February 2013 | Vol. 3 No. 2 | "Morningstar's Best Client Newsletter" in 2012

What's the Number?

- Each year the Employee Benefit Research Institute releases the results of its survey of workers and retirees.
- The numbers are striking--most are financially ill-prepared for retirement and the trends are not improving.

"The 2012 Retirement Confidence Survey: Job Insecurity, Debt Weigh on Retirement Confidence, Savings," published by the Employee Benefit Research Institute in March 2012, includes the following highlights.

1) Only 14% of Americans are very confident they will have enough money to live comfortably in retirement. 42% of Americans identify job uncertainty as the most pressing financial issue facing Americans today.

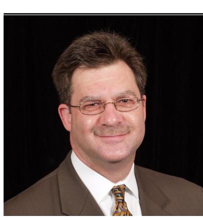
2) 60% of workers report that the total value of their household's savings and investments, excluding the value of their primary home and any defined benefit plans, is less than $25,000.

3) 37% of workers in 2012 said they expected to retire after age 65, up from 11% in 1991. 62% of workers and 37% of retirees consider their current level of debt to be a problem.

4) 56% of workers report they and/or their spouse have not tried to calculate how much money they will need to have saved by the time they retire so that they can live comfortably in retirement.

5) 16% of workers and 11% of retirees are very confident that their investments will grow in value. But 67% of workers state that they are a little or a lot behind schedule when asked to evaluate their progress in planning and saving for retirement.

6) 24% of retirees are very confident about having enough money to cover medical expenses in retirement, and 18% of retirees are very confident about having enough money to pay for long-term care in retirement.



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More about COMPASS Wealth Management, LLC

COMPASS Wealth Management, LLC is a client-focused wealth management firm dedicated to providing superior advice to individuals, families, and corporate retirement plans.

Our wealth management services include investment management, retirement and gift planning, education funding, and other advisory services.

We take pride in offering you expert financial advice along with personalized service. Assisting you in reaching your financial goals is our business and we take that responsibility very seriously.

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Quick Facts: Credit Cards

1. According to the 2012 Federal Reserve Bank of New York's Quarterly Report on Household Debt and Credit, the total balance of credit cards in the United States was $672 billion as of June 2012. This is the third largest debt type for Americans, preceded by mortgages and student loans.

2. According to the 2009 Survey of Consumer Payment Choice by the Federal Reserve Bank of Boston, 72.2% of consumers have a credit card, the average credit card user holds 3.7 cards, and 56% of credit card holders maintain a monthly balance.

3. College students are carrying particularly high credit card balances. A 2009 study by Sallie Mae, "How Undergraduate Students Use Credit Cards," noted the average credit card balance for undergraduates in 2009 was $3,173, with only 18% regularly paying off all credit cards each month. Seniors graduated with an average credit card debt of more than $4,100 and close to one-fifth of seniors carried balances greater than $7,000.

4. FINRA's 2009 report, "Financial Capability in the United States," notes that a staggering 36% of credit card users don't know their interest rates.

5. According to the Federal Reserve's G.19 report on consumer credit, the average interest rate on all credit cards as of June 30, 2012 was 12.06%.

6. Morningstar's research* suggests that an investor who first pays off a credit card and then saves for retirement, versus just making the minimum credit card payment, can potentially increase his or her 401(k) balance at retirement by 14.1%.

*Source: "Saving For Retirement? Start by Paying Off Your Credit Cards," Morningstar white paper by David Blanchett, Head of Retirement Research, August 2012.

Saving for an Emergency

According to a recent survey conducted by Bankrate.com, 28% of Americans have no emergency fund, up from 24% a year ago. About 49% of people surveyed said they had no emergency savings or less than three months' expenses.

The traditional prescription for life's financial emergencies is to hold three to six months' worth of living expenses in cash. Only 25% of those surveyed said they had enough to cover six months' or more of expenses. In a low-yielding environment, many are concerned that keeping aside six months' of emergency savings is a lot of money to have sitting in the bank earning next to nothing. While this is a valid concern, customizing your emergency fund to fit your personal situation may serve as a viable solution.

Consider holding a larger emergency fund (six months to a year) if you have a high paying job, are self-employed, work on a freelance/contract basis, have dependents, have a nonworking spouse, have high fixed expenses (mortgage, auto loan, tuition bills), or have a pre-existing medical condition that could result in hefty health-care bills if you were forced to purchase private health insurance. On the flip side, you may be able to get by with a smaller emergency fund if you:

1. Have a good degree of career flexibility because you are in a lower-paying position and/or haven't yet developed a specialized career path.

2. Have other sources of income that could help defray a large share of household expenses, such as a working spouse.

3. Have a great degree of lifestyle flexibility (for example, you would be willing to relocate).

Source: Bankrate.com Financial Security Index survey, June 25, 2012.

