FINANCE FOCUS

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Risk, Not Volatility, Is the Real Enemy

What would you do if your investments lost 10% in a single day? A) *Add more money to my account.* **B)** *Hold steady with what I've got.* **C)** *Yank my money; I wouldn't be able to stand any more losses.*

If investors buy the right investments but sell them at the wrong time because they can't handle the price fluctuations, they may have been better off avoiding those investments in the first place. Most investors are poor judges of their own risk tolerance, feeling more risk-resilient in up markets and more risk-averse after market losses. However, focusing on an investor's response to short-term losses inappropriately confuses risk and volatility. Understanding the difference between the two and focusing on the former is a potential way to make sure you reach your financial goals.

Volatility encompasses the changes in the price of a security, a portfolio, or a market segment, both on the upside and downside, during a short time period like a day, a month, or a year. Risk, by contrast, is the chance that you won't be able to meet your financial goals or that you'll have to recalibrate your goals because your investment comes up short. So how can investors focus on risk while putting volatility in its place? The first step is to know that volatility is inevitable, and if you have a long enough time horizon, you may be able to harness it for your own benefit. Diversifying your portfolio among different asset classes can also help mute the volatility. It helps to articulate your real risks: your financial goals and the possibility of falling short of them. Finally, plan to keep money you need for near-term expenses out of the volatility mix altogether.

Investing in securities always involves risk of loss. Diversification does not eliminate the risk of experiencing investment losses.

Risk Calibration for Retiree Portfolios

Managing risk during retirement has changed a lot during the past few decades. In the past, retirees enjoyed the luxury of much higher interest rates as well as pensions, which meant they could lower their equity holdings during retirement. For today's retirees, however, staying invested in low-return assets is a luxury they may not be able to afford. Instead, they should keep their eyes on the following risks.

Longevity: Longevity risk is the risk of outliving your assets. Given a long portfolio life span, retirees need more growth from their portfolios than cash and bonds can afford. Holding stocks is important for growth; however, the question remains: what's the right amount? In addition to considering a higher equity weighting, pre-retirees and retirees can also consider options such as deferring Social Security, working longer or part-time, and decreasing in-retirement spending, particularly after market downturns.

Long-Term Care: A year in a private room in a nursing facility now averages $78,000, according to a Genworth survey*, and long-term care in urban settings can be far more costly than that. If you are concerned that long-term care could eat away your retirement nest egg, you may want to consider purchasing a long-term care insurance policy. These policies are pricey, particularly if you buy one with an inflation component and/or if you're over 65, but they can provide invaluable peace of mind, too.

Inflation: Retirees living off of their investments don't receive cost-of-living adjustments (except for their Social Security and possibly their pension income), so inflation can readily translate into declining purchasing power and a reduced standard of living. Treasury Inflation-Protected Securities (TIPS) are the most direct way to hedge against an unexpected increase in inflation, providing an adjustment to an investor's principal to keep pace with inflation. Stocks are another, indirect way to guard your portfolio against the threat of inflation. They have the potential for higher returns than bonds, and inflation will take a smaller bite out of your future purchasing power. Owning companies with a demonstrated history of dividend growth is another way to help offset the effects of inflation on your portfolio.

Higher Taxes: Massive government spending and unfunded liabilities could translate into higher taxes across the board. Investors may be able to reduce tax liabilities by including tax-loss selling, Roth conversions, and municipal bonds. Roth 401(k)s and IRAs are also good options for tax-conscious investors seeking at least some tax-free treatment of their retirement assets.

*Report cited: "Genworth 2012 Cost of Care Survey, Home Care Providers, Adult Day Health Care Facilities, Assisted Living Facilities and Nursing Homes," April 2012.

Diversification does not eliminte the risk of experiencing investment losses. Government bonds are guaranteed by the full faith and credit of the U.S. government as to the timely payment of principal and interest, while stocks are not guaranteed and have been more volatile than other asset classes. Dividends are not guaranteed and are paid solely at a company's discretion. Municipal bonds may be subject to the alternative minimum tax (AMT) and state or local taxes, and federal taxes would apply to any capital gains distributions. TIPS are subject to risks which include, but are not limited to, liquidity risk, credit risk, income risk, and interest-rate risk. Funds in a traditional IRA grow tax-deferred and are taxed at ordinary income tax rates when withdrawn. Contributions to a Roth IRA are not tax-deductible, but funds grow tax-free, and can be withdrawn tax free if assets are held for five years. A 10% federal tax penalty may apply for withdrawals prior to age 59 1/2. Please consult with a financial or tax professional for advice specific to your situation. Insurance guarantees are based on the claims paying ability of the insurance company.

