



## MARKET UPDATE

### October's Rebound: much needed and highly welcomed

Historically, October has been a month plagued with market surprises and overall poor performance, but this October did not follow history as the S&P 500 rose 10.77% for the month—a clear turnaround from the disappointing losses in September. The surge left most U.S. stock markets nearly flat for the year with the S&P 500 down -0.34%. Gains were not limited to the equity markets alone; many commodities rose as well. Gold retraced some recent losses to once again reach nearly \$1,750/troy oz. Oil surged as West Texas Intermediate (WTI) was as low as \$75/barrel, finishing the month above \$90. This may be an omen for a future headwind in the economy as higher oil prices usually lead to higher gasoline prices. Each additional penny for a gallon of gas costs Americans \$1.4 billion dollars in purchasing power.

There were two main drivers for the turnaround, first was the thought that Euro Zone leaders were making positive progress in resolving the large debt issues. Second is that the likelihood of a double dip recession went down as the US economy grew nearly twice as fast in the third quarter than in the second. While the economy grew overall, there are very few signs of a meaningful housing market recovery. Historically, it is hard to find times of economic recovery without involvement of the housing market. Housing sales have been falling over recent months even with mortgage rates at historic lows and the Federal Reserve indicating that rates will remain low for an "extended period." Even with attractive loan terms and "more attractive" housing prices than we have seen in some time, buyers are either skittish about making such a large investment, or unable to because they are underwater on a house already. Job growth has been promising recently, but at the current job growth rate it would take years to lower unemployment to pre-2008 levels.

**i'm too big to fail**

### Investment Outlook Summary

| Asset Class                 | Outlook  | Commentary   |
|-----------------------------|--|--|
| <b>Cash / Stable Value</b>  | <ul style="list-style-type: none"> <li>– In general, higher than normal levels of cash</li> </ul>  | Even though money market rates are basically zero, having investments with high safety and liquidity provides access when opportunities arise, and stability when markets turn volatile.   |
| <b>Bonds / Fixed Income</b> | <ul style="list-style-type: none"> <li>– In general, slight underweight level of bond exposure</li> <li>– Cautious of Treasuries for the long-run</li> <li>– Positive on Treasury Inflation-Protected Securities (TIPS)</li> <li>– Positive on emerging market bonds</li> </ul>  | <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 would increase as inflation increases.</p> <p>As this asset class develops and matures, there will be great potential for investors over the coming years.</p>  |
| <b>Stocks / Equities</b>    | <ul style="list-style-type: none"> <li>– In general, underweight to normal levels of stock exposure</li> <li>– Positive on dividend paying stocks</li> <li>– Utilizing covered call strategies to hedge</li> <li>– Selective of international stocks</li> <li>– Positive on Korea, Brazil, Canada and Australia. Cautious of China</li> <li>– Avoid much of Europe, the U.K., and Japan</li> </ul> | <p>Pullbacks should be seen as an opportunity to increase stock exposure to neutral levels, that is neither underweight nor overweight.</p> <p>Many of the traditional dividend paying companies are more attractively valued than the general stock market. A number of large companies are now paying a dividend that is higher than the yield on the 10 year US Government bond, some are even higher than the 30 year.</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>While the long term opportunities remain with emerging market economies, resource rich countries like Canada and Australia provide the building blocks the world needs in order to grow.</p> <p>Current solutions appear to be a band-aid to a much larger problem inherent in a shared currency. Issues continue in Europe, recent news has increasingly affected the markets.</p> |
| <b>Alternate Assets</b>     | <ul style="list-style-type: none"> <li>– Positive on Gold and Silver</li> <li>– Negative on the Euro currency</li> <li>– Positive on energy trusts</li> </ul>  | <p>Primarily used as an inflation and currency hedge. The risks of global currency dilution are present.</p> <p>Fiscal problems in Europe continue to be on center stage.</p> <p>Many energy trusts provide a good dividend source with the potential for capital gains.</p>   |

*Italics denote a change from last month*

## PAGE 2

## The Fundamentals of Disability Insurance

Disability insurance pays benefits when you are unable to earn a living because you are sick or injured. Most disability policies pay you a benefit that replaces a percentage of your earned income when you can't work.

