Investor Insights & Outlook

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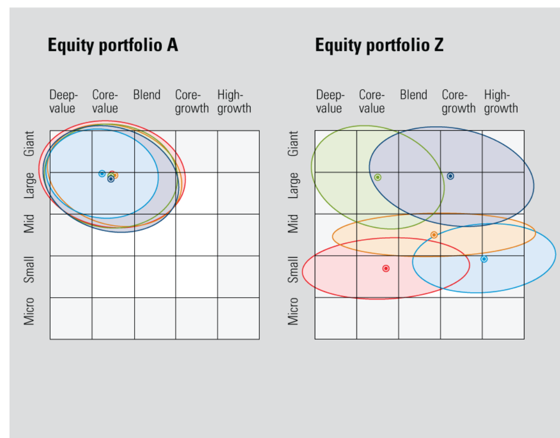
Exploration in Diversification

Investors seeking a well-rounded portfolio often wonder how many funds they need to reduce risk through diversification. The answer isn't a specific number of funds, but rather the holdings of each fund in the portfolio. If multiple funds in a portfolio have similar holdings, an investor can fail to achieve diversification benefits. Portfolio A and Portfolio Z in the image contain five mutual funds. Each oval represents the ownership zone, which accounts for 75% of the fund's holdings. The funds in Portfolio A overlap, indicating that each fund shares similar style characteristics. Too much overlap defeats the purpose of using multiple funds to create a diversified portfolio. Portfolio Z spans across many styles, so positive performance by some investments can neutralize the negative effect of others. As illustrated, it is important to be aware of the possibility of security overlap when constructing a diversified portfolio.

More Concentrated Portfolio Versus Diversified Portfolio



Diversification does not eliminate the risk of experiencing investment losses.

Source: Funds chosen from Morningstar's open-end database.

Blossom wealth management

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Our Vision

You are distinctly different from the next investor. Our relationship will be a life-planning partnership; one that responds and changes as the events in your life change.

With the proper perspective and management, we envision helping you instill values and leave a legacy for the people who matter most. To help you realize that vision for your future, we apply our holistic approach to guide you through the stages of wealth: growing, preserving, utilizing and transferring. It's our commitment to your future.

Monthly Market Commentary

Recent economic updates revealed weaker retail sales, slowed employment growth, rise in initial unemployment claims, and weaker housing data after the expiration of the housing credit. Both existing home sales and new home sales performed below expectations. Durable goods orders, however, increased since April. Both the Consumer Price and Producer Price indexes showed sequential monthly declines, while industrial production experienced a monthly growth of more than 1%. A positive outlook of consumer income and spending along with manufacturing growth were the bright spots of recent reports.

Housing statistics: Housing statistics were down because of the expiration of the homebuyers' credit at the end of April. Housing statistics took a dip in May, declining by 10% from April's level to 593,000 units on a seasonally adjusted annual rate.

Industrial production: Industrial production was up 1.2% in May and up 7.6% from last May. Industrial production was aided by strong growth from the utilities sector. Manufacturing, the largest sector, grew by more than 1%, while only the construction sector grew by less than 1%.

Inflation: The overall inflation rate declined by 0.2% (2.4% annualized) in May after a 0.1% decline in April. On a year-over-year basis, prices were up a modest 2%. The bulk of the recent declines are due to falling energy prices that were helped along by stable housing costs.

Durable goods: Durables goods like cars, computers or televisions aren't consumed or disposed of quickly and are meant to last for a while. Total orders in this segment increased since April. Excluding the aircraft sector, durable goods sales grew by about 0.9% over April's results. On a year-over-year basis, orders were up about 18.5%, following a 19.4% year-over-year increase for April.

Employment: Private employment growth was higher in June than it was in May, but it was still well below April's construction-jobs-inflated employment growth. Private-sector employment grew by 83,000 jobs, compared with a more-meager 33,000 jobs in May. Headline job figures showed a decline of 125,000 as a result of the dismissal of 225,000 census workers. However, the number is still well shy of the 200,000-300,000 level that is typical of most recoveries, and it is still well below the 241,000 jobs gained in April.

