



# THE COMPASS CHRONICLE

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Wealth Management Update

## Stretching an IRA

Many retirees depend on their individual retirement accounts to fund living expenses during their golden years. However, there are retirees who find themselves in the enviable position of having no need to withdraw from their IRAs. If you are fortunate enough to be in this camp, or if you are fairly confident that you will have plenty of money left in your account when you leave this world (even after taking required distributions), you will want to make sure you preserve as much of your IRA assets as possible for future generations. You can accomplish this by implementing a stretch strategy.

The first step in setting up a stretch IRA strategy is to simply name one or more beneficiaries. If you are married, your spouse can serve as your primary beneficiary while your children or even grandchildren can serve as your secondary beneficiaries. You can also name others as beneficiaries, such as family members or friends. You worked hard to accumulate the funds in your IRA, be sure they are transferred properly.

When you pass on, providing certain conditions are met, each beneficiary who elects to go with a stretch strategy will have a range of options to choose from—depending upon your age at death (and whether or not you have begun to take required minimum distributions from the IRA) and whether a spousal or non-spousal beneficiary is involved. If you happen to be named a beneficiary and choose to implement a stretch strategy, be sure you know what comes next. In some cases you may be able to keep the assets growing on a tax-deferred basis while in other cases distributions will need to be taken soon. Because of the many rules, it is highly advisable that you speak with a financial advisor or tax professional when it comes to stretch strategies.

### 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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## Monthly Market Commentary

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July and early August saw mixed economic and earnings news along with a time-sensitive U.S. debt ceiling discussion and Standard & Poor's downgrade of U.S. government debt. Stronger international demand and a weaker dollar enabled some companies, such as IBM, McDonald's, and Apple, to announce better-than-expected earnings that left the market feeling positive. On the other hand, companies including Juniper, Terex, Ingersoll Rand, and Caterpillar all reported disappointing results. Much of the earnings disappointments happened because of a softer European market, a modestly slowing China, poor government spending, and poor results in the U.S. construction industry.

**GDP:** GDP grew sluggishly, at 1.3% for the second quarter, after being revised sharply downward to 0.4% from 1.9% in the first quarter. The depressed second-quarter growth rate was based on a multitude of factors including an abysmal consumer sector, a large gain in net exports, a rebound in defense spending, poor weather, high oil prices, and the continuing problems in Japan. A significant portion of the first-quarter GDP adjustment was related to inventories and a downward revision to net exports, which are not key drivers of economic growth. Consumption and business spending remained virtually unchanged from the previous GDP report, indicating that the unusually large revision may not be as scary as originally thought.

**Employment:** July, a month that was reasonably untouched by seasonal adjustment factors, saw a better than expected jobs report—117,000 jobs were added in July, a significant bump from June's 18,000 jobs added. With an improving auto industry and a stronger gas production industry, employment data indicated that the economy was still growing positively, albeit at a modest pace. The unemployment rate fell slightly, to 9.1% from 9.2%.

**Housing:** Prices and pending home sales both increased better than expected, while new home sales disappointed and remained depressed. Housing continued to disappoint both the bulls

and the bears; it failed to fully collapse, but it did not show any signs of an upward breakout.

According to Morningstar economists, if pricing stability can be maintained over the coming months, higher unit production may result in the near future, although today's housing market has been prone to disappoint at every turn.

**Durable goods:** Overall new orders for durables fell by 2.1% for June, although the main reasons were mainly weaknesses in transportation and machinery. When taking those out, June numbers looked positive. Most of the recent decline was caused by poor auto sales, which are closely related to the poor supply of Japanese autos, causing remaining auto inventories to increase in prices.

**Manufacturing:** The ISM Manufacturing Index fell in July as it was affected by the weakness in new orders. This should come as no surprise, since a fair number of manufacturers reported disappointing earnings and the auto industry was out of commission for a good part of the month. The extension of the U.S. debt ceiling may give manufacturing a boost for August.

**Domestic news:** However unthinkable a U.S. debt default may be, national borrowing has reached the \$14.3 trillion limit (or debt ceiling) this year. Since Congressional approval is required for the government to keep borrowing, President Obama and leaders of both parties announced an agreement on July 31 that would raise the debt ceiling by as much as \$2.4 trillion. This measure would enable the government to keep borrowing until 2013, but the downside is that it requires major spending cuts that are likely to slow down the already-weak economic recovery. On Aug. 5, U.S. debt was downgraded by Standard & Poor's to "AA+" from its coveted "AAA" credit rating for the first time in history. Reasons cited include increased political risk and rising public debt burden as challenges to sustaining an appropriate debt/GDP ratio in the next decade. Global markets fell as a result.

