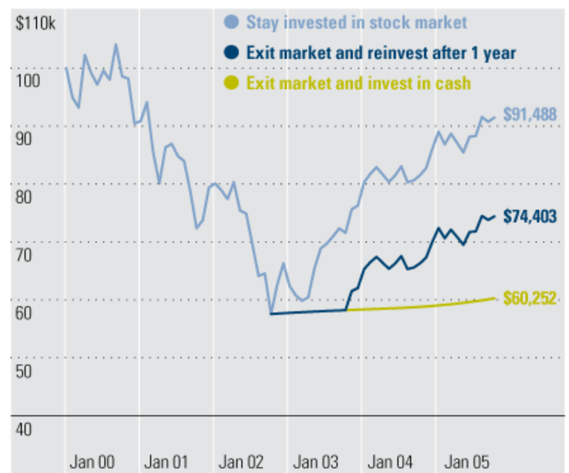
April 2012 | Vol. 2 No. 4 | Wealth Management Update

The Importance of Staying Invested

Investors who attempt to time the market run the risk of missing periods of positive returns. The image illustrates the value of a $100,000 investment in the stock market during 2000–2006, which included the bear market of 2001 and the recovery that followed. The value of the investment dropped to $57,537 by September 2002 (trough date). If an investor remained invested in the market over the next three years, however, the ending value would be $91,488. If an investor exited the market at the bottom to invest in cash for a year and then re-entered, the ending value would be $74,403. An all-cash investment would have yielded only $60,252. Even though the continuous stock-market investment did not recover its initial value after three years, it still provided a higher ending value than the other two strategies. Investors are well advised to stick with a long-term approach to investing.

Ending Wealth Values After a Market Decline



Source: The market is 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. Cash is represented by the 30-day U.S. Treasury bill. An investment cannot be made directly in an index. The data assumes reinvestment of income and does not account for taxes or transaction costs. Returns and principal invested in stocks are not guaranteed. Stocks have been more volatile than bonds or cash. Holding a portfolio of securities for the long term does not ensure a profitable outcome and investing in securities always involves risk of loss.

MORNINGSTAR

Louis E. Conrad II, CFA
President
lconrad@compassinvest.com
(978) 828-5681
www.compassinvest.com

Advisor Corner

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.

For details on the selection criteria used to determine the recipients of the 2012 FIVE STAR Wealth Manager award, please visit our web site.

If you would prefer NOT to receive future editions of The COMPASS Chronicle, please send an e-mail with "UNSUBSCRIBE" in the subject line and you will be removed from the distribution list.

Five Key Questions About Long-Term Care Insurance

- One of the largest risks to a retirement plan is the cost of long-term care. Any long-term care stay or home health needs of meaningful duration can dramatically sap your savings that you had set aside for retirement.
- Many should consider a long-term care insurance policy to reduce the risk that such expenses will wipe out their retirement savings.

In addition to typical medical expenses in retirement, you should also consider the cost of long-term care arrangements should you need professional care in your later years, either in-home or in an assisted living facility. There's a good chance you'll need assistance, and it won't be cheap.

According to the 2011 MetLife Market Survey of Nursing Home, Assisted Living, Adult Day Services, and Home Care Costs, the average annual cost for a private room at a nursing home in 2011 was $87,235. The national average for a semi-private room was $78,110. The national average for an individual living in an assisted living community was $41,724.

In most cases, long-term care health insurance coverage provides benefits for nursing homes, assisted living facilities, and home care. If you can afford the premiums, you may want to consider purchasing long-term care insurance. Here are some of the key questions to keep in mind.

How Likely Are You to Need It? This depends on your general health, family history, and expected longevity. For example, if your family has a history of serious medical conditions, dementia, or Alzheimer's disease, you may have a stronger reason to consider this type of insurance.

What's Your Asset Level? Those who come into retirement with less than $250,000 in assets will probably have better uses for their money than paying premiums for long-term care insurance; they may also be eligible for Medicaid if they should need long-term care. Those with more than $2 million in assets may be able to pay for this type of care out of pocket. If your portfolio falls in the middle of this range, however, you may be a good candidate for this type of coverage.

What Kind of Coverage Do You Need/Want? The key differentiator in the pricing of long-term care insurance policies is the amount of daily benefit you're buying; you'll obviously pay more for a policy that pays $150 of your long-term care costs per day versus one that pays just $100. You'll also be able to specify whether you'd like your daily benefit to step up with inflation; even though such a feature will cost you, it's highly advisable given that health-care inflation rates have been far outstripping inflation as a whole during the past few decades.

Another factor to evaluate is the total lifetime benefit. For example, a policy may cover $250,000 in lifetime long-term care benefits, or the lifetime benefit may be unlimited. Some policies are comprehensive, meaning the patient can obtain care in a variety of settings, from a traditional nursing home to care at home. Cheaper policies, however, will only pay for care in a traditional setting, usually a nursing home. Policy costs can also vary based on the length of your elimination period, which is similar in concept to an insurance deductible. If your policy has an elimination period of 30 days, for example, that means you'll have to pay for any long-term care costs you incur in the first 30 days of your illness; after that period has elapsed, your insurer will pick up all or part of the tab, up to your daily benefit amount.

How Would You Like to Pay for That? Under a traditional long-term care policy, you make regular payments during the life of that policy. But you can also customize your payment program, paying for your policy in a single payment, over 10 or 20 years, or until you hit age 65. Such payment options allow you to front-load your payments and reduce your fixed costs in retirement.