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Retirement Investing Q&A

Q: Under current law, at what age can you begin receiving Social Security benefits?

A: The earliest age at which you can begin receiving Social Security benefits is 62. However, you will receive a reduced benefit if you retire before your full retirement age.

Q: What are some big mistakes that people make concerning their retirement?

A: Not contributing to an IRA, a 401(k), or both is probably the single biggest mistake that is made. 45% of current retirees utilize their personal savings for retirement income; 62% of current workers anticipate personal savings to play a role during retirement.

Q: What is the maximum contribution to IRAs (both regular and Roth) and 401(k) plans in 2012?

A: If you are age 49 or younger, the maximum contribution is $5,000 for both regular and Roth IRAs, and $17,000 for a 401(k) plan. If you are age 50 or more, the maximum contribution is $6,000 for both regular and Roth IRAs, and $22,500 for a 401(k) plan.

Q: Are distributions (payouts) taxed on regular IRAs, Roth IRAs, and 401(k)s?

A: The short answer is that if you got a tax break on the contribution, you will pay taxes on the subsequent distribution. Contributions to regular IRAs and 401(k)s are generally made with pre-tax dollars (pretax contributions reduce your taxable income for the year in which they are made), so distributions are taxed. Roth IRA contributions, however, are made with after-tax dollars, so distributions are generally not taxed.

Q: At what age can you generally begin taking distributions from an IRA or 401(k)?

A: You can begin taking distributions from your regular IRA, Roth IRA, or 401(k) plan at age 59 1/2.

Q: Can you roll your 401(k) over into an IRA?

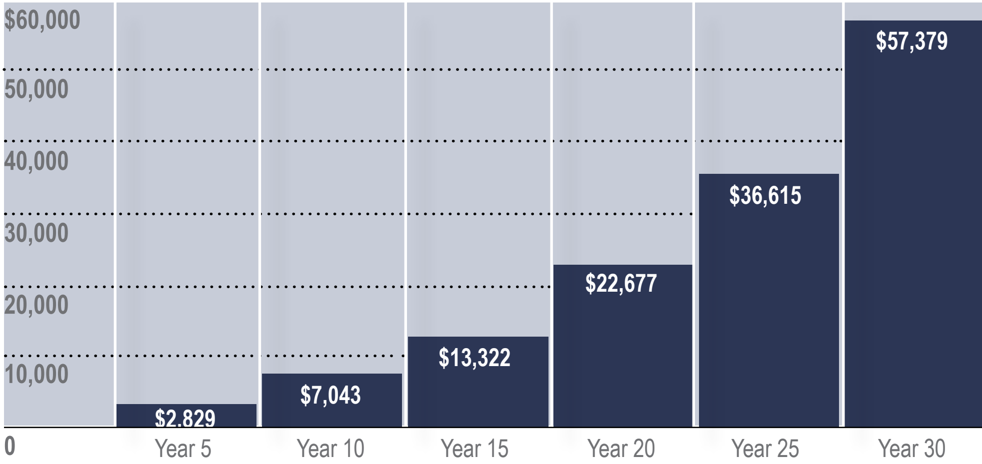
A: Yes. You can move 401(k) balances into a "rollover" IRA account without penalty. This option enables you to keep your money tax deferred, and can potentially increase your investment options, as IRAs are self directed and 401(k) plans have investment options that are decided by the plan administrator.

Q: How can I begin saving for retirement?

A: Little changes can make huge differences. For instance, have a regular coffee ($1.75) instead of a latte ($3.50) every morning before work. Invest the savings each month ($1.75 X 22 workdays = $38.50), and you could end up with quite a hill of beans!

Sources: Employee Benefit Research Institute, 2012 Retirement Confidence Survey.

A "Latte" Savings



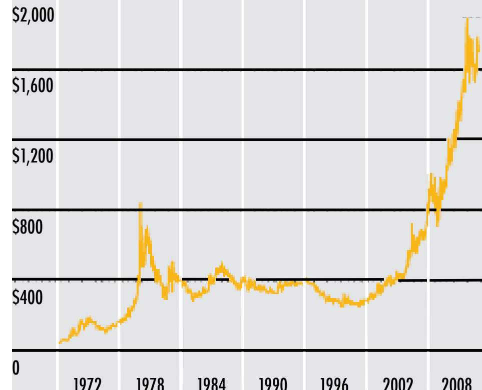
This is for illustrative purposes only and not indicative of any investment.
The data assumes reinvestment of all income and does not account for taxes and transaction costs.
The image assumes a hypothetical 8% annual return and that savings are invested at month end.

