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AUTUMN REFLECTION: EVERYTHING YOU SHOULD HAVE KNOWN

By Loren Kayfetz, President, CERTIFIED FINANCIAL PLANNER®

I believe that the more people think they know about a subject, the less open they are to a balanced and thoughtful discussion of that issue. We are constantly pitting the advanced, analytical part of our brain, against the primordial and reactive part. When it comes to the subject of money, that battle can become debilitating, making it hard to find real solutions to our financial needs.

The last 10 years have been some of the most difficult times for the average person to come to grips with financial reality. The stock market has been vilified as a place where money has been lost. People have been withdrawing money from stock markets for the past two years, parking it in cash and chasing bond yields, which have continued to trend lower.

Since the early 1970's, real estate in general, and housing in particular, had become the "no lose" way to accumulate wealth and, unfortunately, speculate for a quick profit. Sooner or later, the bubble was going to burst. While we all call look back now at the signs along the way, it was too easy to ignore the warning signs.

Infomercials ran (and still do) day and night about buying property with no money down. Donald Trump, famous for making (and losing) fortunes in real estate, will teach you how to make money, as long as you pay the $295 seminar fee. Caravans of eager investors headed out into the growth areas, such as the Central Valley of California, Las Vegas and Phoenix, to buy up homes for quick turnarounds.

Your neighbor became a landlord. Your brother became handy doing remodeling and "flipped" houses. Your coworkers bought multifamily housing. Nobody could lose. Money was available to borrow with little or no down payment. Our rational brain stopped functioning. The result for those without patience or a deep reservoir of capital has been disastrous. The unwinding process will take a long, long time.

Now the infomercials are concentrating more on investing in gold and other precious metals, options trading and currency hedging. Everything you should have known is there in front of you: Your mother told you, if it sounds too good to be true, it probably is. The handwriting is on the wall… more bubbles are forming.

What I am excited about now is the future of the "unloved". While we will be picking up the pieces of the real estate crash for many years to come (yes, even decades), equities are still languishing and becoming more

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EVERYTHING YOU WANTED TO KNOW ABOUT BONDS (BUT WHERE AFRAID TO ASK)

By Nicole Hanson, CERTIFIED FINANCIAL PLANNER®

Bonds have been in the news a lot lately and there seems to be a lot of conflicting information out there. In order to help you make sense of it all, here are some answers to common questions regarding bonds:

What is a bond?

When you purchase an individual bond, you are lending money to a government or a corporation. That government or corporation makes annual or semi-annual interest payments and at the end of the term (called maturity) they return your principal (the face value of the bond).

What is the bond market?

Not all bonds are purchased by a person and then held to maturity. After a company issues a bond, that bond can be bought and sold many times in the bond market. The value of that bond can change over time based on many factors, including the company's credit-worthiness, interest rates, inflation etc.

Why do we invest in bond funds instead of individual bonds?

A bond fund pools investors' money and purchases hundreds of bonds so that even if a few companies fail to pay, the investor can still make money in the fund. We prefer to invest in bond funds because they are lower risk and have greater liquidity (they are easier to buy and sell) than individual bonds.

What types of bonds are there?

There is a wide range of bonds available in the market today. Most of our clients not only have domestic bonds from the United States but also own bonds from developed and developing countries. The domestic bonds fall in to the following categories: corporate bonds, municipal bonds, government bonds, and government agency bonds (Ginnie Mae, Fannie Mae, Freddie Mac).

Bonds come in a range of maturities: Short Bonds are less than 5 years, Intermediate Bonds are 5 - 12 and Long bonds are over 12. Bonds with longer maturities tend to be more volatile but they also pay higher interest.

Bonds also come in a range of credit qualities which are assigned by rating agencies such as Moody's, Standard & Poor's, and Fitch. The higher the credit quality the more expensive the bond and/or the less interest the bond has to pay. Low quality (also known as junk bonds /high yield bonds) are less expensive and pay higher interest.

CREDIT RATINGS:			
Credit Risk	Moody's	S&P	Fitch
INVESTMENT GRADE			
Highest quality	Aaa	AAA	AAA
High quality (very strong)	Aa	AA	AA
Upper medium grade (strong)	A	A	A
Medium grade	Baa	BBB	BBB
NOT INVESTMENT GRADE or HIGH YIELD			
Somewhat speculative	Ba	BB	BB

Morningstar, an investment research company, has created a bond style box that summarizes the relationship between maturity, credit quality and yield:

	Short-term	**Med-term**	**Long-term**
high quality	**least risk, lowest yield**		
med quality			
low quality			**greatest risk, greatest yield**

I am an aggressive investor, why are there bonds in my portfolio?

Bonds are a great diversifier; typically performing well when stocks suffer and lowering overall volatility of a portfolio. Layering bonds into client portfolios enables us to strategically rebalance during major market moves. If we see that a particular holding has a nice gain, we might recommend selling some and placing the cash in a bond fund to lock in the gain and take a little risk off the table. In down markets we may move money out of bond funds and buy stock funds we like for the recovery.

Are bonds "safe"?

Bonds are generally considered safer than stocks because they are less volatile in response to market events. However, this is not to say that they don't occasionally lose money. Bond funds can have periods of negative performance and bonds do not keep pace with inflation.

What happens to bond values when interest rates rise?

