

On Balance

Enjoying Today, Preparing for Tomorrow

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Early Retirement

Forty-five percent of current retirees reported that they retired earlier than they planned; only 3% said they retired later than they planned.

Source: Employee Benefit Research Institute, 2011



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Going Global: Proceed with Caution

International investing offers an opportunity to diversify your portfolio, but it's important to be aware of the risks.

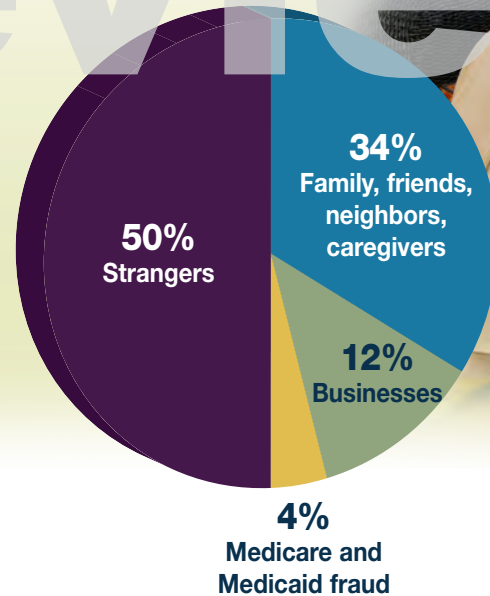
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Be Alert for Elder Fraud

Most victims of elder fraud are between the ages of 80 and 89, live alone, and require health or home maintenance care. Women are especially vulnerable.

Elder financial abuse cases, by category (% of total)



For tips that may help prevent scams and fraud, visit myqr4u.com/12345 or scan this code.



Source: *Journal of Financial Planning*, August 2011

PRACTICAL INSIGHTS FOR YOUR FINANCIAL GOALS

Going Global: Proceed with Caution

The U.S. economy lost ground during the Great Recession and has grown slowly over the last two years. Other advanced economies are also struggling, whereas many emerging and developing economies are thriving, with continued strong growth projected for the next few years.¹

Foreign stocks outpaced domestic stocks, bonds, and cash alternatives in 14 of the last 30 years.² Investing internationally offers a way not only to help diversify your portfolio but also to take advantage of the potential for growth in some foreign economies. Remember, of course, that past performance is no guarantee of future results. Diversification is a method used to help manage investment risk; it does not guarantee against loss.

Although the global market offers opportunities, they come with significant challenges. Before investing internationally, it's important to understand the political and economic forces at work in the region where you intend to invest.

Weighing Potential Risks

The United States has strong laws enforcing contracts and property rights, as well as strict accounting standards, which have become stricter since the accounting scandals of the early 2000s. In contrast, many

foreign countries — especially those with emerging economies — may not offer the same level of legal protection or financial reporting.

Foreign markets might also be affected by political unrest or natural disasters. The Libyan civil war and the tsunami in Japan severely impacted the economies of those nations.³ On the other hand, some political changes may have a positive effect. Iraq and Afghanistan are among the fastest growing economies in the world.⁴

Another factor to consider is currency fluctuation. When the dollar is strong against a foreign currency, it may provide increased buying power for U.S. investors. However, if the dollar weakens, it could erode the value of any investment gains.

The World Keeps Changing

Foreign economic conditions may change at any time. Although western Europe has traditionally been considered a relatively stable investment environment, the European

BUILDING WITH BRICS

Forecasted average annual GDP growth, 2012–2016



Source: International Monetary Fund, 2011

Looking Ahead in 2012

The old saying “No one has a crystal ball” is certainly true when it comes to the economy, and forecasters often modify their predictions.

Early last year, the National Association for Business Economics (NABE) forecasted that U.S. gross domestic product (GDP) would increase by 3.3% in 2011.

As the year progressed and the economy proved more sluggish than expected, the NABE lowered its projection to 2.8% and later to 1.7%.¹

What’s in store for 2012? No one knows for sure, but the consensus among forecasters is that the economy may continue to grow slowly, but perhaps at a somewhat stronger pace than in 2011. Even with this growth potential, inflation (as measured by the Consumer Price Index) is expected to drop, while unemployment is likely to remain high (see chart).