Gold Rush

Gold prices reached an all-time high of $1,895 perounce in September 2011 as investors, weary of volatile equity markets and a U.S. credit downgrade, poured money into tangible assets.

Predicting commodity returns is difficult enough given the very broad spread, high volatility, and problems associated with this type of investment. It has become even harder as a result of the uncertainty created by E.U. sovereign debt issues and their potential impact on the United States. Gold, however, could remain favored by many investors worried that a far worse fate awaits. Scarce supply and strong demand may keep prices high for a while. However, investing in gold can be speculative and the role of commodities in a longterm nasset allocation is typically small compared with that of equities and fixed income.

Gold (London PM price per oz.)



Gold prices are from the London Bullion Market Association and represent the London P.M. daily closing prices per troy ounce in USD. Diversification does not eliminate the risk of experiencing investment loses. Past performance is no guarantee of future results. This is for illustration purposes only and not indicative of any investment. Transactions in commodities carry a high degree of risk and substantial potential for loss. Trading in commodities is not suitable for many members of the public. You should carefully consider whether this type of trading is appropriate for you in light of your experience, objectives, financial resources and other relevant circumstances. Gold, like any other coin or bullion, is subject to investment risks like perceived scarcity, its quality, current demand, market sentiment, and economic factors. There are material differences between investing in gold versus investing in stocks and bonds. Such differences may include investment objectives, costs and expenses, liquidity, safety, fluctuation of principal ore return, insurance, tax features, and any other investment characteristics.

Investing Your Year-End Bonus

What to do with that year-end bonus is a pressing concern because bonuses are increasingly supplanting annual pay raises as a means of rewarding employees. Here are a few ways to make the most of your bonus.

Pay Down Debt: Before you put any money into the market, consider paying off your debt. Credit-card debt, which often has a high interest rate, is a good place to start. Also, consider sending an extra payment to your mortgage lender, which can help shorten the life of your loan.

Maximize Your Match: Check with your employer to find out whether your 401(k) contribution is being deducted from your bonus. If it is, you may want to lower the percentage amount that you're contributing to your 401(k) before you receive the bonus. In so doing, you'll ensure that your contributions are spaced throughout the year, and you'll be able to take full advantage of your employer's matching contributions.

Feed Your Tax-Sheltered Accounts: If you haven't already done so, consider contributing to a regular or Roth IRA. Tax-deferred portfolios can grow faster than taxable ones, and the gains on Roth IRAs are tax -free.

Match Your Investments to Your Time Horizon: Pay attention to your investment time horizon. If you're in your 30s and saving for retirement, aggressively positioned stock funds may be a good option. But if you plan to tap the money within a shorter time frame, you may want to focus on conservative investments.

Returns and principal invested in stocks are not guaranteed. Funds in a regular IRA grow tax-deferred and are taxed at ordinary income tax rates when withdrawn. Contributions to a Roth IRA are not taxdeductible, but funds grow tax-free. A 10% penalty may apply for withdrawals prior to the age of 59 1/2.

Five Ways to Cut Housing-Related Costs in Retirement

Housing-related costs are often the largest component of retirees' household budgets, so this article will address some of the key ways in which retirees can cut this type of costs.

1

Consider a Cheaper Location: Talk about tradeoffs. The decision to relocate is a difficult one, particularly if it means venturing away from kids, grandkids, and longtime friends. It's also worth noting that the highest-cost housing markets also tend to be close to other amenities that may be important to a retiree's quality of life, such as cultural and leisure attractions. But if you reside in a high-cost locale and are assessing how you can make your nest egg last, relocating ought to be high on your list of considerations. By selling your high-priced home and moving to a cheaper location, you may be able to unlock a significant amount of equity while also reducing your housing costs on an ongoing basis.

2

Downsize in the Same Location: If you're not up for relocating, you might still be able to save money by downsizing to a smaller home in your same geographic locale. Like relocation, this decision usually doesn't come without compromise: Many people have a sentimental attachment to the homes in which they raised their families, and after a lifetime of accumulation, a move across town may seem like more trouble than it's worth. And if you stay in the same geographic locale, your non-housing costs (food, entertainment, and the like) will stay the same. But even within a depressed housing market, you may be able to unlock valuable equity by selling your larger home, and your ongoing costs for taxes, maintenance, and utilities are also likely to be a lot lower.

