and enable you to make health care decisions in the case of a serious illness or injury.

Although health care proxies are frequently used for elderly relatives, the same basic premise applies to a child in college. Once your child turns age 18, he or she is treated as an adult for legal purposes. Under the Health Insurance Portability and Accountability Act of 1996 (HIPAA), your child is entitled to full confidentiality unless you have a health care proxy. Without a proxy, you might not even learn of a child's health problem at school or receive information about the child's health status.

The health care proxy is a legally binding document appointing someone—usually another family member such as a parent—to make health care decisions for an individual if he or she is temporarily or permanently incapable of making those decisions. It's a narrow power of attorney that gives authority to the designated party and allows you to take action on behalf of your child.

Of course, you can't execute a health care proxy unilaterally. Your son or daughter will need to sign the document, thus giving up his or her right to complete medical privacy. But you can reassure children that you'll have access to information about them only under very specific circumstances. A health care provider may discuss only the immediate medical condition, and only when prompt attention is needed for someone who is incapacitated. Very likely your kids will see the wisdom of having a health care proxy and may even be surprised to learn that otherwise you would have no say about their care even in life-threatening situations.

Once the proxy has been signed and notarized, you'll need to make sure that everyone who might be involved in a child's care knows that it exists. Give a copy to your child's college health service as well as to physicians and hospitals in your town from whom your son or daughter might receive care. If your child has a car, you could put a copy of the proxy in the glove compartment, and you might want to give copies to close friends or roommates.

To get a form for the proxy, check online or with your physician or attorney. You can also file a HIPAA release form that gives you additional access to information about your child's health. ●

Myths Distort Outlook

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grocery and gasoline bills rising. Because the government's "core inflation" measure leaves aside food and energy prices (because they are volatile), critics consider the core inflation rate a bogus indicator.

But food and energy together make up just 13% of total personal expenditures, trailing housing/utilities and health care, and so not counting those outlays may still result in a relatively accurate assessment of where consumer prices are headed. Also, housing/utilities and health care costs have increased far more than food and energy costs since 1980.

Productivity is on a long downward slide because of the aging of the U.S. work force. The oldest baby boomers hit retirement age in 2011, and millions of workers will leave the work force during the coming years. But there is an even larger group right behind the boomers that will more than replace them. People born between 1977 and 2008, known as "echo boomers," account for 125 million Americans and outnumber the 117 million baby boomers.

As a result, the U.S. Bureau of Labor Statistics estimates the nation's gross domestic product should grow 2.5% to 3% a year during the next 30 years. GDP drives corporate earnings, which in turn drive the stock market.

Demographic trends also favor the U.S. on the global stage. The only country expected to see higher growth rates in the population aged 15 to 64 between now and 2050 is India, according to United Nations projections.

Social Security will bankrupt the nation as the baby boomers age. The specter of bankruptcy hovering over the nation's Social Security system is exaggerated, according to Congressional Budget Office projections. The CBO forecasts that Social Security spending will actually decrease as a percentage of GDP during the next seven decades, because the "echo boomers" will be paying into the system.

The real threats lie in rising costs for Medicare and Medicaid and a coming explosion in the cost of paying interest on the federal deficit, according to CBO projections.

So the next time you hear a piece of received wisdom concerning the economy, stop and think twice. And please call our office if you want to discuss economic trends and how they might affect your investments. ●