THE

JENTNER REPORT

Wealth Management Strategies from Jentner Wealth Management Summer 2011

INSIDE THIS ISSUE

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Will fixed income fail as an inflation hedge in retirement?

What do many investors who are about to retire or are in retirement worry about? They seem to focus on the stability of their principal. This can be a big mistake. Fixing the value of your portfolio at retirement (using fixed income investments in order to avoid temporary market "losses") probably guarantees that you will not succeed financially in retirement.

The biggest financial foe you face over a lengthy retirement is not temporary stock market volatility; it is long-term erosion of the purchasing power of your income. Consider the cost of a postage stamp 40 years ago. In the summer of 1972, first class mail cost just 8 cents. Today it costs 44 cents, an annualized increase of over 4% per year.

Fixed income woes

Today it's impossible to put your money into just about any fixed-income instrument (except risky high-yield bonds) with a rate anywhere near 4%. In fact, a 30-year rally in bond prices has reduced yields on short-term bonds to nearly zero. Meanwhile, consumer inflation is anything but zero. The current inflation rate, as measured by the Consumer Price Index, stands at 3.6%. Although bonds kept up with inflation over the last 40 years, at current prices it is hard to believe they can over the next 40. As interest rates increase, bond values decline.

The stock market, however, has done a much better job of keeping up. Over the last 40 years the Standard & Poor's 500 Index has returned about 10% per year, despite dozens of small-to-large temporary declines in value.

The stock market also allows long-term investors to keep more of what they have earned. Interest on bonds and bank deposits is taxed at a taxpayer's highest current regular rate. Long-term capital gains on stocks, however, receive favorable tax treatment. The current rate is only 15%.

> *Maintain purchasing power with long-term investing in stocks*

Remember to put your emphasis on the right objective. Retirees need to preserve their purchasing power with a gradually increasing income – avoiding temporary market declines in one's portfolio should not be the primary objective. Focusing on the latter can put the former in danger.

The President's Word

How to avoid frequent trading mistakes

The wealthy are human, too. According to Barclays Wealth (a division of Barclays Bank) they make the common mistake of overtrading in the financial markets. Barclays surveyed 2,000 wealthy investors and found that 40% believe they must trade frequently to do well in the markets. But in a surprising finding, half of those who trade frequently said they believed they traded too much.

"There is a substantial proportion who are troubled by their behavior. This is a novel finding for me," Greg B. Davies of Barclays told The New York Times.

Men vs. women

Barclays found that men were more likely than women to trade too much, confirming several other investor studies. Men in the study reported feeling more composed than women, less subject to stress when making trading decisions. Women reported being more likely to use self-control strategies to avoid financial mistakes.

Older investors reported being more calm, satisfied and accepting than their younger counterparts. They were less likely to endorse frequent trading, more likely to practice a buy-and-hold strategy. Age does bring wisdom!

Try control strategies

- Barclays offered some strategies to help investors control themselves. Investors can deliberately avoid everyday information about how the market or their portfolios are doing in order to stick to a long-term strategy.
- They can use rules to make better decisions, such as deciding to spend only out of income and not out of capital.
- Barclays recommends delegating financial decisions to others and says you can do that by having an investment advisor manage your portfolio.

Jentner Proactive Investment Strategy™

Neither fear nor greed make for a sound investment strategy. Therefore at Jentner Wealth Management we employ the Jentner Proactive Investment Strategy™ to help clients navigate the volatility of both bull and bear markets. Using global diversification in stock and bond investments, we avoid the risks of concentrated portfolios. We employ periodic rebalancing to take advantage of market fluctuations without the inherent dangers of market timing. Frequent trading is avoided, taxes and trading costs are kept low, and competitive long-term returns are earned.

Bruce A. Jentner, President
Jentner Wealth Management

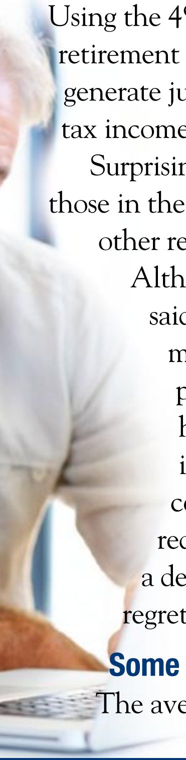
401(k) plans are opportunity for the financially astute

The rapid decline in traditional pension plans has put pressure on employees to save for retirement. The principal vehicle, a 401(k) savings plan, has become so important that half of participating workers say they would not save for retirement if it weren't for these accounts, according to a new Fidelity survey of 1,000 plan participants.

Americans struggle to save

The latest statistics on 401(k) plans and employees' confidence in their ability to retire are troubling. Several major surveys found that account balances are inadequate, employees are guessing at retirement needs, and savings rates – while up a bit in the last year – are still too low.

