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March 2011

MARKET UPDATE NEWSLETTER

Who's Next?

Col. Moammar Kadafi waves good bye

Strong performances in early February helped take US markets to their highest levels since 2008. It was also the third consecutive month of gains for both the Dow and S&P500. The S&P500 gained 3.4% for the month, and is up 5.9% so far for the year. [S&P500 trailing 12 month return 22.6%] Investment volatility that was unexpectedly calm during the Tunisian and Egyptian uprisings changed as it spread to Libya, causing higher tensions and uncertainties in the markets. Concerns about oil supplies sent prices above $100 per barrel once again; still far from the $148 peak reached in July 2008, but significant considering oil was in the mid $30 range in December of 2008. Gasoline prices are making headlines as it approaches $4 a gallon; it was in the mid $1 range in late 2008. High oil and gas prices have created a bit of concern about their eventual impact on our economic recovery.

While the reduction in Libyan oil supply has increased prices, Saudi Arabia has reported to increase supply to "fill in the gap." Saudi Arabia is a nation with a great supply of crude oil, however it is of lower quality which requires different refining techniques than the "quality" crude Libya supplies. Given their massive oil reserves, the elephant in the room is if/when civil unrest will reach Saudi Arabia. Their current hydrocarbon production is 5x that of Libya. There is currently no country that could "fill in the gap" for Saudi Arabia.

Time does seem to heal wounds as the economic news in the U.S. continues to improve. Corporate profits were generally higher than expected, retail consumer spending is improving, and the reported unemployment rate fell below 9%. These figures however have largely been back page news given world events. Housing and employment continue to be the major concerns, with an eye on the inflation vs. deflation struggle.

While our updates focus primarily on things economic, all of us here at SDW Investment Advisors wish nothing but the best for the people affected by these world events. Our hearts go out to the citizens of Japan as they deal with such an unimaginable disaster.

Investment Outlook Summary

Asset Class	Outlook	Commentary
Cash / Stable Value	– 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	– In general, shifting from slight overweight to slight underweight exposure of bonds	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.
	– Cautious of Treasuries for the long-run	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.
	– Positive on Treasury Inflation-Protected Securities (TIPS)	Essentially, these are treasury notes with an interest rate tied to inflation. Used for safety, but the future interest paid will increase with inflation.
	– Slightly positive on floating rate bonds	A rising interest rate environment is positive for floating rate investments. While rates are currently not rising, some value is present.
	– Positive on emerging market bonds	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.
Stocks / Equities	– *In general, shifting from underweight to normal levels of exposure of stocks*	Pullbacks should be seen as an opportunity to start increasing stock exposure to more normal levels.
	– *Neutral on preferred stocks*	*Preferred share class stocks have performed well and seem to more than fairly valued.*
	– Positive on dividend paying stocks	Many of the traditional dividend paying companies are more attractively valued than the general stock market.
	– Utilizing covered call strategies to hedge	Covered call options strategies can provide extra income to your portfolio while you own stocks.
	– Selective of international stocks	International diversification is still very important to your portfolio, however individual country selection will likely play an increasing role in international stock performance.
	– Positive on China, Brazil, Canada and Australia	Global markets have been performing poorly just as the markets here in the US have. The long term opportunities remain.
	– Avoid much of Europe, the U.K., and Japan	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. *The story hasn't changed.*
Alternate Assets	– Positive on Gold and Silver	Primarily used as an inflation hedge, but also a currency hedge. The risks of global currency dilution are present. *Silver has set a new all time high.*
	– Negative on the Euro	European sovereign risks are now front and center again with the Irish bank bailout.
	– Positive on energy trusts	Many energy trusts provide a good dividend source with the potential for capital gains. Looking more attractive.

Italics denote a change from last month

All about IRAs

An individual retirement account (IRA) is a personal retirement savings plan that offers specific tax benefits. In fact, IRAs are one of the most powerful retirement savings tools available to you. Even if you're contributing to a 401 (k) or other plan at work, you should also consider investing in an IRA.

What types of IRAs are available?

There are two major types of IRAs: ***Traditional IRAs*** and ***Roth IRAs***. Both allow you to make annual contributions of up to $5,000 in 2010 and 2011. The law also allows taxpayers age 50 and older to make additional "catch-up" contributions. These folks can put up to $6,000 in their IRAs in 2010 and 2011.

Both traditional and Roth IRAs feature tax-sheltered growth of earnings. And both give you a wide range of investment choices. However, there are important differences between these two types of IRAs. You must understand these differences before you can choose the type of IRA that's best for you.

Traditional IRAs

Practically anyone can open and contribute to a traditional IRA. The only requirements are that you must have taxable compensation and be under age 70½.