Consumer incomes: On a more positive note, consumer incomes were up sharply in May. Real disposable income jumped 0.5%, on the heels of healthy gains of 0.3% and 0.6% in March and April, respectively. Compounding growth for those three months produces a very healthy 5.6% annualized growth rate. Given that the consumer represents more than 70% of the economy, these income figures could translate into better sales growth during the months ahead. Consumption expenditures grew by a healthy 0.3% in May following 0.4% growth in March, and no growth in April. But that 0.3% growth in consumption was far less than the 0.5% growth in spending causing the savings rate to jump to 4%, compared with 3.8% in April.

Quarter-end results: A faltering stock market, the European crisis, and continued tightening in China certainly didn't help the moods of consumers or investors during the second quarter. Temporary workers hired for the 2010 census and expiring housing credits have already complicated the interpretation of both housing and employment data and could continue to do so for another two or three months. Congress' decision not to extend unemployment benefits will be another complicating factor in the months ahead.

While consumer spending has recovered the ground that it lost, industrial production has recovered only half of what was lost. According to Morningstar economists, recent increases in new orders are supportive of future increases in industrial production, and this should eventually lead to further improvement in employment. An improving manufacturing economy should eventually lead to positive changes in the larger services part of the economy.

...And Health Care For All

Health care has been a matter of intense debate in America for a long time. Not only is the American health-care system different than in most other developed countries, but it is also largely ineffective for a significant part of the population (namely, the lower-income population). In general, the quality of the health care you have access to (and whether you have access to health care at all) depends on the type of health insurance you have. However, as the image illustrates, the number of uninsured Americans has been on the rise for the past 10 years, reaching 46.3 million in 2008.

In order to remedy this situation and improve the struggling health-care system, President Obama signed the Patient Protection and Affordable Care Act on March 23, 2010. The legislation brings about a series of changes, some of which will be seen immediately, and some of which will not take effect until 2014 (yes, it takes that long to implement meaningful change on a large scale).

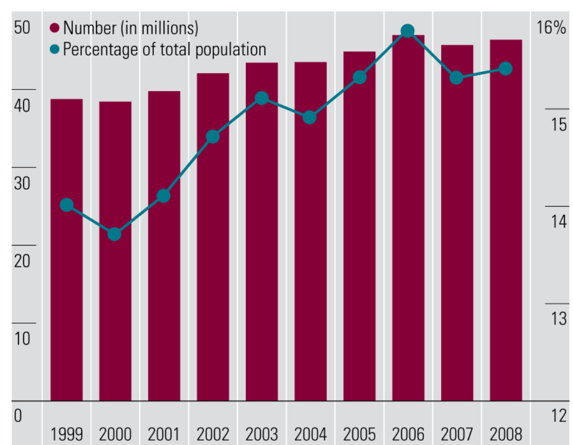
Immediate and short-term effects: Two provisions in the act will be effective immediately. Seniors in the Medicare drug coverage gap will receive $250 rebate checks, and young adults will be allowed to remain on their parents' insurance plans until they turn 26 unless they are employed and covered by their employers.

Under the new law, insurance companies will not be able to cancel the policies of people who become sick or deny coverage to children with medical problems. Coverage will also be made available for uninsured people with expensive major illnesses, whom the insurance companies refused to cover before. A note of caution, though: All these changes will probably force insurers to raise premiums in order to compensate for the additional costs.

Long-term effects: Beginning in 2014, insurers will be required by law to accept all applicants. They will not be able to refuse coverage to people with pre-existing conditions, and they will not be allowed to charge more based on health status or gender. Most Americans (with some small exceptions) will be required by law to carry health insurance; if they refuse, they will be fined by the IRS. Tax credits will be offered to low- and middle-income households in order to support the cost of premiums, and Medicaid will be expanded to cover more low-income individuals and families.

Any change on a system-wide level tends to happen slowly. The reason why most of the large-scale benefits won't take effect until 2014 is very simple: cost. The money needed to implement all these changes will come from a combination of tax increases and subsidies, but the entire process will take time to materialize. The law has been subject to much heated debate, mostly because of its high costs. People also question whether the changes will have an effect on the overall quality of health care and what will be done to address this issue. However, the essence of this law is that now everyone can have insurance, and that's undoubtedly a change for the better.