Fidelity Investments in its annual survey found that the average 401(k) balance has increased to an all-time high of $74,900, up 12% from a year ago. Although the increase is encouraging, the average balance is pitiful. Using the 4% safe distribution rule for retirement withdrawals, that would generate just $2,996 a year in before-tax income.



Surprisingly over one-fifth of those in the survey said they use no other retirement savings vehicles. Although half of those surveyed said they would contribute more money to their 401(k) plans, many said hard times had scotched those good intentions. Twenty-five percent of workers surveyed had reduced their contributions, a decision that half said they regretted or expected to regret.

Some do better

The average balance for workers 55 and older who have contributed continuously for 10 years or more was $233,800. Even at that level, a conservative retiree would only be able to spend about $9,352 in the first year of retirement.

One positive finding was an increased willingness by employees to contribute. Fidelity said 10% of workers who were surveyed planned to increase their contributions, the highest level since Fidelity began tracking the rate in 2006. The average contribution rate remained unchanged at 8.2% of pay.

Boosting your savings

There are some strategies you can use to boost savings to the maximum allowed. First, never let employer contributions go unclaimed. Employers often match the first 3% to 6% of pay that an employee contributes. Fidelity found that about half of employees said they had increased their contributions in recent years because their employers offered dollar matches.

Second, every time you get a salary increase or a bonus, increase your contribution rate by 1% to 2% of salary. If you keep doing that regularly you will reach your maximum contribution within a few years. Once you've reached the maximum, use an IRA, preferably a Roth IRA, for more savings.

One quick way to estimate how much to save is to subtract your potential Social Security benefit from your current income, and aim to save enough money to make up the gap. You should try to save enough so that a 4% withdrawal from savings will fill the gap between your Social Security benefit and desired retirement income.

Even best managers cannot outperform markets

Many investors want to believe they can find an investment manager who, based on his or her past performance, can continue to beat the markets and offer superior returns. Studies of the performance of mutual fund managers have found little evidence to support that belief.

Three finance professors recently studied institutional investment managers who invest for public and private retirement plans, endowments, foundations and unions. The study indicated that as a group these managers show little evidence of the persistence of good performance or excess skill.

Less pressure?

This is a significant finding because some have argued that mutual fund managers have a marketing handicap – competing in a public marketplace where everyone's returns are known, they may take extra risks to distinguish themselves from the crowd. Institutional money managers usually answer to sophisticated investment committees with long-term views of the markets, which may pressure those managers less to make sudden moves.

A big sample

Jeffrey Busse and Amit Goyal of Emory and Sunil Wahal of Arizona State looked at 4,617 institutional investment funds run by 1,448 management firms from 1991 through 2008.

"Before fees, we find little evidence of superior performance, either in aggregate or on average," they said in their paper. Once investing style and stock momentum are factored out, it appears managers offer no extra performance.

"One logical conclusion might be that plan sponsors should engage in entirely passive asset management," the authors wrote.

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Young, old may each be at financial risk

Teens have a lot to learn

American teenagers have a lot of interest in money, but lack basic expertise necessary to succeed in the financial world, a new survey by Charles Schwab & Co. found. The financial firm's 2011 Teens & Money survey of kids age 16 to 18 also found that teens were affected both financially and emotionally by the recession. Some 64% said they are now more grateful for what they have while 58% said they are less likely to ask for things they want. It may warm the hearts of parents to learn that 56% have more appreciation for how hard their parents work.

Teens also feel their money issues differ from those faced by their parents or grandparents. Seventy-nine percent said college is "much more" expensive now, while 68% acknowledged the pressure to have computers, cell phones and clothes. Fifty-seven percent said it is harder to get a job.

Salary expectations were a bit grandiose. The average expected starting salary was $73,000, while the average salary they expect when established in their career was $150,000. While they think their parents' average annual income is $70,000, the median household income according to the U.S. Census Bureau is actually $50,000.

Schwab's survey revealed that general financial knowledge has dropped between 2007 and 2011. In 2007 some 67% knew how to write a check; this year the number dropped to 60%. Fifty-one percent said they knew how to balance a checkbook in 2007 compared to 35% today. Forty-three percent knew how credit card interest and fees worked in 2007; the number in 2011 had dropped to just 32%.

Elderly are conned close to home

One-third of financial abuse of the elderly is perpetrated by family, friends and neighbors, according to a study by the insurance company MetLife. Its 2011 report on elder financial abuse found that forged checks, stolen credit cards, and the transfer of assets were to blame. Most victims are between the ages of 80 and 89 and they tend to live alone and require health or home maintenance care.

The Jentner Report

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"Financial life planning provides better wealth management by asking smarter questions, listening more carefully and applying sound financial and investment strategies to help you achieve personal and objective goals. It is not something different or new; it's simply planning the right way."