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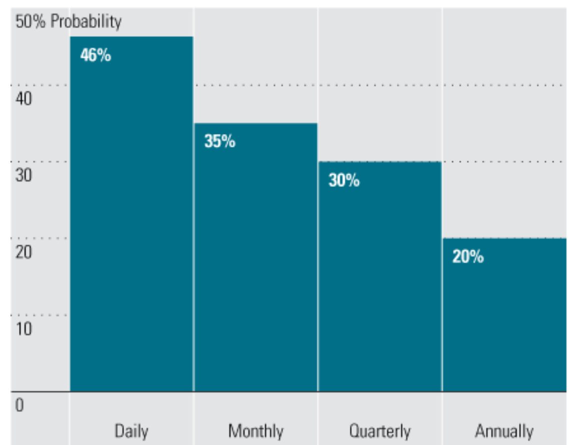
Short-Term Focus: Coping with Near-Term Fluctuations

Instant access to real-time quotes and media reports can make it difficult for investors with a long-term investment horizon to stay focused on their goals. In reality, these daily market movements may not be as extreme as they seem. As investors look longer term, their perception often changes. Short-term market fluctuations can be quite volatile, and the probability of realizing a loss within any given day is high. However, the likelihood of realizing a loss has historically decreased over longer holding periods. The image illustrates that while the probability of losing money on a daily basis over the past 20 years was 46%, the probability dropped dramatically when analyzing an annual time period—20%. Periodic review of an investment portfolio is necessary, but investors shouldn't let short-term swings affect their view of the future.

Probability of losing money in the market 1991–2010



Source: Stocks are represented by the Standard & Poor's 500®, which is an unmanaged group of securities and considered to be representative of the stock market in general. An investment cannot be made directly in an index. Returns and principal invested in stocks are not guaranteed. Probability of loss is calculated as the number of negative periods divided by the number of total periods using the specified frequency of data.

Advisor Corner

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

As an objective and independent fee-only wealth manager, my sole interest is to ensure my recommendations meet your financial goals.

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.

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COMPASS Wealth Management

MORNINGSTAR

The Price of Education

- The cost of a college education continues to increase at a rate roughly twice that of general inflation.
- Fortunately, parents and grandparents can save for a child's future college expenses with a Section 529 plan, which allows for tax-free growth of their contributions.

While it is often stated that a college education is priceless, the reality is that costs continue to rise each year. The good news is that many sources of financial aid are available to students and their families. For example, during the 2010–2011 academic year, $227.2 billion in financial aid was distributed to undergraduate and graduate students in the form of grants from all different sources (see footnote). Moreover, there are plenty of savings vehicles that can be utilized.

The table illustrates the trends in college pricing for the 2011–2012 academic year, according to the College Board's Trends in College Pricing. When compared with the prior year, the various fees are up at least 4.4%, with a high of 8.3% (tuition and fees only). It appears that the rate of growth in tuition and fees has been more rapid at public four-year institutions than at private four-year institutions.

These costs might seem somewhat alarming to most people (especially to those parents who have put off saving and planning for their children's college). But about 44% of students who are enrolled at four-year colleges or universities attend institutions that charge tuition and fees of less than $9,000 per year. When taking into account only public four-year colleges and universities, this number climbs to 61%. While private four-year institutions have a much wider range of tuition and fee charges, only about 11% of all students attended colleges (public and private) with tuition and fees totaling $33,000 or higher per year.

In any case, it would be wise for parents to start saving for college as soon as possible and to assume children will attend a private four-year institution (assume "the worst"). If they receive grants and/or scholarships or decide to opt for a more affordable option, think of all the fun things you can do with the excess cash! There is an array of college-savings options available, and many offer tax-deferred growth and tax-free withdrawals (when used for qualified higher-education expenses). Some of the more popular plans include 529 plans and Coverdell Education Savings Accounts (ESA). There are contribution limits to the various plans, and plenty from which to choose, so it would be wise to consult with your financial advisor to see what is right for you.

As with any goal, whether you are saving for retirement or a vacation home, the key is to start saving early (don't wait until your child is born), and save often. While it's easy to procrastinate when it comes to initiating a long-term college savings plan, the sooner you begin, the more likely it is that the plan will succeed. By starting early, you are taking advantage of the power of compounding and, in this case, time can be your best friend.

Trends in College Pricing: 2011–2012 Academic Year

Type of college/ university	Tuition & fees	% change vs. prior year	Including room & board	% change vs. prior year
Public 4-year (in-state student)	$8,244	8.3%	$17,131	6.0%
Public 4-year (out-of-state student)	$20,770	5.7%	$29,657	5.2%
Private 4-year (nonprofit)	$28,500	4.5%	$38,589	4.4%

Source: College Board's Trends in College Pricing, 2011.

[1] College Board's Trends in Student Aid, 2011.

Economic Outlook for 2012

- Though economic growth in the U.S. has been subpar, Europe continues to struggle with its heavy debt burden and a deceleration in economic growth.
- The emerging market economies are growing at a rate 2 - 3 times even the U.S. growth rate, though this is a bit slower than they had been growing.

