THE
JENTNER REPORT
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Wealth Management Strategies from Jentner Wealth Management

INSIDE THIS ISSUE

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RETAIL INVESTORS ARE MISSING BULL MARKET IN STOCKS

The financial crisis of 2008 apparently scared average investors so badly that they continue to flee from a strong, 3½-year stock market rally. Even though the Standard & Poor's 500 stock index has gained almost 114% since its bear market low on March 9, 2009, the latest mutual fund reports show that U.S. investors keep pulling money out of stock mutual funds. Morningstar Inc. says that as of July 31 investors had pulled $300 billion more from stock mutual funds than they put in over the prior three years.

Opting for no return

Meanwhile, the average investor's allocation to bonds has increased to 25% from its long term average of 16.9%, says mutual fund company The Vanguard Group. This occurs at a time when the Federal Reserve and other major central banks are keeping short-term interest rates at nearly zero. Earning next to nothing after inflation and taxes, bond investors face the risk of losing principal if interest rates increase someday.

It is estimated that the average bond will lose 5% of principal for each one percentage point increase in rates. Yet bond funds have garnered $734 billion in net contributions over the past three years, Morningstar says.

Fear mongering

The 24-hour news cycle harping on the slowness of the current recovery is a contributor to ongoing investor fears. This could pose a problem for those trying to build an adequate nest egg for retirement: if investors succumb to the threat of short-term market losses, they will miss out on the long-term, inflation-beating returns they need in order to get ahead.

Also, scared investors often wait until a raging bull market is underway to get back into stocks. Unfortunately, that can be the worst time to invest as such manias can presage the next fall in stock prices. Investors who wait for the next investment mania should heed the mistakes made in 1999 when Internet stocks logged immense gains, only to be beaten down to next to nothing during the subsequent three-year bear market.

Low bond rates cloud investors' futures

Even though bond interest rates are at rock bottom, investors keep pouring money into them because they are spooked over high stock market volatility.They should be asking themselves what the future holds for bond investments: will it be like the United States in the 1950s through mid-1960s, or will bonds behave like they did in Japan from 1994 to the present?

In the U.S. scenario, low interest rates led to a stock market boom and a bond market bust; in Japan similar conditions were followed by a long-term decline in stock prices and gradual gains by bonds. Investors should not count on either scenario because the future is unpredictable. In both the U.S. and Japanese scenarios a balanced investor with money in stocks and bonds came out okay.

Continued on Page 2

The President's Word

Current Low-Yield Environment May Change Your Social Security Strategy

Many retirees claim Social Security benefits too early, missing their chance to maximize benefits, according to figures compiled by the Social Security Administration.

Latest statistics covering 2010 show that almost 44% of men took their benefits as soon as possible, at age 62. Another 26% took benefits after 62 but before full retirement age. Only 13% took benefits at full retirement age and just a fraction waited until they could collect their maximum benefit at age 70. Women claimed Social Security at about the same ages and rates as men.

A big haircut

Those who claim benefits early take a big cut in their monthly payments, locking in lower benefits for the rest of their lives. Every year past the early retirement age of 62 that a retiree delays benefits, the monthly payment grows by 8%. Just taking benefits at full retirement age (for most of those currently retiring, around age 66) can mean an increase of 40%. Those who delay until the maximum age of 70 get as much as 80% more than they would have gotten at 62.

Social Security projects that the average life expectancy for men at 82 and for women at 85. It's important to claim your largest possible benefit, so you have a hedge against inflation in old age and a source of income that won't dry up.

Single workers in good health should consider delaying benefits to as late as age 70, while those with health problems should consider taking benefits earlier.

Married couples have a tougher choice and more options, because their benefits are determined by each spouse's earnings and they must take into account individual life expectancies. In many cases, the higher earning spouse should delay benefits as late as possible, to provide a larger survivor benefit to the other spouse. Also, it may be prudent for the higher earning spouse to file for benefits and then suspend them to age 70, allowing them to continue to grow, while the other spouse can begin taking a benefit based on that of the higher earnings spouse.

If you would like assistance in this area, please contact us.

Bruce A. Jentner, President
Jentner Wealth Management

"bull market"

Continued from page 1

Bond investors should prepare for low returns and stay diversified with some stocks in case stock returns are good; stock investors should be prepared for the worst by continuing to hold some bonds as an insurance policy.

Buffett's Investing Rules Stand the Test

We admit to being suckers for advice from Warren Buffett. In an investment world where very few, if virtually any, investors display real skill at beating markets, Buffett's long-term record has not been matched. Since the late 1950s, he has turned a small investment pool into one of the largest portfolios in the world. In 1962 he sent a letter to the investors in his limited partnership. That letter contained advice that is still valuable today.

Predictions unnecessary

"I think you can be quite sure that over the next ten years there are going to be a few years when the general market is plus 20% or 25%, a few when it is minus on the same order, and a majority when it is in between," he wrote. "I haven't any notion as to the sequence in which these will occur, nor do I think it is of any great importance for the long-term investor."