3

Consider Combining Households: Thanks to the economic downturn, there's a well-documented trend toward children remaining with their parents for a much longer time than in the past. But we may also start to see more people combining households later in life—grown children moving in with elderly parents, retired siblings moving in with one another, and so forth. Of course, such setups sound a lot simpler than they are in practice, but consolidating what would've been two households into one can help reduce costs greatly.

4

Don't Pay for Care Until You Need It: Seniors are increasingly gravitating to so-called continuous-care retirement communities, which allow them a great amount of independence as long as their health allows but also provide for ongoing health care and other assistance later in life. Such facilities allow seniors to transition from one life stage to the next with a minimal amount of disruption--a huge attraction given the upheaval that often occurs when seniors move from an independent home to assisted living to a hospital and back again. As sensible as such arrangements are, however, they carry significant costs. If you've run the numbers and think there's a significant risk you could outlive your assets, a continuous-care retirement community may entail more costs than you can afford to bear,particularly if you don't yet need any help. The decision to move into a continuous-care community is a hugely complicated one that should entail a full costbenefit analysis.

5

Refinance: One of the best financial steps you can take in the years leading up to retirement is to pay down your debt, because reducing your fixed costs in retirement will reduce the income demands you make on your portfolio. But if you still have a mortgage and are preparing to retire or you're retired already, refinancing ought to be on your radar. Mortgage rates have ticked up in recent weeks, but they're still ultralow relative to long-term averages.

The Art of Asset Location

Asset location is a part of the investing strategy that involves deciding which investments to hold in which accounts, and taxes play an important role in this decision. Here are a few basic guidelines.

Hold in Your Tax-Sheltered Accounts:

Assets With High Tax Costs. In general, government or corporate bonds and bond funds may be a better fit for taxsheltered accounts (like IRAs and 401(k)s) than for taxable accounts because their payouts are taxed at an investor's ordinary income tax rate. If you need to hold bonds in your taxable accounts, a municipal bond or municipal bond fund might offer you a better after-tax yield than a taxable bond investment, because income from munis is exempt of federal income taxes.

Hold in Your Taxable Accounts:

Assets With Low Tax Costs. By contrast, stocks and stock funds may generally be a better bet for taxable accounts. Longterm capital gains, which is what you have when you sell a stock that you've held for at least a year, are taxed at a much lower rate than bond income (however, these favorable tax rates are set to expire at the end of 2012).

Stocks are not guaranteed and have been more volatile than the other asset classes. Dividends are not guaranteed. Bonds are subject to credit/default risk and interest-rate risk. Municipal bonds may be subject to the alternative minimum tax (AMT) and state and local taxes, and federal taxes apply to any capital gains distributions. Retirement accounts are tax-deferred vehicles designed for retirement savings. Any withdrawals of earnings will be subject to ordinary income tax and, if taken prior to age 591/2, may be subject to a 10% federal tax penalty. This should not be considered tax or financial planning advice. Please consult a tax and/or financial professional professional for advice specific to your individual circumstances.

The Flavors of Investing

It is tempting to jump on the investment bandwagon when certain parts of the market soar based on a trend or analyst report. While great potential exists, sector investing can also come with great risk. As seen in the image, what is hot one year isn't always hot the next. Interested investors should be willing to follow a sector's ups and downs, as timing the market is difficult. Investing in specific sectors can add volatility to a portfolio, but exposure to the right sectors can contribute to improved financial performance. Keep in mind that while sector investing can fill a gap or serve as a speculative play, a balanced asset allocation should be the core of any portfolio.

10-Year Sector Winners and Losers

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Highest Return	4.3	50.3	38.1	40.8	39.4	32.9	-16.1	61.9	30.5	18.5
	-6.3	41.0	32.1	14.8	36.2	27.5	-23.3	53.6	27.4	13.4
	-6.6	37.6	23.3	12.2	21.8	17.2	-28.1	50.2	24.9	11.9
	-9.1	37.3	19.2	8.1	19.7	16.6	-38.2	35.6	24.2	6.9
	-13.1	34.8	17.9	6.0	17.6	12.6	-38.4	34.0	23.4	5.1
	-21.1	32.1	15.4	6.0	15.4	12.0	-39.4	29.3	23.2	4.1
	-23.6	26.1	14.4	5.2	15.1	8.0	-39.8	24.0	14.5	0.6
	-23.8	24.7	12.5	3.7	15.0	0.2	-41.2	21.0	13.4	-0.4
	-23.8	19.8	10.1	3.0	11.9	-8.7	-42.0	15.6	11.8	-0.7
	-37.3	18.9	3.5	-1.4	10.9	-17.9	-48.1	14.5	7.3	-14.1
Lowest Return	-38.3	17.4	0.8	-6.0	6.7	-18.3	-15.3	11.8	5.1	-16.5

