# Investor Insights and Outlook

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## Eliminate Your Value Gap

If you own a business and plan on selling it in the future, it may be wise to consider potential gaps between your own perceived value of your business and its actual fair market value. This value gap could blindside a business owner, especially one nearing retirement.

In an increasingly challenging mergers-and-acquisitions environment, the formula is simple: business owners and management teams who are highly prepared, diligent, and organized for a liquidity event (e.g., sale of company) yield more successful outcomes that are more in line with the business owner's financial goals and objectives than those who are less prepared and wait until the last moment. Receiving a business valuation from an accredited and independent valuation professional may give you more certainty surrounding your retirement plans and may eliminate this value gap.

Ideally, succession planning for your business should start earlier rather than later, as understanding the value of your business today will help prepare you for a liquidity event tomorrow. From gathering detailed information about your company to analyzing projections and conducting management interviews, the valuation process can provide you with a detailed understanding of key value and risk drivers that affect your business. The valuation professional's concluded value is the starting point in your succession and shareholder planning process. Your initial value can also be used as a catalyst to learn how short- and long-term decisions impact value over time and can ultimately change your retirement situation.

If you are interested in learning more about the business valuation process and whether a valuation is right for you, consider talking to your advisor about their relationships with business valuation specialists.

**Inside this issue:**



## Advisor Corner

Thank you for the opportunity to serve as your advisor.


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# Keeping It Real

Inflation has averaged 3.1% over the last 30 years. This might not seem like much, but this reported figure only tracks total goods and services purchased by the typical consumer. This is a good measure for the economy at large, but it may not be representative for individuals whose lifestyles and buying habits differ from the typical consumer.

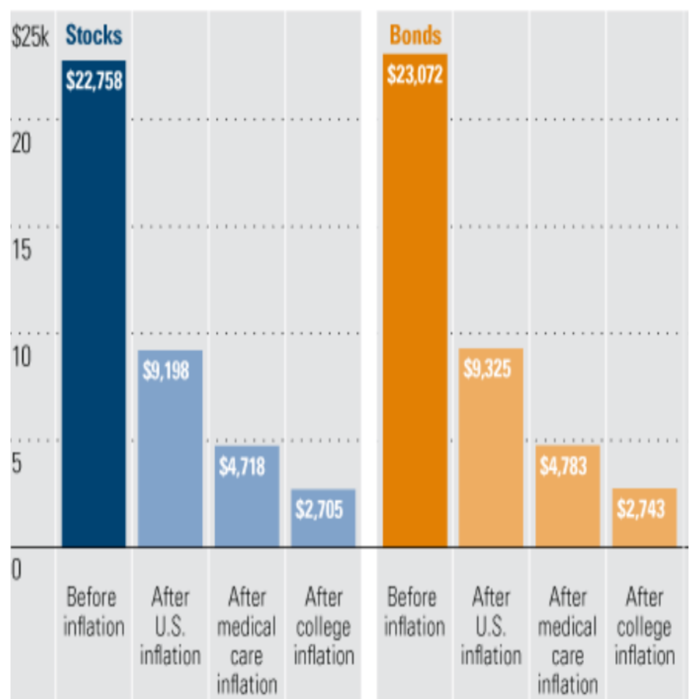
Goal-based investors may experience higher inflation. People who need to focus on savings for college or medical care may be left short, as the cost for such items often tends to rise at a faster rate than the average cost of living. Those investors might not be able to keep pace with rising costs if they do not take their real inflation rate into account when planning their investment goals.

The image illustrates the effect of three types of inflation on an investment of $1,000 in stocks and bonds: overall U.S. inflation, medical-care inflation, and college inflation. After 30 years, inflation has considerably reduced the wealth of the original investment. For example, the $1,000 invested in stocks and bonds only grew to $9,198 and $9,325, respectively, after adjusting for U.S. inflation. Alas, even more bad news for a family with children or a baby boomer nearing retirement.

Further, of the two asset classes considered, bonds provided more growth after inflation, which is unusual. Investors wishing to keep pace with inflation would typically consider a larger allocation to stocks or explore other investments that protect against inflation. However, due to the two major crises and associated stock market declines experienced during the "lost decade," stocks performed more weakly than bonds.