How Likely Is the Company to Pay? It probably is a good idea to check up on the insurer's financial strength. Also ask your agent about the insurer's history of raising client long-term care premiums. Although such maneuvers can improve a firm's financial health, they can also present a financial hardship to the insured, a lesson many long-term care policyholders learned the hard way during the past few years.

Monthly Market Commentary

- The U.S. economy continues to plod along, clearly outpacing Europe, which appears to be heading into a recession, but lagging the emerging markets, which continue to grow 2 - 3 times the U.S.
- The subdued level of U.S. growth continues to weigh on employment and the housing market.

Most of the economic news released during the past few weeks pointed toward slow but steady progress in the U.S. economy, despite some market volatility that was attributed to news out of the Federal Reserve. Markets rallied based on a Ben Bernanke speech that suggested the economy was not out of the woods yet and that quantitative easing remained an option if things worsened. Markets also collapsed on the release of the minutes from the Federal Reserve Open Market Committee, which indicated that the economy was stronger than the Fed had anticipated and offered no hints that more quantitative easing was being considered.

Employment: March saw a disappointing 120,000 jobs being added; the lower number was mainly a result of a large decline in private-sector retail jobs and the continued contraction of the public sector. This is a significant drop from the revised 240,000 jobs in February and revised 275,000 jobs in January. The unemployment rate fell slightly, to 8.2%.

Manufacturing: Manufacturing data in February remained mixed but still showed an improvement from January, at least in terms of durable-goods orders. As export demand weakens and growth slows in the auto sector later this spring, Morningstar economists are not expecting a lot of growth (or declines) from manufacturing in 2012. The economic key continues to remain in the hands of U.S. consumers, with a potential added boost from housing and construction markets.

Housing: Real estate data continued to be relatively inconclusive as abnormal weather wreaked havoc on the data, causing most real estate numbers to show better results on a year-over-year basis than on a month-to-month basis. The Case-Shiller Home Price Index (seasonally adjusted) for the three months ending in January was flat compared with December, while the year-over-year numbers showed some improvement. Month-to-month pending contracts for February were down 0.5% and have now declined for two of the last three months, while year-to-year pending contracts were up a stunning 9.2%.

Although the media remains thoroughly confused, with many outlets featuring month-to-month weakness while others ran headlines trumpeting a new boom based on the year-over-year numbers, Morningstar economists believe that the truth lies somewhere in the middle.

Retail: The International Council of Shopping Centers reported 4.1% year-over-year same-store sales growth in March, matching the gains in February. Warm weather and an earlier Easter helped boost the numbers, with both apparel and department stores showing an improved growth rate.

Quarter-end insights: The first quarter of 2012 saw the U.S. economy gaining strength as other world economies slowed. Morningstar economists believe that slow but steady U.S. GDP growth, moderating inflation, and rising employment growth may be on tap for the remainder of the year. While better employment has helped a number of sectors, including housing, restaurants and even health care, other sectors such as industrials continued to worry about slowing demand from Europe and China. Slowdowns in these regions may be harmful to individual companies but not necessarily to the overall U.S. economy—many of those goods are not produced in the U.S. Overall, companies poised to benefit from a relatively strong U.S. economy with limited exposure to non-U.S. markets may be better performers. This includes small-cap companies that typically had a smaller portion of their revenues from non-U.S. sources. Around the world, government data suggests that China's typical 10% growth rate is likely to fall to 7.5%. A slowdown in China combined with a less generous U.S. Federal Reserve will likely bring in commodity prices, significantly affecting commodity-based economies (such as Australia and Brazil) as well as capital goods-related exporters (such as Germany).

Simple Steps for Late Savers

- Life is a series of choices--how you allocate your spending is also a choice.
- If you are behind in saving for retirement, but you believe you do not have the resources to add to your retirement savings aggressively, creating a budget as the article suggests is a positive first step.
- Another tactic to increasing your retirement savings, not discussed in the article, is to use any pay increases toward increasing your retirement contributions.

The sooner you start putting aside money for retirement, the more you might have once that highly anticipated day arrives. Saving for college tuition, purchasing a new home, unforeseen medical expenses, or life's other necessities, surprises, or even enjoyments can cause investors to postpone saving. Starting the retirement planning process late in one's life can be daunting, but it is by no means impossible.

Crunch the Numbers: The first step to getting back on track is to put together a budget—this will force you to focus on your financial situation and can serve as a road map to success. Once you have outlined all of your expenses, simply subtract the total from your net income. The result will give you a clear indication of how much you can potentially save, and also help you identify areas in which you may be spending too much.

Cut Any Unnecessary Expenses: There are essential expenses that cannot be eliminated: food, electricity, etc. However, most people can identify some areas, like entertainment, that are not vital to one's existence and can be cut back on. The more areas that you can trim will lead to more money that can be earmarked for retirement.

Take Advantage of Catch-up Contributions: Catch-up contribution limits allow investors age 50 and above to increase their contribution. For example, they can make an extra contribution of $5,500 to their 401(k) in 2012, equating to a maximum contribution of $22,500. IRA catch-ups are $1,000 in 2012, leading to a maximum contribution of $6,000.

Louis E. Conrad II, CFA
President

COMPASS Wealth Management
Post Office Box 250
Lexington, Massachusetts 02420

lconrad@compassinvest.com
www.compassinvest.com

Tel:(978) 828-5681
Fax:(781) 862-7030