



MARKET UPDATE NEWSLETTER

Middle East in Transition

The US markets continued into 2011 with the same strength of 2010; the S&P500 gained 2.4% in January, and the Dow surpassed the psychologically important 12,000 level. [S&P500 trailing 12 month return 22.2%] Investment volatility was unexpectedly minimal, as the markets seemed to shake off the front page global events taking center stage in the Middle East. Egypt's successful uprising spread from Tunisia's just weeks earlier, a continuation from the attempted uprising in Iran a year ago. It is as if markets knew the outcome...

On the US economic front, there exists some conflicting data. While the economy grew faster in the fourth quarter of 2010 than originally expected, home prices declined for the sixth straight month as 19 of the 20 metropolitan markets fell in price according to the S&P/Case-Shiller report. Even more contradictory was January's employment report. The unemployment rate fell from 9.4% to 9.0%, but stated job growth of 36,000 was not large enough to support this change in rate. (For comparison, December's job growth was 121,000.) The randomness and vagaries of the employment report is starting to become more public, and many believe the true unemployment figure may be much higher than stated. What is clear is that housing and employment continue to be the major concerns.

Higher food prices have been reported as one of the sparks that ignited the duress in the Middle East. In our 2011 outlook, we noted this "food inflation" as a concern. What we didn't know is the extent and how quickly this can affect the population of the world. It is far tougher for the less wealthy and economically weaker nations to absorb higher food costs since food is a much larger component of their cost of living.



Egypt Celebrates!

Investment Outlook Summary

Asset Class	Outlook	Commentary
Cash / Stable Value	<ul style="list-style-type: none"> – In general, higher than normal levels of cash 	Higher levels of cash have proved helpful in 2010 reducing portfolio volatility and providing funds when opportunities have presented themselves.
Bonds / Fixed Income	<ul style="list-style-type: none"> – In general, shifting from slight overweight to slight underweight exposure of bonds – Cautious of Treasuries for the long-run – Positive on Treasury Inflation-Protected Securities (TIPS) – Slightly positive on floating rate bonds – Positive on emerging market bonds 	<p>Many bond mutual funds have enjoyed great gains, along with record inflows from investors during this latest "flight to safety." It may be time to look for fixed income investments outside of the traditional mutual fund.</p> <p>Primarily used for safety, but with yields at historic lows and the risks of future inflation present, treasury owners may not be paid adequately for the potential risk.</p> <p>Essentially, these are treasury notes with an interest rate tied to inflation. Used for safety, but the future interest paid will increase with inflation. <i>TIPs have pulled back recently.</i></p> <p>A rising interest rate environment is positive for floating rate investments. While rates are currently not rising, some value is present.</p> <p>As this asset class develops and matures, there will be great potential for investors over the coming years. We will be looking to add these over time.</p>
Stocks / Equities	<ul style="list-style-type: none"> – <i>In general, shifting from underweight to normal levels of exposure of stocks</i> – <i>Neutral on preferred stocks</i> – Positive on dividend paying stocks – Utilizing covered call strategies to hedge – Selective of international stocks – Positive on China, Brazil, Canada and Australia – Avoid much of Europe, the U.K., and Japan 	<p>Pullbacks should be seen as an opportunity to start increasing stock exposure to more normal levels.</p> <p><i>Preferred share class stocks have performed well and seem to more than fairly valued.</i></p> <p>Many of the traditional dividend paying companies are more attractively valued than the general stock market.</p> <p>Covered call options strategies can provide extra income to your portfolio while you own stocks.</p> <p>International diversification is still very important to your portfolio, however individual country selection will likely play an increasing role in international stock performance.</p> <p>Global markets have been performing poorly just as the markets here in the US have. The long term opportunities remain. <i>Emerging Markets have performed poorly this past month.</i></p> <p>The economists and market strategists we follow have warned about Europe for well over a year. Current solutions appear to be a band-aid to a much larger problem inherent in a shared currency. <i>The story hasn't changed.</i></p>
Alternate Assets	<ul style="list-style-type: none"> – Positive on Gold and Silver – Negative on the Euro – Positive on energy trusts 	<p>Primarily used as an inflation hedge, but also a currency hedge. The risks of global currency dilution are present. <i>Gold and silver have rebounded nicely from the pullback in late 2010.</i></p> <p>European sovereign risks are now front and center again with the Irish bank bailout.</p> <p>Many energy trusts provide a good dividend source with the potential for capital gains. Looking more attractive.</p>

Italics denote a change from last month

Saving for Retirement and a Child's Education at the Same Time

You want to retire comfortably when the time comes. You also want to help your child go to college. So how do you juggle the two? The truth is, saving for your retirement and your child's education at the same time can be a challenge. But take heart—you may be able to reach both goals if you make some smart choices now.