Past performance is no 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. Government bonds 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 bonds. Holding a portfolio of securities for the long term does not ensure a profitable outcome and investing in securities always involves risk of loss. The rates used in the analysis and their corresponding compound annual growth rates are the consumer price index for: all urban consumers (CPI-U) (3.1%), medical care(5.4%), and college tuition and fees (7.4%).

Investment of $1,000 in Stocks and Bonds Before and After Inflation Rates, 1982–2011




Source: Stocks—Standard & Poor's 500®, which is an unmanaged group of securities and is considered to be representative of the U.S. stock market in general; Bonds—20-year U.S. government bond; Historical inflation—Consumer Price Index; Growth rates of CPI categories—non-seasonally adjusted U.S. city averages from the Bureau of Labor Statistics.

# Mixed Income

Fixed-income performance reversals are common: It is extremely difficult to predict which category of bonds will be the best or worst performer in any given year. The performance of any fixed-income investment can have drastic periodic changes. Investors could potentially diminish their returns by attempting to follow last year's winner.

Furthermore, investors who have an asset allocation policy consisting of different asset classes such as stocks and bonds may still not be diversified. Therefore, branching out within each asset class may further lessen overall portfolio risk.

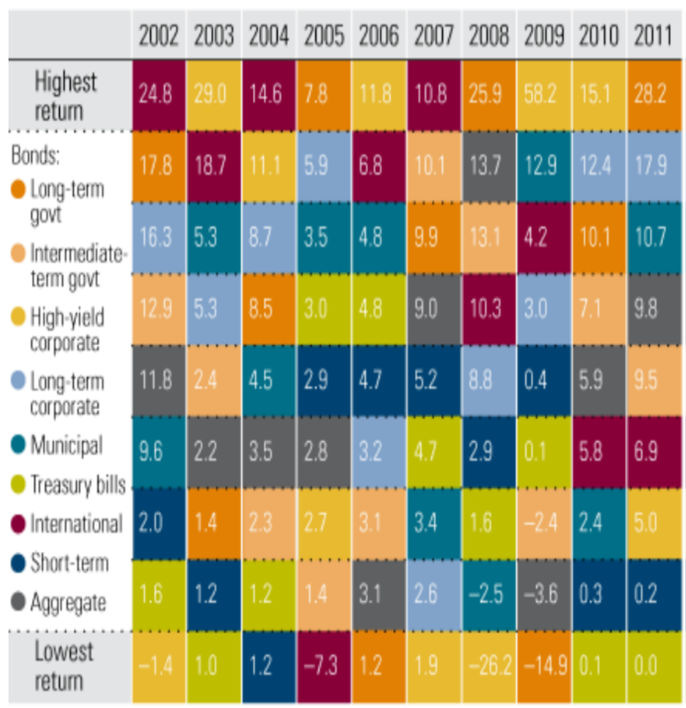
Diversified bond funds might alleviate portfolio volatility: The image illustrates the performance of various fixed-income instruments in relation to one another from 2002 to 2011. The data shows it is impossible to predict the winners for any given year. For example, high-yield corporate bonds were the worst performers in 2007 and 2008, but rose to become the best-performing investment in 2009 and 2010. While aggregate bonds have never been the top performer in any of the years examined, their performance has remained fairly consistent, with minimal swings when compared with other categories such as long-term and international bonds.

It can be beneficial to hold a fund that is diversified across several types of bonds. This might reduce portfolio risk while allowing for more consistent performance over time.

Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. Diversification does not eliminate the risk of experiencing investment losses. 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. With corporate bonds, an investor is a creditor of the corporation and the bond is subject to default risk. High-yield corporate bonds exhibit significantly more risk of default than investment grade corporate bonds. Municipal bonds may be subject to the alternative minimum tax (AMT) and state and local taxes, and federal taxes would apply to any capital gains distributions. International bonds are not guaranteed. International investments involve special risks such as fluctuations in currency, foreign taxation, economic and political risks, and differences in accounting and financial standards.