- Basic Mat.
- Comm. Ser.
- Cons. Cyclical
- Cons. Def.
- Energy
- Financial
- Health Care
- Industrials
- Real Estate
- Technology
- Utilities

This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. Past performance is no guarantee of future results. Sector investments are narrowly-focused investments that typically exhibit higher volatility than the market in general. Sector investments will fluctuate with current market conditions and may be worth more of less than the original cost upon liquidation. Returns and principal invested in stocks are not guaranteed.

Source: Sectors in this example are represented by the Morningstar Sector Indexes.

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.

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Should You Refinance Your Mortgage?

In an uncertain market and economic environment, it pays to take advantage of all the sure things you can get. A prime example is paying down any debt you have, even mortgages and other loans that some might classify as "good debt" because they carry relatively low interest rates and may offer tax deductions. By chipping away at your borrowing costs, you'll reduce the interest you owe over the life of your loan. With that being said, it's a good time to investigate whether it benefits you to refinance your mortgage. In an effort to jump-start the moribund economy and jumbo loans threshold housing markets, the Federal Reserve has aggressively cut interest rates, which has brought both 15- and 30-year mortgage loans down to historically low levels. Rates have continued to fall in 2012, with the most recent July 30-year mortgage loan at 3.55%

You should consider refinancing if one or more of the following applies to you:

■ Your current interest rate is appreciably higher than prevailing rates. There are a number of nifty calculators on various websites to help you determine this (www.bankrate.com is a good one).

■ You plan to stay in your home for several or many more years, thereby increasing the likelihood that you'll recoup your closing costs over the life of the loan.

■ You have an adjustable-rate mortgage with a currently low interest rate but plan to stay in your home for several more years and would like to lock in a relatively low fixed rate.

■ You would like to switch to a shorter-term mortgage with a lower interest rate—say, you have a 30-year loan and would like to swap into a 20-year loan. Just be sure your job is rock-solid before increasing your monthly debt. If you're concerned about jobsecurity, you can still refinance but instead stick with the same term and make additional payments on principal.

■ You have a jumbo, or nonconforming," loan that may no longer be considered jumbo. The threshold for jumbo loans is $417,000, but in certain high-cost parts of the country the thresholds are now higher. Jumbo loans usually carry higher rates than do non-jumbo loans, so if you can do away with that categorization, you'll be in a better position. Even if your loan still lands in jumbo territory, you may be able to secure a lower rate.

■ You have great credit—650 or ideally even higher—and you haven't lost your job or missed a mortgage payment since you secured the loan.

■ You have a decent amount of equity in your home—ideally 20% or more. However, you may still be able to refinance if your home is now worth about the same as your loan value or even a little bit less; check out http://makinghomeaffordable.gov for details about refinancing for those whose loans are now 105% or less of their property values.

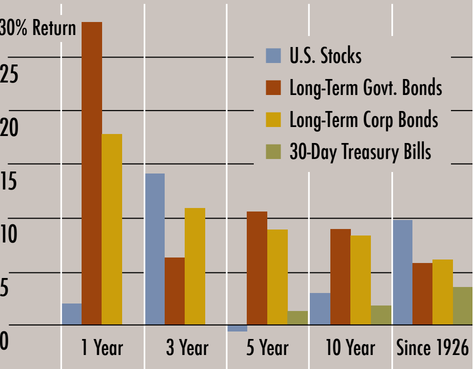
■ You have the cash on hand to cover the closing costs up front. The 2009 Closing Costs survey conducted by bankrate.com put the average home loan's closing costs at $2,732. By fronting the closing costs, you're likely to be able to obtain a more favorable loan rate.

After reading the above characteristics, you can determine when refinancing might not make sense (if you already have a low rate, won't be able to recoup your closing costs, etc.). In addition to those that are fairly clear-cut, you should also keep in mind that your property will need to be reassessed as part of the refinancing process. This might force you to have to pay private mortgage insurance. Lenders assess PMI when a loan is more than 80% of the current value of the home. Finally, you might have had a mortgage for many years and are seriously chipping away at the principal. If that's the case, refinancing, and thereby extending the term of the loan, could increase the total interest you'll pay, even if you're able to reduce your monthly payment.