Keeping cool was as relevant then as it is now: in 1962 the world was beset by the Cuban Missile Crisis and investors saw the U.S. stock market drop by 23% in the first half of the year, including a 6% drop in one day.

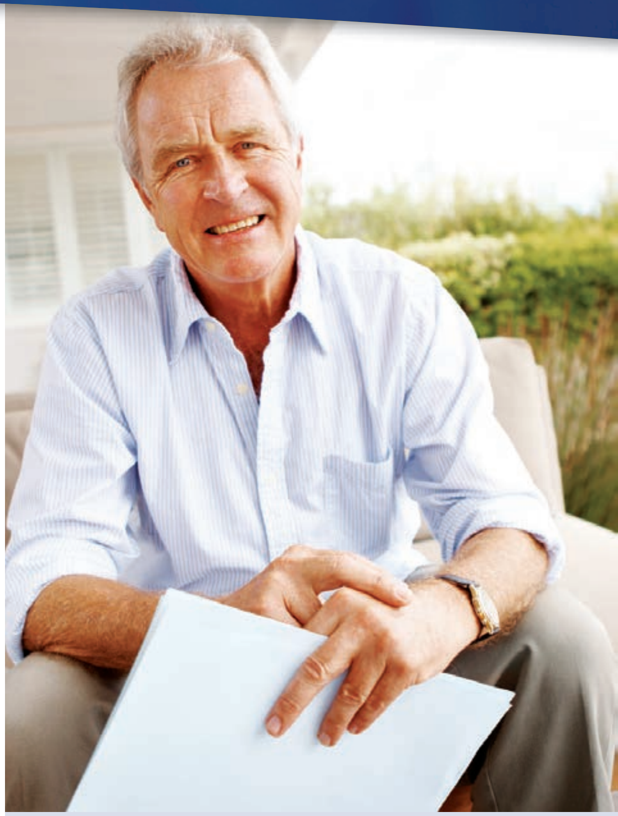
"Six months' or even one-year's results are not to be taken too seriously," Buffett wrote. He added that investors should judge "over a period of time, with such a period including both advancing and declining markets."

Buffett is a long-time practitioner of value investing, buying stocks or companies at bargain prices so that they can be sold at a profit later on. He advised investors in 1963 to buy at a deep bargain, so that even a lousy sales price would bring a profit.

Let it grow

In the letter Buffett warned his investors that it was better to let their money grow than to spend it. "In no sense is any rate of return guaranteed … Partners who withdraw one-half of one percent monthly are doing just that – withdrawing."

Buffett also noted that the key to avoiding permanent risk of capital loss lay not in hiding from market volatility, but in investing wisely "by obtaining a wide margin of safety in each commitment and a diversity of commitments." Buffett started investing in 1956 with $105,000; *Forbes* this year placed his wealth at $44 billion.



Learning Goes On

Better Prospects

Retirement savers are being more diligent and market returns are up, and that has improved retirement readiness, says research firm Aon Hewitt. Its latest annual survey shows that the average employee using an employer savings plan was on track to replace more income at retirement than in previous years.

A Lesson From 9/11

Eleven years after the terrible attacks on the World Trade Center and the Pentagon, investors can at least learn one investment lesson: Don't sell in a panic during a geopolitical crisis.

Although the attacks caused a 5% drop in stock prices the day the market reopened, investors were in the black just two months later. In previous crises the market had gained ground, on average, within six months.

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Balanced Portfolios are Beating Hedge Funds

The investment climate has been almost manic over the last year, with wild swings in global markets due to economic news and the financial crisis in Europe. At times like these some in the investment world argue that passive investors who sit on a diversified portfolio will get whipsawed. Instead, the argument goes, they should hand their money to an expert who can react quickly to market moves and make investments that hedge against sudden declines.

That is, of course, what hedge funds try to do. These lightly regulated investment pools open only to wealthy investors are allowed to go anywhere and do anything to offer high returns and to avoid big declines. A typical hedge fund one day may buy Australian dollars while betting against the Japanese yen, and the next day short U.S. stocks while buying Swiss bonds.

Hedge funds that made big bets based on economic trends got very popular after the 2008 bear market. At that time it looked like some hedge funds had protected their investors from the sharp declines in stock prices. This year, however, it isn't working. The Wall Street Journal reported in early August that many funds were not able to keep up with fast-moving markets. Last year the average hedge fund lost 4.2%, compared to a slight gain in big American stocks. During the first half of this year, the average fund lost 0.5% while the Standard & Poor's 500 stock index gained 9.5%.

Hedge Fund Research Inc. noted that investors withdrew $3.5 billion from these funds in the second quarter. Several funds have returned money to their investors, saying they could not deploy it effectively. Once again it appears diversified investors have beaten the pros!

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"Strategic financial planning helps you achieve personal and objective goals by asking smarter questions, listening more carefully and applying sound financial and investment strategies. It is not something different or new; it's simply planning the right way."

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