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Wealth Management Update

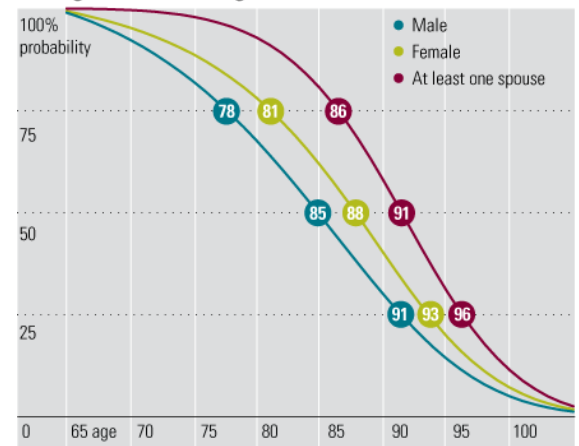
Bittersweet

The Merriam-Webster Dictionary defines bittersweet as something that is pleasant alloyed with pain. This could also be associated with retirement. The sweet part is that people are living longer thanks to innovations in healthcare. The bitter reality is that when people live longer they risk outliving their assets.

Longevity risk is the possibility of outliving one's retirement savings. While longevity is generally a good thing, the risks associated with it are becoming a major concern for individuals entering retirement.

Luckily, longevity risk can be managed through proper planning and products. To plan properly, consider when you would like to retire, the number of years you anticipate in retirement, and your desired income level.

Probability of a 65-Year-Old Living to Various Ages



Source: Annuity 2000 Mortality Tables—Transactions, Society of Actuaries, 1995–1996 Reports.



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Advisor Corner

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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Monthly Market Commentary

- ▶ Since its late April high, the U.S. stock market has declined approximately 8% reflecting a deceleration in economic growth and lingering concerns over Greece's debt.
- ▶ Though there are always risks, COMPASS believes the U.S. stock market is nearing the end of its current correction and is poised for an upturn as economic growth reaccelerates in the second half of this year.

The month of May saw a barrage of disappointing economic reports one after the other. As the end of the second quarter approaches, long-term interest rates have fallen while international fears have risen. Earlier this month, Greece's credit rating was downgraded once again because of ongoing concerns regarding austerity measures and debt rescheduling possibilities. Japanese auto production has also plunged 60% since the earthquake and tsunami—731,000 units were produced in April 2010, while only 292,000 units were produced in April 2011.

GDP: The first-quarter GDP remained unrevised at 1.8%, despite expectations of an upward revision because of strong retail sales growth in February. While several retail categories were revised upward, the combination of gasoline sales, auto sales, and utility usage being revised downwards roughly offsets the retail revisions. On a brighter note, falling gasoline and utility sales means consumers are driving less as a result of higher prices rather than cutting back on other categories. In the months ahead, this could mean lesser oil imports, which in turn could potentially aid GDP growth. National gasoline prices dropped to \$3.78 a gallon recently, down from a high of \$3.98 but still dangerously higher than last year's \$2.78 a gallon.

Employment: Employment data was disappointing for the month of May. Businesses performed worse than expected as consumers pulled back due to rising gas prices and commodity price increases. Employment grew by a mere 54,000 compared with 241,000 during April, representing an annualized employment growth of 0.5%. Retail and leisure payroll categories accounted for the majority of this significant decline; retail added 78,000 jobs in April but only a dismal 3,000 in May, while leisure went from 30,000 jobs in April to negative 6,000 in May.

Unemployment: The unemployment rate crawled up slightly to 9.1% from 9.0%. Initial jobless claims fell 6,000 during the last week in May to

422,000. The four-week average of 425,000 compared well to the month-ago level of 432,250.

Housing: Housing prices continued to erode as the national purchasing managers' reports for manufacturers showed a major decline. The pending home sales report was a disappointment. Contract signings in April fell by 12% compared with March and fell 27% from last year's tax-credit-fueled period. One of the causes for this decline was severe weather conditions: The United States experienced the heaviest April precipitation level in 20 years. Tight lending remained another prevailing factor, dragging the numbers lower.

Manufacturing: The ISM Manufacturing Index dropped sharply, indicating that the manufacturing sector is still growing, but at a significantly slower pace compared with April. Morningstar's economists do not think that this was something unexpected. The Chicago regional report (announced the day before the ISM numbers were released) also gave strong indication of slowing growth.

Retail sales: The International Council of Shopping Centers report revealed that monthly retail sales increased 5.3% as luxury goods stores continued to display stellar results. The "Tale of Two Recoveries" continued, as high-end retailers such as Saks and Tiffany raised price points and outperformed the market respectively while on the other end of the spectrum, companies like Gap and Wal-mart continued to struggle. Morningstar economists expect real wages, measured by the Personal Consumption Expenditure Price Index, to move into negative territory for May; the number has been steadily declining since February.

