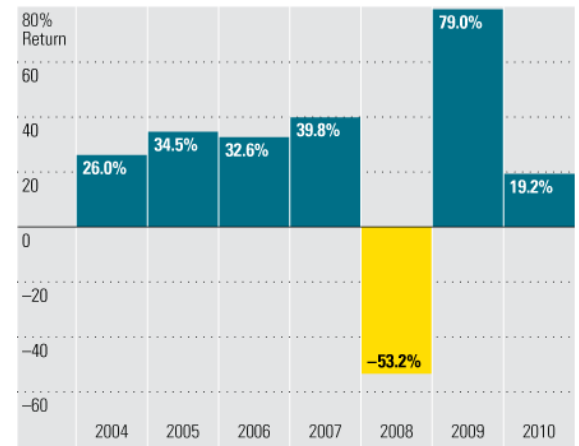




## Overconfidence: False Perception

Consider the performance of emerging-market stocks from 2004 to 2010. For the first four years, stocks in these regions produced impressive returns. Based on this stellar track record, a typical investor may expect more of the same. Well, 2008 was quite dismal for emerging-market investors, as they lost more than half of their investment—53.2%. In 2009, however, emerging markets rebounded, producing a return of 79.0%. In 2010, emerging-market returns were still positive, but down to 19.2%. When investing, investors must consider the possibility of another year like 2008 in the future. Strong positive returns may be enough to create overconfidence among investors. Investors should avoid overestimating their ability to predict future outcomes and avoid focusing on only the upside potential while dismissing the possibility of poor performance.

Historical performance of emerging-market stocks 2004–2010



Source: Emerging-market stocks are represented by the Morgan Stanley Capital International Emerging Markets Index. An investment cannot be made directly in an index. Returns and principal invested in stocks are not guaranteed. International investments involve special risks such as fluctuations in currency, foreign taxation, economic and political risks, liquidity risks, and differences in accounting and financial standards. Emerging-market investments are more risky than investments in developed markets.

Happy Holidays

We appreciate your business and would like to wish you a wonderful Holiday Season!



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## Investing: Where to Begin

You know the importance of saving and you've been making efforts to put aside a certain percentage of your income each month (let's assume 10% for purposes of this example). However, letting the money just sit in your bank account may not be enough. If you want to maximize the potential of your savings, you may have to invest it. As the attached image illustrates, saving without investing over a 41-year period would have resulted in an accumulated wealth value of only \$90,814. Placing your money in 5-year fixed-term investments (a relatively low-risk choice) would have accumulated \$269,563, and a diversified portfolio would have provided the highest ending wealth value: \$643,140. Here are some options for you to consider.

**Financial advisor:** An attractive option for a beginner investor may be to employ the services of a financial advisor—a professional who would manage your money for you. When choosing a financial advisor, you must carefully research his or her credentials, qualifications and experience. Look for professional certifications such as CFP (Certified Financial Planner) and ensure they are valid and current. Check the National Association of Personal Financial Advisors, a financial-planning organization whose members have to meet high standards for professional competency and knowledge. Most importantly, inquire about how the advisor gets paid (hourly rate, fee or commission).

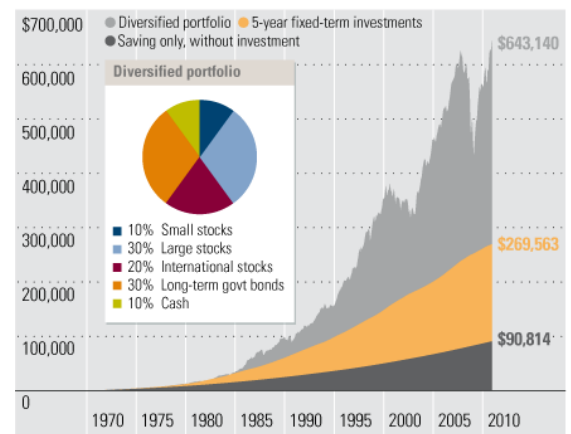
**Retirement accounts:** There are two major types of retirement accounts, 401(k) plans and IRAs. A 401(k) is a tax-deferred retirement account established through your employer. Your contributions are deducted pre-tax from your salary, and your company may match a certain percentage of what you're contributing. You must make every effort to contribute to your 401(k) and to maximize the employer match.