Interest Rates and Housing

In August, the Federal Reserve announced that weak economic conditions “are likely to warrant exceptionally low levels for the federal funds rate at least through mid-2013.” The federal funds rate is a benchmark for short-term rates, and in September the Fed took further action intended to drive down long-term rates.² You can probably count on low interest rates in 2012, but whether this stimulates the economy remains to be seen.

The collapse of the housing market played a major role in the economic challenges of the last few years, but there are indications that the worst may be over in many areas.³ However, lending issues, consumer confidence, and overbuilding in some regions suggest that home values might not rebound for some time.⁴⁻⁵

Investment Forecasts

Economic forecasts may be helpful when reviewing your investment strategy, but it’s wise not to overreact. Although the outlook for 2012 suggests that the U.S. economy may continue to experience slow growth in the short term, it’s difficult to predict how that could affect your investments.

If the economy performs better than anticipated, you might consider it a “bonus” that could give you a little extra help in pursuit of your long-term goals. Regardless of short-term results, a sound investment strategy should be based on your personal situation, time frame, and risk tolerance.

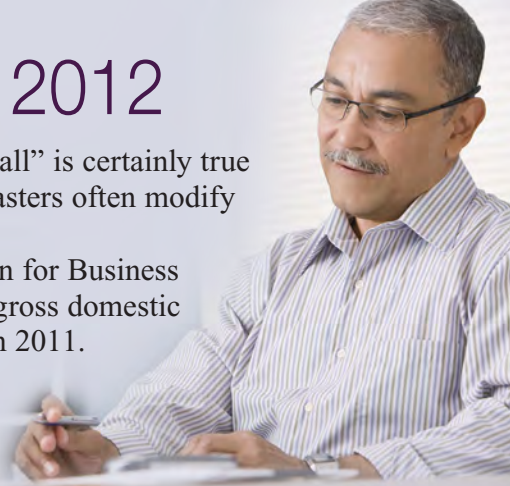
debt crisis has strained economies throughout the eurozone.⁵ In Asia, China’s economy has grown so quickly that Chinese leaders are increasingly concerned about the threat of inflation.⁶ The so-called BRIC countries (Brazil, Russia, India, and China) — which account for more than 40% of the world’s population — may be gradually moving out of the emerging economic phase toward becoming more advanced economic powers.⁷⁻⁸

All investments are subject to market fluctuation, risk, and loss of principal, but the stocks of companies located in emerging markets could be substantially more volatile and less liquid than the stocks of companies located in more developed foreign markets. When sold, investments may be worth more or less than their original cost. Investments seeking to achieve higher rates of return also involve a higher degree of risk.

Investing internationally could play a helpful role in your investment strategy. Regardless of whether you are considering future investment or currently hold international securities in your portfolio, it would be wise to keep an eye on the changing global economic environment.

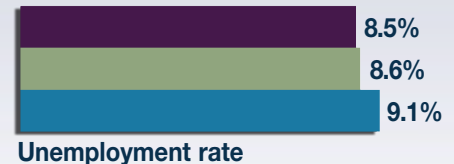
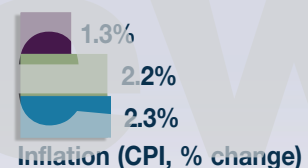
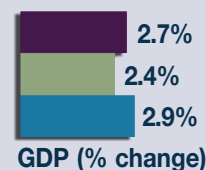
1, 4) International Monetary Fund, 2011
2) Thomson Reuters, 2011, for the period 12/31/1980 to 12/31/2010. Foreign stocks are represented by the MSCI EAFE Index; U.S. stocks by the S&P 500 Composite Price Index; bonds by the Citigroup Corporate Bond Composite Index; and cash alternatives by the T-Bill 3-Month Yield Index. These indexes are considered representative of the individual asset classes. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. Rates of return will vary over time, especially for long-term investments. Actual results will vary.
3) CNNWorld, August 22, 2011; May 18, 2011
5) AFP.com, September 16, 2011
6) SmartMoney.com, March 2, 2011
7) CIA World Factbook, 2011
8) China Daily, April 13, 2011