Social Insecurity

- ▶ As this article indicates, current workers pay the benefits of current retirees. The boom/bust cycle of demographic trends can play havoc with a benefit system structured in this way.
- ▶ Unfortunately, we are entering a period where fewer workers are available to pay the benefits of the baby boomers.

All of us who work feel the bite that Social Security taxes take out of our paycheck. Most of us take comfort in the hope that when we retire, Social Security will be there, giving back all the money that we paid into the system over the course of our careers. Isn't that how it works?

Well, the short answer is no, it doesn't work that way. The Social Security taxes deducted from your paycheck are not sitting in a special account someplace, earmarked to be returned to you upon your retirement. Instead, the taxes you pay today are used to pay benefits to today's beneficiaries, just as when you retire, the benefits you receive will come from the taxes paid by people who are still working. This arrangement works as long as there are enough people sending in taxes; it doesn't work so well if the number of current workers per retiree is decreasing.

The baby boomer generation (those born between 1946 and 1964) have started to retire in 2010. This large group's retiring, coupled with increasing life expectancies and decreasing birth rates, means that the number of retirees will grow faster than the number of workers. As the graph illustrates, according to the Social Security Administration, the number of workers sending in Social Security taxes to pay each retiree's benefits has plummeted from 42 workers per beneficiary in 1945 to 2.9 in 2010. What is more is that this number is projected to go down even further to 2.1 workers per beneficiary by 2035. Since the ratio of workers to retirees is expected to continue declining, a shortfall in future Social Security funding is likely.

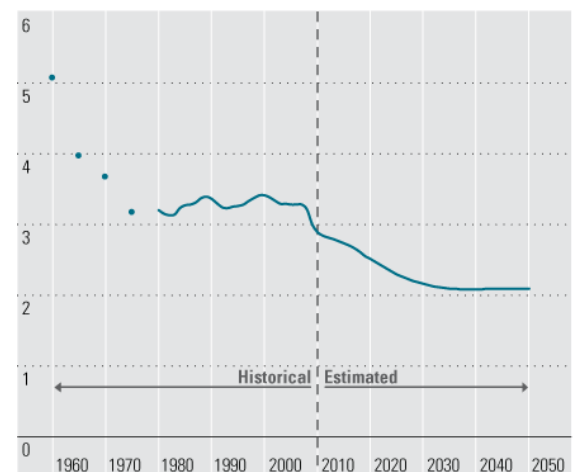
The trustees of the Social Security program estimate that benefits paid will exceed payroll taxes collected in 2010 and 2011, be less than payroll taxes collected in 2012 through 2014, then once again exceed tax income in 2015 and remain higher thereafter. Moreover, they are forecasting that the Social Security trust fund will be exhausted in 2037 unless changes are made.

What does all this mean for you? Well, that depends on how old you are and what changes the

United States government decides to implement. If you are nearing retirement, it is unlikely that your Social Security benefits will change dramatically. Younger workers, however, are more likely to see sweeping changes in the way Social Security works in the form of higher taxes, lower benefits, or a combination of the two.

Bear in mind that Social Security was never intended to provide Americans with all of the income they would need in retirement. Social Security is only one leg of a three-legged stool that also includes pension plans and personal savings. With concerns mounting over the stability of one leg of the stool, you need to take control of your retirement by investing in personal savings plans such as IRAs and 401(k)s.

Ratio of Workers to Beneficiary



Source: The 2010 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, August 2010, Social Security Administration.

Dangers of Market Timing

- ▶ As clients know, COMPASS has always been an opponent of market timing due to the reasons outlined here.

Two of the most dangerous words in the investing world are “market timing.” Market timing occurs when investors try to predict which direction the stock market will head. While some investors have been known to make money timing the market, it is highly inadvisable for long-term investors to try this extremely risky strategy. Opponents of Market Timing: Most investors and academics believe it is impossible to forecast market movements. Such a technique amounts to gambling when compared with a sound investment approach. It fails far more than it works, and market timers often end up buying high and selling low. Furthermore, you run the risk of missing periods of exceptional returns. For example, over the past 20 years, a \$1 investment in stocks, as represented by the Standard & Poor’s 500®, would have grown to \$5.75. If that same \$1 investment happened to miss the best 13 months of stock returns over the past 20 years, the ending value would have equaled only \$1.96. This would have been less than the value for an investor in a 30-day Treasury bill, a.k.a. cash, \$1.97. Only those who

remained invested in stocks throughout the entire period were sure to get market exposure during the crucial hot months.

Advocates of Market Timing: On the contrary, a number of websites, newsletters, and other trading services boast they can time the market. While their returns may have in fact beaten the market by a considerable margin, it’s safe to assume that these systems can’t consistently hold up over the long term. On some occasions and during some stretches of time, market timing can help generate impressive profits. However, you must be familiar with the dangers behind such an approach.

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