## U.S. Debt Ceiling and the Credit Downgrade

- ▶ Although I have written about the U.S. debt ceiling and the potential for a ratings downgrade on U.S. Treasuries previously, this article includes the market's reaction to these events.
- ▶ I continue to believe that the market has overly discounted a deceleration in economic growth in the U.S. Though I expect continued volatility from a market driven by news, rumors, and fear, I believe the U.S. economy will not "double-dip" into a new recession.
- ▶ Of course, frustration with Washington, DC and concern with Europe's debt levels do not instill confidence, which ultimately can impact how the economy and market perform.

The first week of August has seen unsettling domestic news that have all but shattered hopes of a sustained recovery. There is even talk of a new recession. Although the Aug. 5 employment report was positive (117,000 jobs added in July, unemployment rate at 9.1%), it was not enough to balance the effect of all the other disquieting events.

**Debt Ceiling:** However unthinkable a U.S. debt default may be, national borrowing has reached the \$14.3 trillion limit (or debt ceiling) this year. In response, President Obama and leaders of both parties announced (on July 31) and passed (on Aug. 2) a last-minute agreement that would raise the debt ceiling by as much as \$2.4 trillion. This measure would enable the government to keep borrowing until 2013, but it requires major spending cuts that may slow down the already-weak economic recovery.

Although expected to restore confidence in the markets, the signing had the opposite effect, mainly because it offered a short-term solution to avert the immediate crisis instead of a long-term plan to reduce future indebtedness. The proposed spending cuts have not been clearly identified or assigned to specific sections of the budget; instead, a bipartisan committee is supposed to make recommendations and submit them to Congress later this year. Markets fell in response to this uncertainty and the political gamesmanship that created it.

**Credit Downgrade:** On Aug. 5, U.S. debt was downgraded by Standard & Poor's to "AA+" from its coveted "AAA" credit rating for the first time in history. Reasons cited include increased political risk and rising public debt burden as challenges to sustaining an appropriate debt/GDP ratio in the next decade. The first reaction of the market to such news can be observed by looking at Treasuries; surprisingly, Treasury bond yields went down and prices went up. Lower bond yields, despite the downgrade, showed that investors still felt U.S. Treasuries were a safe

haven compared to riskier assets. Global equity markets, however, plummeted on Aug. 8, as the downgrade catalyzed a flight to safety because of ongoing concerns with the U.S. and global economy.

**Investing Insights:** Investors' portfolios may be looking pretty bleak in light of recent market volatility, with falling stock prices and dreadful returns. Panic selling, of course, is not a solution, but neither is sitting patiently and waiting for everything to go up again. In times like these, it is important to have a baseline amount of liquidity to cover near-term expenses, particularly for people who are retired. The next important step is to realign your long-term asset allocation according to your risk tolerance, and then, if you have some money left over and are thinking about putting it to work, an interesting idea would be to look for pockets of the market that appear undervalued right now.

U.S. Market Drops in Reaction to Debt News



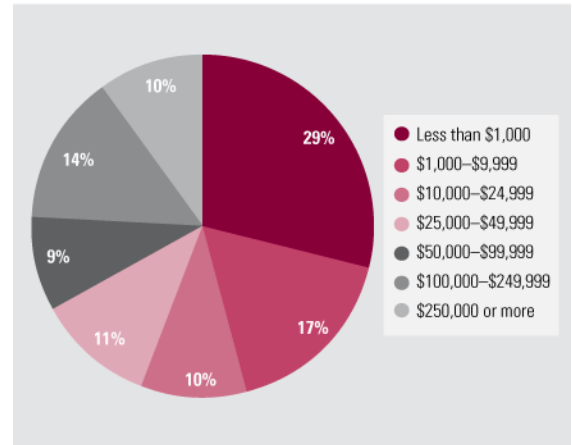
# Bleak Picture

- ▶ This article points to the serious lack of retirement savings in the U.S. The recent financial crisis of 2008 - 2009 and the current debt crisis aside, I believe another crisis facing many is a retirement savings crisis.
- ▶ Too many are inadequately prepared financially for retirement often due to (1) a lack of understanding how much needs to be saved or (2) a lack of financial flexibility to save sufficiently.

The Employee Benefit Research Institute (EBRI) is an organization founded in 1978 with the mission of encouraging and contributing to the development of sound employee-benefit programs. Every year, the EBRI publishes a retirement confidence survey. The 2011 survey interviewed 1,004 workers and 254 retirees in order to find out their confidence in being able to meet retirement financial goals.

Unfortunately, the survey results look pretty bleak this year. For example, as the image illustrates, 29% of workers report having saved less than \$1,000, and 17% report retirement savings in the \$1,000–\$9,999 range. Overall, more than half of workers have less than \$25,000 saved, at a time when people start questioning if \$1 million will be sufficient for a safe retirement. Take a minute and see if you recognize yourself in this picture.

Total Savings and Investments Reported by Workers



Source: EBRI 2011 Retirement Confidence Survey, No. 355, March 2011. Savings reported not including value of primary residence or defined-benefit plans. Percentages may not add up to 100% because of rounding.

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