A traditional IRA is similar to a 401(k) in that it allows you to make pre-tax contributions, but the account is not linked to your employer. There are various types of IRAs and it is best to be informed and research in order to determine which type of

account will suit your needs. As to where to open the account, many banks, credit unions, and brokers offer IRAs, but again, you must research and ask questions before making your final choice.

**Brokerage account:** If you're a more experienced investor and want to invest in individual stocks, bonds, or mutual funds, one option is to open a brokerage account. This type of account allows you to buy and sell investments by paying professionals to execute trades for you (or course, they'll charge you for it). Traditional brokers offer more services and may also advise you as to which investments are right for you, and therefore charge steeper commissions. Discount brokers cater to more independent, self-directed investors who already know what investments they want, and their commissions are generally lower.

### Shying Away from Investing Can Cost You Jan 1970–Dec 2010



**Past performance is no guarantee of future results.** This hypothetical example is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. Holding a portfolio of securities for the long term does not ensure a profitable outcome and investing in securities always involves risk of loss. Diversified portfolio was created for illustrative purposes only; it is neither a recommendation, nor an actual portfolio. Government bonds are guaranteed by the full faith and credit of the United States government as to the timely payment of principal and interest, while stocks are not guaranteed and have been more volatile than bonds. International investments involve special risks such as fluctuations in currency, foreign taxation, economic and political risks, and differences in accounting and financial standards. Diversification does not eliminate the risk of experiencing investment losses. The data assumes reinvestment of income and does not account for taxes or transaction costs. Annual 10% savings rate is based off the average wage of each year from 1970 to 2010. The 2010 number is an estimate.

Source: Small stocks—the fifth capitalization quintile of stocks on the NYSE for 1970–1981 and the performance of the Dimensional Fund Advisors, Inc. (DFA) U.S. Micro Cap Portfolio thereafter. Large stocks—Standard & Poor's 500®, an unmanaged group of securities considered to be representative of the U.S. stock market. International stocks—Morgan Stanley Capital International Europe, Australasia, and Far East (EAFE®) index. Long-term government bonds—20-year U.S. government bond. 5-year fixed-term investments—yield on a 5-year U.S. government bond. Cash—30-day U.S. Treasury bill. Average wage—National Average Wage Index, Social Security Administration.

# A Quick Guide to Lagging Economic Indicators

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Lagging indicators are economic indicators that lag behind the overall pace of the economy, and can confirm or deny the trend shown by leading indicators. Examples of lagging indicators include the average duration of unemployment, average prime rate, inventory-to-sales ratio, and the change in the Consumer Price Index.

The average duration of unemployment measures the average number of weeks an unemployed individual has been out of work, and is inverted to indicate a lower reading during a recession and a higher reading during an expansion of the economy. This statistic is measured by the Bureau of Labor Statistics on a monthly basis, and is seasonally adjusted to reflect the impact of predictable seasonal patterns. For example, retail businesses tend to hire more part-time employees during the holiday season. This is a lagging indicator because during an economic recovery, real wages increase first, followed by hours worked, and finally by an increase in hiring. This indicator is a good gauge for the overall business confidence sentiment.