The U.S. economy grew in 2011, but at a slower rate than everyone expected. Even more surprising than the overall growth rate was the pattern of that growth rate throughout the year. Growth plunged to 0.4% in the first quarter and accelerated throughout the year, with the fourth quarter now likely to produce annualized growth well in excess of 3%.

More Upside than Downside (Though the Downside Is Scary): Morningstar economists' overall forecast for 2012 sees slightly higher growth than the consensus of other economists, but not by a lot. However, the odds of an upside surprise are substantially higher than those of a downside surprise. Potential sources of an upside surprise include increased U.S. oil production, a sharper rebound in automotive and aircraft production, and a stronger housing market.

Corporations Are Scared Even as Consumers Accelerate Spending: It looks like U.S. corporate managers are far more scared about Europe and the economy in general than the U.S. consumer is. Recent reports seem to suggest at least some precautionary spending cuts by corporations in the software arena. Managers also seem to be paring inventories to the bone. However, it appears that U.S. consumers are accelerating spending; they seem to be "thrifted out" and can no longer delay certain purchases, especially autos. This leads Morningstar economists to predict greater production both in the U.S. and in other world economies that export to the U.S. in 2012.

Europe Remains at the Top of the Worry List: The main concern here is the potential of the European sovereign debt crisis to wreak havoc on the worldwide financial system. U.S. exports to Europe represent just 3% of U.S. GDP, and a lot of that is for basic necessities that can't be bought elsewhere. However, with a web of lending in which European banks lend to sovereign governments, and those governments lend the money back to the undercapitalized banks, the failure of any one link could bring down a healthy chunk of the European banking system.

China Slowing Is an Issue for Some, but Potentially Good News for the U.S.: China certainly remains an issue, too, as growth there slows modestly and the construction industry pulls back from its breakneck pace. Slowing there is bad news for a lot of high-profile capital goods manufacturers in the U.S but, overall, China is an even smaller part of U.S. GDP than Europe. Furthermore, slowing growth in China could mean significantly lower commodity prices, especially in the U.S., which would be good news for low-end U.S. consumers, who were particularly crippled by rising commodity prices in 2011.

A Savvy Consumer May Limit Profit Growth: Corporate margins could begin to shrink in the future as consumers start to gain the upper hand. Consumers are fighting every price increase tooth and nail, with the possible exception of the very high end of the market. The most recent example comes in the banking industry, where a pushback by consumers forced several major banks to cancel proposed increases in debit card fees.

Europe Will Hurt Big Firms More Than U.S. GDP: Although U.S. GDP growth may escape the worst of the effect of a slowing Europe, U.S. multinationals may not. Many of these firms derive 20%-40% of their revenues from Europe. Since many of those goods are produced in Europe or in other non-U.S. markets, they are not counted in the U.S. GDP calculations, and they don't directly add to U.S. employment. Therefore, a weak Europe could significantly affect U.S. companies even if it doesn't make a dent in the U.S. GDP growth rate.

Looking forward to 2012, the U.S. economy is probably better positioned than most of the rest of the world economies, showing accelerating growth even as Europe falls into a recession and as growth in Asian economies slows to a more modest pace.

Employer-Sponsored Retirement Contribution Limits

By Louis E. Conrad II

- For 2012, the maximum contribution to employer-sponsored retirement accounts has increased by $500, though the maximum contribution to SIMPLE IRAs is unchanged.
- Contributions to employer-sponsored accounts allow you to save for your retirement, usually on a pre-tax basis, thereby lowering the taxes you pay.

The arrival of a new year has brought some changes to the contribution limits of employer-sponsored retirement accounts. This month we review the latest provisions.

The amount that you may contribute to an employer-sponsored retirement account has increased slightly for 2012. For 401(k), 403(b), and 457 plans, offered by corporate, non-profit, and government employers, respectively, the maximum you may contribute via payroll deduction to such plans has increased by $500 to $17,000 annually. The increase is due to the cost-of-living index, which met the statutory threshold that allows for an adjustment in the maximum contribution level. This is the first increase since 2009.

If you will be 50 years of age or older by December 31, 2012, you may contribute an additional $5,500 in 2012 (also known as the "catch-up" provision), though this amount is unchanged from last year. Consequently, if you will be at least 50 years of age during 2012, you may contribute a total of $22,500 to an employer-sponsored retirement account. Contributions to your employer-sponsored retirement account, when made on a pre-tax basis, have the benefit of lowering your taxable income (and thus your taxes), as well as assisting in saving for your retirement.

For those with SIMPLE IRAs, the maximum annual contribution remains unchanged at $11,500, as does the "catch-up" provision of an additional $2,500 for those individuals over 50.

If you have not yet retired and have sufficient cash flow, consider increasing your retirement contributions in order to be better prepared financially for your retirement. You may also reduce the taxes you would otherwise pay.

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