## Fixed-Income Winners and Losers

### Performance of Various Fixed-Income Investments



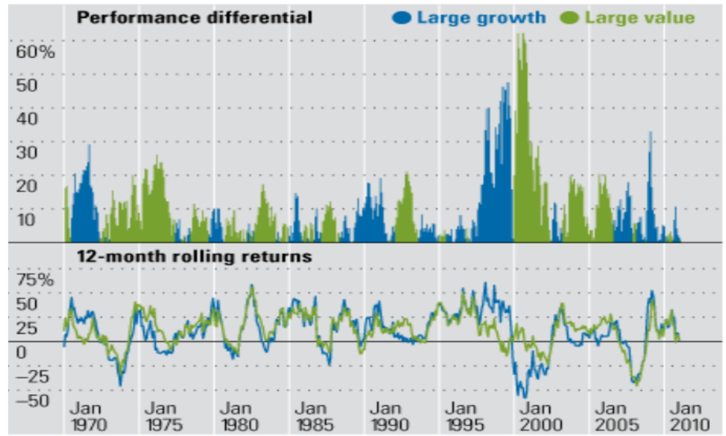

Source: Long-Term Government Bonds—20-year U.S. government bond; Intermediate-Term Government Bonds—5-year U.S. government bond; Treasury Bills—30-day U.S. Treasury bill; High-Yield Corporate Bonds—Barclays domestic corporate high-yield bond index; Corporate Bonds—Ibbotson Associates long-term high-grade corporate bond index; International Bonds—Citigroup non-U.S. world government bond index; Municipal Bonds—Barclays municipal bond index; Short-Term Bonds—Barclays short treasury index; Aggregate Bonds—Barclays aggregate bond treasury index. An investment cannot be made directly in an index.

# Head to Head Competition: Large Growth versus Large Value

The battle between large-cap growth and value investing has been going on for years, with each style trying to seize the spotlight. Although there is an annual frontrunner, history shows that leadership shifts with market conditions. In the bull market of the late 90s, growth stocks offered superior returns. But, since that bubble burst in 2000, value went on quite an impressive run. Growth seems to have captured the spotlight more recently between 2007 and 2010; however, 2011 was a mixed bag. Many wonder if the tables have turned yet again.

Determining your allocation between growth and value can be difficult. Which style is more stable, or which will provide higher returns? Unfortunately, there is no definite answer. Focus on finding the option that offers the most upside for your situation: perhaps it's growth, maybe value, or possibly a blend of both.

One-Year Growth and Value Cycles: 1970–2011




Performance differential measures the outperformance of one asset class over the other using 12-month rolling returns. 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. Returns and principal invested in stocks are not guaranteed.

Source: Large growth and value stocks in this example are represented by the Ibbotson Associates Growth and Value Indexes for 1970–1997 and the Morningstar Style Indexes thereafter. Ibbotson Associates Growth and Value Indexes are calculated based on data from CRSP US Stock Database and CRSP US Indices Database, Center for Research in Security Prices (CRSP®), The University of Chicago Booth School of Business. Used with permission.

# Find the Right Stock/Bond Mix for College Savings

When it comes to selecting specific investments for a college portfolio, asset allocation is every bit as crucial, if not more so, than it is for retirement savers. Retirees can delay retirement or work part-time longer if their retirement portfolios come up short. Most young people, on the other hand, want to go to college right after high school, making the target date for a college fund much more specific. (The target date is the approximate date when investors plan to start withdrawing their money for college.) As it takes most students only four to five years to get through college, a college fund's drop in value during high school or early college years can be catastrophic. The principal value of such funds is not guaranteed at any time, including at the target date.

A healthy share of the assets flowing into 529 plans is now directed toward age-based options. Much like target-date mutual funds, age-based options contain a mix of stocks, bonds, and cash, and grow progressively more conservative as your child nears college age. But it's important to conduct due diligence on an age based plan beforehand. And if your 529 plan's age based options are dramatically out of whack with industry averages, that's a red flag to look for another 529 plan, create your own age-appropriate portfolio using individual funds, or supplement the age-based plan with individual stock, bond, or cash holdings.

Government bonds and Treasury bills 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 bonds. Diversification does not eliminate the risk of experiencing investment losses. 529 plans are tax deferred college savings vehicles. Any unqualified distribution of earnings will be subject to ordinary income tax and subject to a 10% federal penalty tax.

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