The Consumer Price Index is released mid-month and measures the average rate of change month-to-month in the prices paid by consumers for a broad basket of consumer goods and services. This is the most widely-used measure of inflation today and is used as a guide by both Congress and the Federal Reserve to formulate fiscal and monetary policies. More specifically, the Core Consumer Price Index, which excludes the most volatile components of the index like energy and food prices, is used by the Fed to measure whether it is meeting its annual target inflation rate of 1.7% to 2.0%. For example, depressed CPI numbers coupled with high unemployment figures were key factors in the Fed's decision to start buying \$600 billion in Treasury bonds to boost investment and consumption rates at the end of 2010. Thus, investors who are interested in investing in government bond ETFs should take note of this indicator (prices of long-term bonds might go up, while yields would fall). This is a lagging indicator because it represents prices that

have already changed; announces that inflation arrived—one month ago.

The prime rate is what banks charge their most credit-worthy customers, mainly large corporations. Since Dec. 16, 2008, the Wall Street Journal determines this rate by polling the 10 largest banks in the United States, and will update the published rate when at least 7 of these banks have changed their rates. The prime rate is largely based upon the Federal Funds Rate set by the Federal Open market Committee every 6 weeks. The rule of thumb for the value of the prime rate is 300 basis points (3%) above the current fed funds rate, which is currently between 0% and 0.25%. This is a lagging indicator because the Federal Reserve sets this interest rate in response to economic growth rates, and to stimulate growth, the federal funds rate will be set low for a period after the economy is recovering. This is important to investors because many banks use the prime rate as a basis to price loan products such as student loans, credit cards, and car loans, and is a good indicator if one wants to invest in stocks or ETFs in the financial sector.

The inventory-to-sales ratio is reported by the Department of Commerce and measures how many months it would take to deplete the backlog of goods, adjusted for inflation. An increase in this ratio generally means that sales estimates were missed, and businesses will respond by postponing future orders and cutting production rates, resulting in a slowing economy. Beyond looking at the overall figures published monthly, serious investors should look at the numbers for manufacturers, retailers and merchant wholesalers since each sector has different sensitivities to an economic downturn.

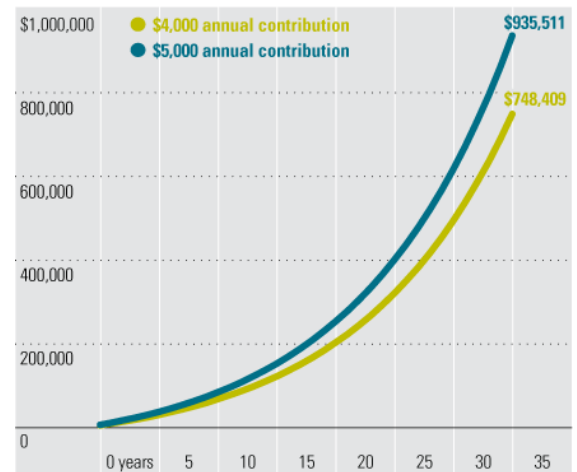
Government bonds are guaranteed by the full faith and credit of the U.S. government as to the timely payment of principal and interest, while stocks are not guaranteed and have been more volatile than other asset classes.

## Don't Forget to Raise Your IRA Contribution

In 2012, contribution limits for both traditional and Roth IRAs (individual retirement accounts) will remain the same as in 2011: \$5,000 a year for those 49 years of age or younger. If you are 50 or older, the maximum contribution is \$6,000. This limit can be split between a traditional and a Roth IRA. These annual contribution limits are imposed by the Federal Government.

The graph shows both a \$4,000 and \$5,000 annual contribution growing at a hypothetical 8% annual return. Notice the dramatic impact on the ending value of the portfolio. This may be a great time to re-evaluate your financial situation and increase your annual investment to your IRA. Even if you are unable to max out your contribution, any increase you can afford may help you reach your savings goals more easily in the long run.

Hypothetical Growth of Annual IRA Contribution



This is for illustrative purposes only and not indicative of any investment. Funds in a regular IRA grow tax-deferred and are taxed at ordinary income tax rates when withdrawn. Contributions to a Roth IRA are not tax-deductible, but funds grow tax-free as money withdrawn is not taxed. Penalties may apply for withdrawals prior to the age of 59 1/2.

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