Investor Insights & Outlook

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Optimists vs. Pessimists, Again

Perhaps the big news year-to-date is the demise of Osama bin Laden. It marks the end of one era and the beginning of another.

Likewise, financial "eras" come and go. Many optimistic "experts" believed the markets would cool in 2007; few forecasted the frigid collapse that ensued. Today, other experts remain pessimistic, convinced that this economic recovery is temporary; it is only a matter of time before bad times return.

I wrote to many of you in late 2008 asking you to call, write and/or email our members of Congress, urging them to end mark-to-market accounting. I believed an end to this practice would result in the beginning of a recovery.

On March 09, 2009, Congress said it would approve the end of mark-to-market. March 09, 2009 also is noteworthy because it became the end of the decline era and the beginning of the recovery era. Since this date markets have rebounded almost 100% in barely two years.

There continues to be reason for hope.

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Advisor Corner

Thank you for the opportunity to serve as your advisor.

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Closed-End versus Open-End Funds

Did You Know:

- All purchases through our firm are commission-free.
- A Unit Investment Trust (UIT) is another type of product that might be appropriate.

The general term “mutual funds” usually refers to investment vehicles more specifically known as open-end mutual funds (the “mutual funds” denomination has become so mainstream that the open-end classification is commonly omitted). However, there exists a second mutual fund category identified as closed-end funds. This category is lesser known and much smaller: Closed-end funds total only $216 billion in net assets, compared to $8.4 trillion for open-end funds. Three important differences between these two categories of mutual funds are outlined below.

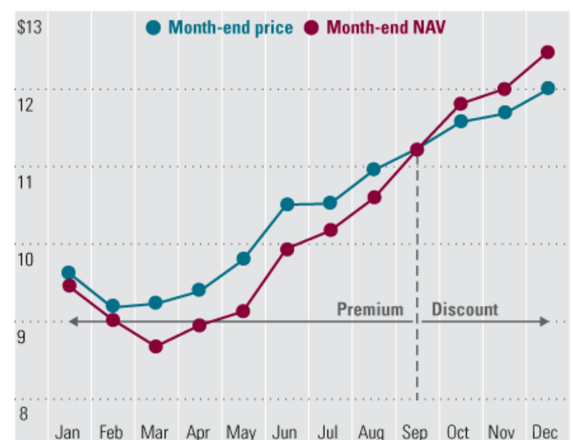
1.Share issuance: Open-end funds can issue an unlimited amount of shares and then redeem them on demand. Closed-end funds generally issue a fixed number of shares at inception in a process known as an initial public offering (IPO). These shares are then traded on an exchange, similar to stocks. A closed-end fund can issue new shares after the IPO, but this is rare. A closed-end fund can, if it chooses, convert itself to an open-end mutual fund and issue an unlimited number of shares.

2.Share transactions: Shares of an open-end mutual fund can be purchased directly from the fund at any given time. An investor can go directly to the fund company and buy shares, or sell shares back to the fund if he or she already owns them. In contrast, closed-end fund shares trade on an exchange, like stocks, and are normally purchased through a broker, who charges a commission. Closed-end shares can be bought and sold during normal market hours and, as a consequence, their market prices also fluctuate throughout the day. Open-end shares are only priced once a day at market close.

3.Share price: The price of open-end fund shares is equal to the net asset value, NAV (the value of all the fund’s assets divided by the total number of shares). For closed-end funds, it’s not that simple. Since closed-end funds are traded on an exchange, prices are established by the market, and shares can trade at prices different than the fund’s net asset value. If the price is higher than the NAV, shares are said to be trading at a premium—investors are willing to pay more than the fund is really worth. Conversely, if the market price is lower than the NAV, the fund is trading at a discount. This can be considered an advantage of closed-end funds over open-end ones: who wouldn’t want to buy something at a price lower than its true value?

The image shows how month-end price and net asset value can fluctuate for a hypothetical closed-end fund. From January through September, the fund's market price is higher than its NAV; the fund is trading at a premium. From October through December, however, the situation is reversed and the fund is now trading at a discount.

A Closed-End Fund Can Trade at a Premium or at a Discount



Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. The closed-end fund represented in the image is a purely hypothetical example and does not represent an actual fund. The investment return and principal value of mutual funds will fluctuate and shares, when sold, may be worth more or less than their original cost. Closed-end funds are subject to unique risks, most notably liquidity risk. **Holding a portfolio of securities for the long term does not ensure a profitable outcome and investing in securities always involves risk of loss. Mutual funds are sold by prospectus, which can be obtained from your financial professional or the company and which contains complete information, including investment objectives, risks, charges and expenses.** Investors should read the prospectus and consider this information carefully before investing or sending money. Total net asset values from Morningstar’s database as of April 27, 2011.