Monthly Market Commentary

January saw a mixed bag of economic news for both bulls and bears to feast on—negative GDP report, positive employment adjustments, and a good long-term housing trend overshadowed by inventory shortages of homes, new or used, in the short-term. Morningstar economists believe that the market's positive reaction to the seemingly bearish but actually bullish GDP report was the correct interpretation. However, bad weather, the bad GDP report, the temporary shortage of home inventories, and the increased payroll tax and tax refund delays will likely weigh on upcoming economic reports.

GDP: The first estimate of GDP indicated that the economy shrank 0.1% in the fourth quarter of 2012, compared with growth of 3.1% in the third quarter. Consumption, business investment, and housing components of GDP all did better than expected, while government and inventories were the main detractors. While the negative GDP number was shocking, closer examination suggested that government bill payers and overly cautious businesses were largely to blame for an otherwise excellent report.

Employment: January employment grew at a satisfactory pace, with 157,000 jobs added. More importantly, significant annual revisions showed exceptionally strong employment growth in the fourth quarter of 2012. Construction and retail were standout performers after the adjustments, while most other categories did not show meaningful changes. Employment growth for the whole of 2012 averaged 181,000 per month, up from 153,000 per month prior to the upward revisions. Unfortunately, the U.S. economy has still only just recovered 5.5 million of the 8.7 million jobs lost during the recession. The unemployment rate in January inched upwards to 7.9% from 7.8% the month before.

Housing: Housing starts soared in December, coming in at 954,000 units compared with just 851,000 units the previous month. The good news is the growth was geographically dispersed and included nice improvements in both single-family homes and apartments; the bad news is that current housing starts are still well below 50-year averages (about 1.5 million units). On the other hand, new-home sales in December came in at 369,000 units sold compared with the recovery record of 398,000 in November. In case you were wondering why there is such a huge variance between housing starts and new-home sales, the biggest difference is that new-home sales only reflect single-family homes while housing starts include a range of single-family homes to giant multifamily apartment buildings. Since the bottom of the housing crash, non-single family home starts have more than quadrupled, while single-family starts were up an impressive but more modest 66%.

Manufacturing: Although U.S. manufacturing isn't generally important enough to move the economic needle at this stage of the recovery, news in the last week of January was surprisingly and uniformly positive. Morningstar economists believe that given continued strong consumer purchases and improvements in China, a rebounding manufacturing sector should come as no surprise. However, the most recent GDP report does suggest that the manufacturers badly misgauged consumer demand in late 2012, and had shrunk inventories when they probably should have been expanding them. Outside the U.S., manufacturing in China and Europe has recently improved as well, with January's data indicating 24- and 10-month highs, respectively.

Auto: Excellent auto sales in January (15.28 million units) also proved to be encouraging news for the economy, with year-over-year sales up 14%. This number came very close to the highest month of 2012, which was November (15.5 million units), although November's number was aided by restocking after Hurricane Sandy.

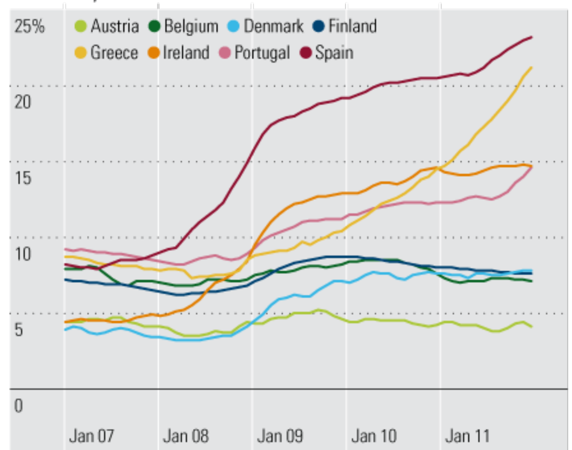
Unemployment Rates in the European Union

- Though the European debt crisis has apparently lost the media's attention, European political leaders still need to implement fiscal measures (i.e., spending cuts and/or tax increases) that voters will ultimately find distasteful.
- Just as in this country, politicians need to find the political will to make the necessary changes in order to return the European Union to a path of sustainable growth.

The ongoing European sovereign debt crisis has negatively impacted many European nations, with unemployment rates confirming the deteriorating market conditions in some of these countries. A look at unemployment rates for 8 countries in the European Union shows that over the last 5 years (based on data availability), many of these countries saw their unemployment rates rise. In 2007, all 8 countries had their unemployment rates under 10% but by the end of 2011, unemployment rates in Spain, Greece, Ireland, and Portugal were well over 10%. Spain and Greece were affected particularly hard, posting 23.2% and 21.2% unemployment rates, respectively.

As of November 2012, the U.S. unemployment rate was 7.7%. While by no means a healthy number, it appears that the U.S. job market still stands considerably better than several of these European countries analyzed.

Unemployment Rates in 8 EU Countries
January 2007–December 2011



Source: Unemployment data is from the Bureau of Labor Statistics, U.S. Department of Labor, International Labor Comparisons database. The European Union is a unique economic and political partnership between 27 European countries that together cover much of the continent.

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