

Googins&Anton

Investment Advisors

Newsletter - December 2, 2011

As the year winds to an end one wonders whether the DJIA or S&P 500 indicators will end positively or negatively for the calendar year. Because the markets have swung violently since mid-summer it is easy to forget how nicely they moved up during the first part of 2011, **or**, their gains of 14.06 & 15.06% in 2010. But there are continual signs that our economy keeps improving.

It is easy for people to believe that it is different *this time!* However history shows that details may change but long term the facts are similar. Over the history of our country the lives of most of us have grown significantly with comforts. I grew up in a small town with a hard working mother, a father who died too young, and we stuffed rags around door frames and put up fences filled with leaves around the house basement to improve insulation. It's only as I have "*matured*" that I have realized how "*poor*" most of my classmates also were and the few "*rich*" ones didn't have luxuries the "*poor*" enjoy today.

Since then we've had bull markets and bear markets and I became interested in rich vs. poor. If you aren't going to start a successful small business, your best alternative to earning high rates of return is the stock market no matter how volatile and seemingly unpredictable it is. Sometimes it tries your patience because it falls back to values that it had several years ago. But that has happened over and over in the past and still the stock market has averaged 9% over the long term while "safe" investments have averaged less.

Mutual fund groups like Franklin Templeton and American provide excellent materials to learn and understand the market giving us access to carefully documented history on their funds and the indexes. It can be tempting in these days of market volatility and several years' stagnation to consider turning to guarantees. So I compared withdrawing 6% annually from year end 180 day certificates of deposits beginning 6/30/1964 through 9/30/2011. To my surprise, I found the 10 year average would have been 2.39% but the average since inception was 6.16% meaning my original \$100,000 once had a value over \$154,000 and currently was valued at \$92,177. So the saver was able to take out money every year for 47 years without exhausting his capital. (About \$ 6,000 yearly.)

To compare I chose a growth and income fund that has focused on blue chip-type dividend paying stocks. Over the exact same time period and withdrawing under the exact same variables I found I would have averaged 11.36% since 1964 although the last ten years was only 2.61% (similar to the c.d. rates.) However, so far in 2011 I would have received over \$47,000 to spend because my 12-31-2010 market value was over \$759,000.

It's like magic, isn't it? Hard to believe but it is true. Today we find that market volatility is causing investors once more to wonder and think guarantees would be nice. There are plenty of insurance companies ready to offer you index or other guaranteed annuities. We have a few cautions for you. **Number 1:** What is the participation rate the index annuity offers? It will be less than 100%. You will not receive 100% of what the index earns. **Number 2:** Do you really understand the variables? Many times people have brought in a product they own and together we have called the insurance company to learn the amount of money they receive under a looming circumstance - an unpleasant surprise each time. **Numbers 3 and 4:** Many policies have 7 to 10 year surrender periods. If the market is flat and you want out, you pay - no guarantee you'll get your original principal back. In addition, these types of annuities generally have a large commission fee. **Summary:** The guarantees are not easy to understand.

Having said all of that we do not recommend 100% stocks for most investors. A balance between stocks and bonds/fixed income is important and history shows for every 10% decrease in stocks and consequent increase in fixed income the average return has decreased about 1%. A 50/50 mix has averaged about 8%. We have adjusted many portfolios to take a more conservative stance without giving up anticipated long term growth.

Tracey and I discussed year end strategies to reduce income taxes yet for 2011 on our radio show dated November 19, 2011. You can find it easily on our website www.googins.com. (Click on "**Straight Talk About Money**" then click "**listen**")

In closing, we wish you season's greetings, a very Happy New Year and continued investment success.

Sincerely Yours,

Louise, Tracey and Brenda