Three Reasons to Consider Exchange-Traded Funds

Did You Know:

- ETF's can be purchased individually or owned as part of a professionally managed account.

Despite all the buzz surrounding exchange-traded funds (ETFs) these days, many investors are confused about how best to use them. ETFs are versatile investment vehicles that can be effectively incorporated into a portfolio. They are essentially index funds that invest in a representative sample of securities in the index they seek to imitate. Unlike mutual funds, however, ETFs are traded on an exchange, just like stocks. As of November 2010, Morningstar estimates there are approximately 1,099 ETFs in the United States, with a total of about $942 billion in assets.

There are at least three good reasons for investing in an exchange-traded fund: lump sums, tax efficiency and undervalued corners of the market.

Lump sums: If you have a lump sum you are looking to invest, consider an ETF. Why? Well, you pay a brokerage commission each time you buy and sell an ETF, so commissions can add up very quickly with every trade. You can bypass these costs with a lump-sum investment. (If you plan to make periodic investments over time, your overall costs will be lower if you go with a no-load mutual fund.)

Tax efficiency: Equity ETFs are among the most tax-efficient vehicles around. The way they're structured, ETFs rarely make taxable capital gains distributions, those payments to shareholders of security-sale profits. So you'll typically owe taxes only on any capital gains you incur when you sell the ETF. Investors can easily build a low-maintenance, tax-efficient, broadly diversified portfolio with only three ETFs. There are a number of ETFs that offer domestic-equity exposure and others that cater to those looking to take their investment overseas. There are also many fixed-income ETFs to consider.

Undervalued corners of the market: In addition to these ETFs, there are others that track practically every market segment there is. While some of the narrowly focused ETFs are better than others, many can be used effectively if approached with discipline and a long-term view. It can take time for some undervalued corners to produce, so impatient investors need not apply.

There is one terrible reason to invest in ETFs: fads. Many investors think of them as vehicles for making a quick buck on a hot corner of the market. However, by the time one catches your eye, it's about to cool down. Unfortunately, ETF providers have a bad record of launching new ETFs in faddish pockets of the market, which tends to encourage an investor's worst instincts. So watch for fads, and before investing in an ETF in this area (or any ETF, really) speak with your financial advisor.

Keep in mind that diversification does not eliminate the risk of experiencing investment losses. Investors should read the prospectus and carefully consider a fund's investment objectives, risks, fees, and expenses before investing. It is important to note that ETFs are not immune from capital gains distributions; ETFs may make capital gains distributions if changes in the underlying index occur. International investments involve special risks such as fluctuations in currency, foreign taxation, economic and political risks, and differences in accounting and financial standards. Keep in mind that concentrated investments are narrowly focused investments that typically exhibit higher volatility than the market in general. These investments will fluctuate with current market conditions and may be worth more or less than the original cost upon liquidation.

How to Choose a Financial Advisor

What are Jim's Credentials?

- Master of Science in Financial Planning (MSFP)
- CFP (Certified Financial Planner)
- ChFC (Chartered Financial Consultant)
- CLU (Chartered Life Underwriter)
- CDFA (Certified Divorce Financial Analyst)
- AEP (Accredited Estate Planner)
- AIFA (Accredited Investment Fiduciary Analyst)

Choosing a financial advisor is a process that must be conducted with the utmost care and only after meticulous planning. After all, this will be the person managing your life's savings, your retirement portfolio, or your children's college money. While referrals from trusted friends or loved ones are usually one of the safest ways to find a good advisor, that path might not be available to everyone. Those looking for a financial advisor might want to follow the steps below.

First of all, beware of investment gurus who promise that by using their "secret method" you will be able to beat the market by some ludicrous amount. If it sounds too good to be true, it probably is. Look for reliable credentials, such as the Certified Financial Planner (CFP), Chartered Financial Analyst (CFA), or Chartered Financial Consultant (ChFC) designations. These certifications require passing a series of exams and a certain number of years of experience in the financial field. A Registered Investment Advisor (RIA) must file Form ADV with their state or the Securities and Exchange Commission—ask to see it. It will show the planner's professional history and any legal problems their practice has had.

Once you ensure an advisor's legitimacy, you can start the interviewing process. The National Association of Personal Financial Advisors' Web site has an excellent questionnaire called "The Comprehensive Financial Advisor Diagnostic" that you can use to interview potential planners. Ask about track record, past performance and experience, fees, and commissions.

Also, ask the financial professional what type of clients he or she sees most often to determine if the other clients' financial situations are similar to yours. You can ask to speak with some of these clients as well—are they satisfied with the way the advisor handles their finances? Your financial advisor will have to be someone you can trust and whose skills are a good fit for your financial needs.

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