### Why would you need disability insurance?

Your chances of being disabled for longer than three months are much greater than your chances of dying prematurely. Although this is good news, it increases your need to protect your income with disability insurance.



Consider what might happen if you suffered an injury or illness and couldn't work for days, months, or even years. If you're single, do you have other means of support? If you're married, you may be able to rely on your spouse for income, but you probably also have many

financial obligations, such as supporting your children and paying your mortgage. Accidents happen not only on the job but also at home, and illness can strike anyone.

### How much disability income insurance should you have?

The amount of individual disability income insurance you should buy depends on three things: how much income you'll need if you become disabled, how much money you can afford to spend on premiums, and how much insurance you'll be able to purchase under the insurance company's guidelines.

#### Determine how much income you'll need if you become disabled

It's hard to know exactly how much income you'll need after you suffer a disability, but you'll probably need more than you think. Most of your fixed expenses won't change, and you'll also spend more on other items, including the following:

**Medical expenses:** You can expect your medical expenses to rise when you suffer a disability. Assuming that you have health insurance, you'll probably have to satisfy a deductible as well as an out-of-pocket maximum, which may increase your expenses immediately after your disability occurs. In addition, if you suffer a long-term disability and are forced to quit your job, your group medical insurance coverage may be terminated. If you work for a large enough employer, you may be able to continue coverage on your employer's plan through the government regulation known as COBRA, but you'll have to pay the premium yourself, and the coverage cannot last beyond 18 months in most cases. You may also need to buy medical equipment or supplies, or even renovate your house to accommodate your disability.

**Living expenses:** What if you can't drive, clean your apartment or house, mow the lawn, or cook for yourself after you become disabled? Will you need to hire household help to take care of day-to-day activities that you can no longer do? Hiring help can be a substantial, unexpected expense when you become disabled.

**Child-care expenses:** If you have young children and both you and your spouse work, you know how expensive child care is. Can you afford it if you or your spouse becomes disabled and unemployed? The disabled partner may be able to care for the children at home, but not if his or her disability is too limiting. On the other hand, if you currently stay at home with your children, you may be forced to return to work if your spouse is disabled, and you may have to contend with an unforeseen additional expense.

#### Determine how much coverage you currently have

Review the coverage that may be provided by your employer.

### Individual/Group Disability Policy Alternatives

**Individual Policy**--A policy you buy through your insurance agent that pays you disability benefits when you are sick or injured.

#### Advantages

- Benefits are tax free if premiums paid with after-tax dollars
- Flexible policy benefits and features such as lifetime benefits, cost-of-living increases, partial benefits, etc.
- Provides the most comprehensive coverage
- Premiums generally can't increase
- Generally, you can't lose coverage if you pay the premiums

#### Disadvantages

- Most expensive type

**Group Policy issued through an Employer**--A disability benefit you receive through your employer. Your employer may or may not pay part of the premiums.

#### Advantages

- Low group premium
- Available as short- or long-term coverage (or both)
- Usually, you don't have to prove insurability
- Benefits are tax free if premiums paid with after-tax dollars

#### Disadvantages

- Less flexible benefit design than individual disability policies
- Will terminate when employment ends (non-portable)
- Premium will increase as you get older
- Definition of disability may be less liberal than individual coverage
- Benefits will be offset by Social Security, workers' compensation, and some other types of disability insurance

**Group Policy issued through an Association**--A disability policy purchased through an association or organization, such as the New Hampshire Realtors Association.

#### Advantages

- Low group premium
- May have more liberal underwriting requirements, although not guaranteed acceptance as with employer groups

#### Disadvantages

- Less flexible benefit design than individual disability policies
- Definition of disability may be less liberal than individual coverage
- Contracts may be cancelable by insurance company or association
- Premium will increase as you get older
- Will terminate when employment ends (non-portable)
- Premium will increase as you get older
- Definition of disability may be less liberal than individual coverage
- Benefits will be offset by Social Security, workers' compensation, and some other types of disability insurance

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### SDW's TAKE

Disability coverage is often overlooked when planning for your future, and many times disregarded with the statement "my employer provides this for me." Take a close look at what coverage you actually have. Could you live on that amount today even without the extra expense of a disability?

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