Your contributions to a traditional IRA may be tax deductible on your federal income tax return. This is important because tax-deductible (pretax) contributions lower your taxable income for the year, saving you money in taxes. If neither you nor your spouse is covered by a 401(k) or other employer-sponsored plan, you can generally deduct the full amount of your annual contribution. If one of you is covered by such a plan, your ability to deduct your contributions depends on your annual income (modified adjusted gross income, or MAGI) and your income tax filing status. You may qualify for a full deduction, a partial deduction, or no deduction at all.

What happens when you start taking money from your traditional IRA? Any portion of a distribution that represents deductible contributions is subject to income tax because those contributions were not taxed when you made them. Any portion that represents investment earnings is also subject to income tax because those earnings were not previously taxed either. Only the portion that represents nondeductible, after-tax contributions (if any) is not subject to income tax. In addition to income tax, you may have to pay a 10% early withdrawal penalty if you're under age 59½, unless you meet one of the exceptions.

If you wish to defer taxes, you can leave your funds in the traditional IRA, but only until April 1 of the year following the year you reach age 70½. That's when you have to take your first required minimum distribution from the IRA. After that, you must take a distribution by the end of every calendar year until your funds are exhausted or you die. The annual distribution amounts are based on a standard life expectancy table. You can always withdraw more than you're required to in any year. However, if you withdraw less, you'll be hit with a 50% penalty on the difference between the required minimum and the amount you actually withdrew.

Roth IRAs

Not everyone can set up a Roth IRA. Even if you can, you may not qualify to take full advantage of it. The first requirement is that you must have taxable compensation. If your taxable compensation is at least $5,000 in 2011 (and 2010), you may be able to contribute the full amount. But it gets more complicated. Your ability to contribute to a Roth IRA in any year depends on your MAGI and your income tax filing status. Your allowable contribution may be less than the maximum possible, or nothing at all.

Your contributions to a Roth IRA are not tax deductible. You can invest only after-tax dollars in a Roth IRA. The good news is that, if you meet certain conditions, your withdrawals from a Roth IRA will be completely free from federal income tax, including both contributions and investment earnings. To be eligible for these qualifying distributions, you must meet a five-year holding period requirement. In addition, one of the following must apply:

-You have reached age 59½ by the time of the withdrawal
-The withdrawal is made because of disability
-The withdrawal is made to pay first-time homebuyer expenses ($10,000 lifetime limit from all IRAs)
-The withdrawal is made by your beneficiary or estate after your death

Qualifying distributions will also avoid the 10% early withdrawal penalty. This ability to withdraw your funds with no taxes or penalty is a key strength of the Roth IRA. And remember, even nonqualifying distributions will be taxed (and possibly penalized) only on the investment earnings portion of the distribution, and then only to the extent that your distribution exceeds the total amount of all contributions that you have made.

Another advantage of the Roth IRA is that there are no required distributions after age 70½ or at any time during your life. You can put off taking distributions until you really need the income. Or, you can leave the entire balance to your beneficiary without ever taking a single distribution. Also, as long as you have taxable compensation and qualify, you can keep contributing to a Roth IRA after age 70½.

Note: *You can have both a traditional IRA and a Roth IRA, but your total annual contribution to all of the IRAs that you own cannot be more than $5,000 ($6,000 if you're age 50 or older).*

-Prepared by Forefield Inc. Copyright 2010 (updated with 2011 amounts)

SDW's TAKE

Traditional IRAs

-IRA Account: grows tax deferred and can be invested in a wide range of investments including stocks, bonds, ETFs, mutual funds, etc...

-Contribution: tax deductible if income limitations are met.

-Rollover: the action of transferring a previous employers' retirement plan into your IRA account. *This is a non-taxable transaction if done correctly.*

-Conversion: the action of converting an existing IRA to a Roth IRA, in 2010 the income limiting restriction was removed, however the amount converted is taxable as income in the year converted *(2010 exception).*

-Distribution: a 10% penalty exists on withdrawals before age 59½, Required Minimum Distributions (RMD) start at age 70½, all withdrawals are taxed at income tax rates.

Roth IRAs

-Roth IRA Account: grows tax deferred and can be invested in a wide range of investments including stocks, bonds, ETFs, mutual funds, etc...

-Contribution: not tax deductible, and only allowed if income limitations are met.

-Rollover: typically rollovers are for traditional IRAs not Roth IRAs, however recently introduced Roth 401(k)s are more common and a Roth IRA would be the receiving account for such funds. *This is a non-taxable transaction if done correctly.*

-Conversion: (see Conversion above)

-Distribution: for most situations retirement withdrawals will be free from taxes. (see main article for special circumstances).

With recent tax law changes, opportunities for both Traditional and Roth IRAs have become more accessible to clients, even those with higher incomes.