Know what your financial needs are

The first step is to determine what your financial needs are for each goal. Answering the following questions can help you get started:

For retirement:

- How many years until you retire?
- Does your company offer an employer-sponsored retirement plan or a pension plan? Do you participate? If so, what's your balance? Can you estimate what your balance will be when you retire?
- How much do you expect to receive in Social Security benefits?
- What standard of living do you hope to have in retirement?
- Do you or your spouse expect to work part-time in retirement?

For college:

- How many years until your child starts college?
- What's the expected cost?
- Do you have more than one child whom you'll be saving for?
- Do you expect your child to qualify for financial aid?

Figure out what you can afford to put aside each month

After you know what your financial needs are, the next step is to determine what you can afford to put aside each month. To do so, you'll need to prepare a detailed family budget that lists all of your income and expenses. Keep in mind, though, that the amount you can afford may change from time to time as your circumstances change. Once you've come up with a dollar amount, you'll need to decide how to divvy up your funds.

Retirement takes priority

Though college is certainly an important goal, you should probably focus on your retirement if you have limited funds. With generous corporate pensions mostly a thing of the past, the burden is primarily on you to fund your retirement. But if you wait until your child is in college to start saving, you'll miss out on years of tax-deferred growth and compounding of your money. Remember, your child can always attend college by taking out loans (or maybe even with scholarships), but there's no such thing as a retirement loan!

If possible, save for your retirement and your child's college at the same time

Ideally, you'll want to try to pursue both goals at the same time. The more money you can squirrel away for college bills now, the less money you or your child will need to borrow later. Even if you can allocate only a small amount to your child's college fund, say \$50 or \$100 a month, you might be surprised at how much you can accumulate over many years. For example, if you saved \$100 every month and earned 8 percent, you'd have \$18,415 in your child's college fund after 10 years. (This example is for illustrative purposes only and does not represent a specific investment.)

If you're unsure how to allocate your funds between retirement and college, a professional financial planner may be able to help you. This person can also help you select the best investments for each goal. Remember, just because you're pursuing both goals at the same time doesn't necessarily mean that the same investments will be appropriate. Each goal should be treated independently.

Help! I can't meet both goals

If the numbers say that you can't afford to educate your child or retire with the lifestyle you expected, you'll have to make some sacrifices. Here are some things you can do:

Defer retirement: The longer you work, the more money you'll earn and the later you'll need to dip into your retirement savings.

Work part-time during retirement.

Reduce your standard of living now or in retirement: You might be able to adjust your spending habits now in order to have money later. Or, you may want to consider cutting back in retirement.

Increase your earnings now: You might consider increasing your hours at your current job, finding another job with better pay, taking a second job, or having a previously stay-at-home spouse return to the workforce.

Invest more aggressively: If you have several years until retirement or college, you might be able to earn more money by investing more aggressively (but remember that aggressive investments mean a greater risk of loss).

Expect your child to contribute more money to college: Despite your best efforts, your child may need to take out student loans or work part-time to earn money for college.

Send your child to a less expensive school: You may have dreamed your child would follow in your footsteps and attend an Ivy League school. However, unless your child is awarded a scholarship, you may need to lower your expectations. Don't feel guilty—a lesser-known liberal arts college or a state university may provide your child with a similar quality education at a far lower cost.

Think of other creative ways to reduce education costs: Your child could attend a local college and live at home to save on room and board, enroll in an accelerated program to graduate in three years instead of four, take advantage of a cooperative education where paid internships alternate with course work, or defer college for a year or two and work to earn money for college.

Can retirement accounts be used to save for college?

Yes. Should they be? Probably not. Most financial planners discourage paying for college with funds from a retirement account; they also discourage using retirement funds for a child's college education if doing so will leave you with no funds in your retirement years. However, you can certainly tap your retirement accounts to help pay the college bills if you need to. With IRAs, you can withdraw money penalty free for college expenses, even if you're under age 59½ (though there may be income tax consequences for the money you withdraw). But with an employer-sponsored retirement plan like a 401(k) or 403(b), you'll generally pay a 10 percent penalty on any withdrawals made before you reach age 59½ (age 55 in some cases), even if the money is used for college expenses. You may also be subject to a six month suspension if you make a hardship withdrawal. There may be income tax consequences, as well. (Check with your plan administrator to see what withdrawal options are available to you in your employer-sponsored retirement plan.)

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SDW's TAKE

With any financial advice article, even when we agree with the overall message, there always seems to be some points made within the article that we disagree with. For example: *working part time during retirement* may not be an option when retirement actually comes, and the advice listed with *send your child to a less expensive school* hardly helps.

What is clear is that both goals are not only important to clients, they are also very personal in nature; everyone's situation is different. We find planning to the best of your abilities with the resources you have available today yields far better results than needing to rely on resources that may not be available in the future.

We have helped many clients plan for the dual task of saving for both retirement and college expenses, and if any generalities can be made it would be that **those who are on track for retirement find it far easier to tackle college expenses than those who divide their resources and inadequately save for both.** The point of *Retirement Takes Priority* may be the most important take away from this article.

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