Numbers and Percentages of Uninsured Americans



Source: U.S. Census Bureau, Historical Health Insurance Tables.

How to Cope with Financial Anxiety

No one likes uncertainty. We want to maintain at least the illusion of control. But that's almost impossible to do today, given the volatility of the stock market and employers' belt-tightening. Even the steadiest hand is shaking just a little. It is imperative to avoid letting your emotions get in the way of making smart investment decisions. In times of doubt, it might be in your best interest to follow these steps for re-examining your current financial strategy.

Reassess Your Risk Tolerance: Today's investor is living those “hypothetical” questions that appear on risk-tolerance questionnaires. If you haven't checked your risk tolerance (the degree of uncertainty that you can handle in your investment portfolio) in more than a year, you're most likely due—especially if you're uncomfortable right now. Maybe you've taken on more risk than is prudent. If so, it might be in your best interest to change your asset mix. If you find that you're taking on the appropriate amount of risk for your goals, just sit tight.

If You Have to Do Something, Review Your Expenses: When dealing with uncertainty, some people feel compelled to act. Instead of trying to time the market (which even the professionals can't do with any consistency), focus on things you can control with certainty: expenses. Identify where you can tighten your belt. Try to identify unneeded or underused services. After such cuts, you’ll have some extra cash to invest each month. Expenses also matter in investment accounts. Do you know what you’re paying in expense ratios, 12b-1 fees, front- or back-end loads? Burn up some of your nervous energy by making sure those expenses aren’t eating up what little positive returns you might have.

Create a Shopping List of Investments: Research stocks or funds that would complement your portfolio, then see where they are currently trading. This could be a great opportunity to pick up some of your favorite picks at rock-bottom prices. However, make sure they are trading at historical lows because of investor overreaction and not because they are no longer financially sound.

Win the Psychological Battle: Don't let the financial media scare you into making poor investment decisions. Times of great uncertainty are usually bad times to be making major decisions. What is healthy is knowing how the human mind works and factoring that into your investment decision-making process. Researchers and academics in the field of behavioral finance attempt to better understand and explain how emotions and perceptions influence investors and their decisions. If you are interested in learning more, there are plenty of publications devoted to this relatively new field.

Consider all of the complex financial decisions faced by investors today. Without experience in different market environments or knowledge of market history, how might investors make such decisions? Potentially through their perceptions or based on their emotions. Thus, it is imperative that investors understand and combat the myriad of illusions to which they might be prone.

When the markets are doing well, people tend to think the trend will continue indefinitely. During the recent crisis when the market was struggling, we witnessed overreaction: Investors were running away from the stock market. However, if you think U.S. companies are still fundamentally strong and will profit in the next five to 10 years, then you should still have a stake in the stock market. Just make sure you set your asset allocation policy first, and then stay the course with an appropriate mix of stocks, bonds, and cash. Investing is a long-term proposition—don’t let your emotions overpower your sense of reason.

Stocks are not guaranteed and have been more volatile than bonds. Past performance is no guarantee of future results. Diversification does not eliminate the risk of experiencing investment losses.

In Case of Emergency

Nobody likes to think about the possibility of job loss, serious illness or other major expenses. But these are all possible in an uncertain world, and having an emergency fund in place can help if such situations arise.

An emergency fund is a money market, savings or checking account where you keep a specified amount of money to cover expenses. The important part here is that the money is stored in an investment vehicle that allows quick and easy access to funds. But you do not touch the money in this financially liquid account unless a real emergency pops up. No ifs, ands or buts.

Setting up an emergency fund is usually the first step toward building a solid financial plan. If you don't already have one in place, start building one as quickly as you can. It obviously takes perseverance to stash money from each paycheck into your emergency fund, but it may be well worth it one day.

How much cash should you put aside? Most financial advisors recommend to first aim to keep enough money in the fund to cover at least three months of expenses. However, as your take-home pay increases or your expenses grow, you may need to keep six months or even as much as a year's expenses in your fund.

Take it one step at a time. Once you've saved enough to cover three months of expenses, try for the six-month mark, and so on. Easier said than done, sure, but if you treat your emergency fund like any other must-pay monthly bill, it will undoubtedly grow over time.

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