Recent Bond Performance Explained

For investors, it comes as a surprise that bonds have recently outperformed stocks. Investors often assume that stocks offer higher returns compared with bonds. Recent market conditions, however, have proved otherwise. The image shows that while stocks have outperformed other asset classes from a return perspective since 1926, they have struggled over the last 10 years. Don't be surprised at the higher bond returns in the past 1-, 5-, and 10-years. Besides the dot-com bubble and subprime mortgage crisis in the past decade, several unique events in 2011, such as the Arab Spring, U.S. credit downgrade and the sovereign debt crisis, led to a flight to safety into government bonds. Under these circumstances, investors are advised to stick with their long-term investing strategy and be aware that asset class characteristics may deviate in the short term based on current market conditions.

Unusual Stock and Bond Behavior 1926-2011



Past performance is not guarantee of future results.This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. U.S. Stocks are represented by the Standard and Poor's 90 index from 1923 throught February 1957 and S&P 500 index thereafter, which is an unmanaged group of securities and considered to be representative of the U.S. stock market in general, long-term government bonds by the 20 year U.S. government bond, long-term corporate bonds by the Ibbotson® Long-Term Corporate Bond Index, and 30-day Treasury bills by the 30-day U.S. Treasury bill. Government bonds and Treasury bills are guaranteed by the full faith and credit of the United States government as to the timely payment of principal and interest, while stocks are not guaranteed and have been more volatile than the other asset classes. With corporate bonds an investor is a creditor of the corporation and the bond is subject to default risk. Corporate bonds are not guaranteed. Returns are compound annual returns.

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ABOUT SICOUNSEL

Samalin Investment Counsel, LLC (SICounsel) is a fee-only, nationally recognized SEC registered investment advisory firm. With offices in Chappaqua NY and NYC, we specialize in wealth management, pre and post divorce financial planning, retirement planning, and other related financial services.

Three-Step Checklist for Turbulent Markets

When the stock market experiences extreme volatility, an investor's best bet is to focus his/her energy on factors that can be controlled. Unfortunately, many investors panic-sell and lose their money. When the market rebounds, many investors are left wondering if it's the right time to get back in.

Your best bet during turbulent markets is an investment of time. You want to invest in time to see where you stand now, and, if you determine changes are in order, thoroughly research your options. Here is a three-step checklist to manage your investments during turbulent markets.

Step 1: Check adequacy of cash reserves.

The best way to manage your portfolio during volatile markets is to make sure you have adequate cash on hand to cover your near-term needs. This way, your long-term stock investments can ride out the market ups and downs, but you can take comfort in knowing that they won't affect your ability to fund short-term cash needs.

Step 2: Check your long-term positioning.

Once you've done the liquidity check, the next step is to check the asset allocation of your long-term assets. Market sell-offs can be alarming for retirees and people getting close to retirement simply because they typically have more money invested, compared with
their younger counterparts. Checking your long-term positioning helps you put things into perspective so that you can make sound investment decisions for your future.

Step 3: Initiate defensive hedges with care.

During turbulent markets, investors may initiate defensive strategies like selling out of stocks and buying into the so-called "safe" investments like gold. Gold and treasuries can serve as a legitimate defensive role in a portfolio; however, these investments may have already enjoyed a sizable run-up. If you're moving into either, do so with caution, and only after you've checked your existing exposure to those asset classes. Treasuries are guaranteed by the full faith and credit of the U.S. government as to the timely payment of principal and interest. Debt securities are subject to credit/default risk and interest-rate risk (they have varying levels of sensitivity to changes in interest rates). In general, the price of a debt security tends to fall when interest rates rise and rise when interest rates fall. Securities with longer maturities and mortgage securities can be more sensitive to interest rate changes.

Gold/commodity investments will be subject to the risks of investing in physical commodities, including regulatory, economic and political developments, weather events, natural disasters, and market disruptions. Exposure to the commodities markets may subject the investment to greater volatility than investments in more traditional securities, such as stocks and bonds.

Source/Disclaimer:

[1]An annuity is a long-term, tax-deferred investment vehicle designed for investment purposes and contains both an investment and an insurance component. They are sold only by prospectus. Guarantees are based on the claims-paying ability of the issuer and do not apply to an annuity's separate account or its underlying investments. The investment returns and principal value of the available sub-portfolios will fluctuate so that the value of an investor's unit, when redeemed, may be worth more or less than their original value. Gains from tax-deferred investments are taxable as ordinary income upon withdrawal.

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