Bond prices move inversely to interest rates. If an investor has a bond fund that pays 5% interest so his $1,000 bond pays annual interest of $50. If interest rates rise and bond investors can get 7%

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Market Volatility & the October Effect - Fact or Fiction?

By Erin Hadley, Certified Financial Planner®

As summer turns to fall, the leaves change colors, the kids go back to school, and the market falls apart. Wait! What? You say? Yes, some believe the fall, and most notably October is when we experience the "October Effect," in which market prices bounce around in marked volatility until tumbling to a low at month's end. Is there any basis to the theory or is it just plain superstition? Let's evaluate the history:

Investors are said to get nervous about October due to the so-called effect most likely due to "guilt by association" since such tumultuous events as the 1929 stock market crash happened in this month, as did "Black Monday," the large single-day drop that happened on Oct. 19, 1987.

The belief is that there is a pattern or something about this investor sentiment around this time of month that causes market mayhem. Yet, October has also marked the end of several bear markets and thus the beginning of some long-lived rallies. This was true following the market declines in 1987, 1990 and 2001. Yet these facts do not receive nearly the same amount of media attention. And, while October has the bad reputation, September is the month in which two of the market's biggest daily point slides occurred: one in 2001, the other in 2008. (This year the Dow, S&P 500 and NASDAQ all closed positively for the month of September; all three also closed up year-to-date through September 30th.)

In contrast to the anxiety felt in anticipation of October, investors are said to look forward to January: some believe that the "January Effect," in which security prices rise in January, is an indication of investor sentiment and thus means we will have a strong year. Well 1929 had a strong January, then the crash came that started the Great Depression. 1987 also started with a boost-that year would later experience crashes throughout the world's markets-the Dow losing 22.67% in a single day. More recently, 2001 started nicely but soon the dot-com boom became the "dot-bomb."

Before you try to pinpoint just which month is the best or worst, take a look at the following table showing which month had the lowest average returns by decade .

Decade	Worst Month
1926-1929	October
1930-1939	March
1940-1949	November
1950-1959	August
1960-1969	June
1970-1979	May
1980-1989	**September**
1990-1999	August
2000-2009	February

Source: insidermonkey.com

If you look at any one decade alone, it would certainly appear that a particular month was the "loser", but looking over the much longer period of all nine decades, the "patterns" disappear.

The Boston Snow Indicator: stocks will climb if Boston has a white Christmas.

The Super Bowl Indicator: the market will close lower for the year if an AFL team wins and will higher if the NFL wins.

The Hemline or Skirt-Length Indicator: the direction of stocks is predicted by skirt lengths-if hemlines rise, so do stock prices, and lower if hemlines lengthen, Why? Short skirts = greater consumer confidence and excitement.

All the different theories range from those that have some minimal data supporting them (though are hardly statistically significant) to those that are pure prognostication. So why, then, do we cling to them?

A theory doesn't have to be well-founded to catch on, so they continue to be propagated. It is natural for humans to try to make predictions about the future-it's how we plan and anticipate the potential outcomes of life so as to better manage them when they become reality. These theories catch on because we are enticed by the simplicity they offer-just as we are lured to fad diets and get-rich-quick schemes, because they are much easier to digest than the monumentally murky chore of analyzing the complexity of what's going on in our society and economy.

Most likely, market theories appear to be about investor psychology than anything else. So instead of trying to determine which theory holds water and which is bunk, perhaps the wiser approach is to put these theories aside, focus on the long-term and diversify, i.e. try to resist the quintessential human urge to predict the next direction of the market, and instead position your investments to weather any market environment. This will free up more to focus on more important things like predicting what will be this year's most popular Halloween costume!

Autumn Reflection (continued from pg. 1)

attractive. How many times have you found yourself saying, “if I had only known”.

Well, we DO know. When an investment area that is reasonable, progressive and produces profits become inexpensive, it is attractive.

Most of our clients have exposure to equities, fixed income, commodities and real estate (either through their own investment in their homes and other properties, or through real estate securities). We know that allocating to each investment area allows us to reduce the pain of loss during a particular area’s downturn, while participating in upside movements. This requires being attentive to the past while being able to look toward the future. One of the most important things we do is recognize that no system, scheme, methodology or program will work perfectly.

Our mission is to help you eat well and sleep at night. We DO know that diversification works and we will continue to act with your best interests in mind.

Bonds (continued from pg. 2)

on their bonds, he will have to sell his bond at a discount ($714 instead of $1,000) so that the purchaser of his bond gets the 7% yield they demand ($50 is 7% of $714). If interest rates went down instead of up, the investor could sell his bond at a premium over face value because his bond is paying a higher rate of interest than other bonds.

Are we in a “bond bubble”?

It is difficult to say whether we are in a “bubble”, but due to the down market, many people have fled stocks in favor of bonds, which they perceive as safer investments. This is the called the “flight to quality” and this movement of investors, along with falling interest rates, have created a situation where bonds such as treasuries are relatively expensive even though their yield is quite low. This overvaluation could lead to a down market in bonds if interest rates were to rise precipitously.

How do we mitigate the impact of rising interest rates?

We are monitoring the situation and are avoiding the use of treasuries in client portfolios. The bond portion of our clients’ portfolios typically contains corporate bonds, agency bonds, foreign and emerging bonds of varying maturities and credit qualities. This diversification will soften the effects of any interest rate moves.

Quarterly Perspective

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THE GREATEST COMPLIMENT TO US IS A REFERRAL.