1) National Association for Business Economics, 2011
2) Federal Reserve, 2011
3) CNNMoney, May 19, 2011; August 30, 2011
4) National Association of Realtors, 2011
5) Congressional Budget Office, 2011



THE COMING YEAR Economic forecasts for 2012

■ Congressional Budget Office
■ The Wall Street Journal
■ University of Michigan



Sources: Congressional Budget Office, 2011; *The Wall Street Journal's* Economic Forecasting Survey, 2011; University of Michigan, Research Seminar in Quantitative Economics, 2011

Keeping Pace with Social Security

Since 1975, Social Security beneficiaries have received a cost-of-living adjustment (COLA) to compensate for inflation every year except 2010 and 2011. The good news is that a 3.6% COLA has been implemented for 2012. However, this “raise” may be reduced slightly by higher Medicare premiums, which are deducted directly from Social Security payments.¹

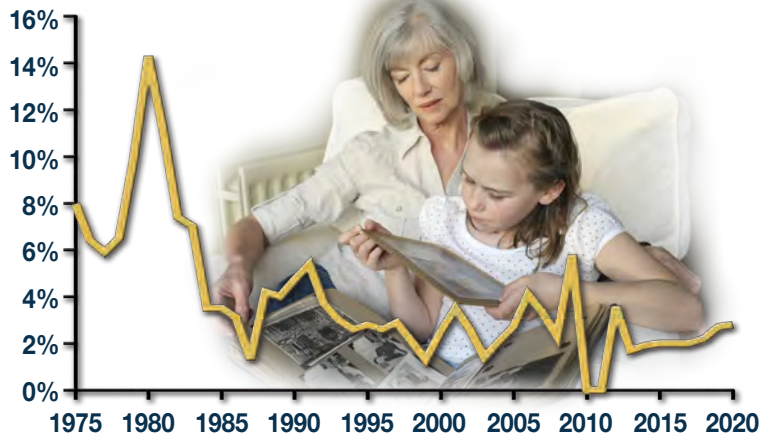
How the COLA Is Determined

The COLA is based on the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W), which measures the spending habits of workers who are generally younger than Social Security recipients. A recent study suggests that, while Social Security benefits increased 31% from 2000 to 2011, typical expenses for people aged 65 and older increased by 73%.²

One suggestion to address this disparity is to base the COLA on the CPI for Elderly Consumers (CPI-E), an “experimental” price index that the government has tracked since 1983.³ Although the CPI-E has increased somewhat faster than the CPI-W, the difference is relatively small. A monthly benefit of \$1,000 in 2001 would have increased to about \$1,268 in 2011 based on the CPI-W and \$1,280 based on the CPI-E.⁴

Considering Social Security’s fiscal problems, a more likely change (proposed by two congressional commissions) is to lower benefit adjustments by tying the COLA to the slower-moving Chained CPI for All Urban Consumers (C-CPI-U), which attempts to track

PAST, PRESENT, AND FUTURE Actual and projected Social Security COLAs



Source: Social Security Administration, 2011 (projections for 2013 and beyond are based on the 2011 Trustees Report)

changes in spending patterns as consumers respond to price changes.⁵ If the \$1,000 monthly benefit in 2001 had been based on the C-CPI-U, it would have increased to only \$1,238 in 2011.⁶

Regardless of the index used, current and near-retirees are unlikely to see major changes to their basic benefits. It’s clear that Social Security should not be given too much weight in funding a comfortable retirement.

- 1) Social Security Administration, 2011
- 2-3) The Senior Citizen’s League, 2011
- 4, 6) Haver Analytics, 2011
- 5) Center for Retirement Research, 2011

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*Now may be a good time to examine your retirement savings strategy for 2012 and beyond.
Call us to discuss your portfolio and investment options.*

Mark Reynolds