# The Main Advisory

First Quarter 2013

*Piecing It All Together*

*www.MainAdvisory.com*

## Well, Gooollyyy!

Are you old enough to remember the famous expression of Gomer Pyle, “Well, Golly!”? I’ll adopt the phrase temporarily to describe the return of the S&P 500 index in 2012. What a surprise. Few, if any, economists or market forecasters came close to predicting the returns of 16% at the beginning of 2012.

Few predicted that U.S. corporations could continue to post earnings growth as well as top-line revenue growth. They were certainly wrong as the trend continued for another year. Many felt the headwinds of the election and the fiscal cliff would muffle returns in the fourth quarter. Despite a small setback immediately after the presidential election, equities rebounded to close positively for the fourth quarter.


The positive market returns were not isolated to the U.S. We witnessed tremendous market volatility and uncertainty in 2012 while the Eurozone repeatedly met to save Greece from default and exiting the Euro currency. “Well, Golly!”--the MSCI EAFE Index bested the S&P 500 for 2012 with a return of 17.9%. The MSCI EAFE is a broad index of international markets.

Here is a “stumper” question: guess what the best performing asset class was in 2012? Did you name Gold? Did you name Real Estate? “Well, Golly!”--it was REITS (real estate investment trusts)! The NAREIT Index posted a return of 19.7%. But wait, isn’t real estate still in a recession? Absolutely not. Housing starts and sales may be below historical levels, but real estate companies owning industrial properties, commercial properties, and rental housing performed fabulously.

We often receive calls from nervous investors who ask about gold. The Dow Jones UBS Commodity Index was a bottom fisher at -1.1% for 2012. Yes, the airwaves are full of celebrities touting the benefits of owning gold and their scare tactics seem to keep investors on edge by instilling a belief that the golden luster will be the lifeboat when the economy comes to a complete stop. The price of an ounce of gold in January 1980 was $850. It sold for $1,657.70 in December 2012. “Well, Golly!”--this is almost a double…but wait….on an inflation adjusted basis the price in January 1980 is actually $2,480.36 according to JP Morgan Asset Management. This means that gold owners over this 32-year period actually experienced a loss in asset value. If the price is near an all-time high in actual dollars, does it make sense to buy at the top? Successful investors buy low and sell high.

I must admit that the single largest “Well, Golly!” for me lies in the overwhelming amount of money that continued to pour into bond funds in 2012. A whopping $244,000,000,000 was invested into bond mutual funds while investors pulled $130,000,000,000 out of domestic equity mutual funds according to the Investment Company Institute. The Dow Jones Barclays Aggregate Bond Index posted a return of 4.2% while the S&P 500 earned 16%. Perhaps it is behavior like this that has caused the average investor to realize an annualized return of 2.1%, according to Dalbar, for a 20-year period from 1992-2011 while the S&P 500 index was 7.8% for the same period.

After 24 years in this business, I continue to be mystified as to how investors can put themselves in precarious positions again and again. History does not seem to be an adequate instructor

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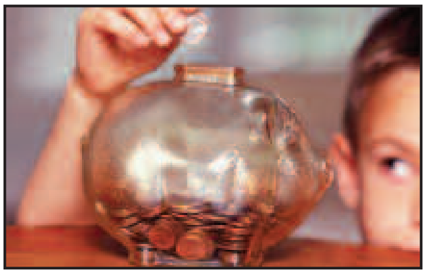
**Assembling your financial puzzle one piece at a time.**

# Retirement at Risk

Soon after the Federal Reserve released the *2010 Survey of Consumer Finances (SCF)*, the Center for Retirement Research at Boston College produced a report in October 2012 entitled "The National Retirement Risk Index: An Update." In a nutshell, the National Retirement Risk Index (NRRI) measures the retirement preparedness of all Americans across all age brackets.



The report is filled with statistics and methodologies for the calculations, but the concluding paragraph tells the story in plain English: "The NRRI shows that, as of 2010, more than half of today's households will not have enough retirement income to maintain their pre-retirement standard of living, even if they work to age 65--which is above the current average retirement age--**and annuitize all** of their financial assets, including the receipts from a reverse mortgage on their homes." (Emphasis added.)

According to the 2010 Survey of Consumer Finances, the median 401(k)/IRA balances for households approaching retirement were only $120,000.

The investing public spends so much time focusing on choosing the right fund(s), maximizing returns, and which strategies to adopt when the truth of the situation is that the primary generator of wealth is earnings. And, the only earnings that really count are those you **don't spend, but invest**.

Fidelity Investments suggests that ordinary American workers should aim to save at least eight times their ending salary to replace 85% of their pre-retirement income and meet basic income needs in retirement. They go on to say that workers should have saved about one year's salary at age 35, three times their annual salary at age 45, and five times at age 65 in order to meet the goal.

T. Rowe Price recommends that investors save at least 15% of their annual salary. However, their retirement survey of 850 adults ages 21-50 revealed that about two-thirds of those investors with access to a 401(k) plan are contributing 10% or less of their salaries to their plan. Few seem to realize how much they should be saving. Worse yet, just under one-third did not know how much they were contributing to their plan. This seems paradoxical given the same survey reported only 16% of investors believe they will receive Social Security benefits, with another 48% suspecting they will receive reduced benefits, and 36% thinking they will get none.

The good news is that seven out of ten participants in the T. Rowe Price survey reported that saving for retirement was a top financial priority. However, it is followed very closely by the #2 priority of "improving current lifestyle." The desire to spend competes head-to-head with future financial security.

Darla Main, CFP

President and CEO of Main Advisory, Inc.

One or two percentage points in investment return is helpful in reaching financial freedom in retirement, but plain, old-fashioned savings is the best recipe for success. Start early and save the pennies, too!

## Well, Gooolllyyy! *(continued from Front Cover)*

for proper investing. Every party comes to an end; most investors recall vividly the tech bust of the late 90s. Corporate bonds have produced returns of 10.1% versus equities of 11.1% from 1982-2012. We've grown complacent and willing to believe that bonds always produce positive returns and are safer than stocks.

For this 30-year time period, interest rates have been falling. Over my entire career, I've not seen a significant interest rate increase. I would guess this is true for the bulk of investors today. For the 24 years prior to 1982, interest rates were on a steady climb, and corporate bond investors realized a return of 3% versus 8.6% for equity investors. Interest rates are at historical lows and do not go below zero. I am so hopeful I will not be saying "Well, Golly!" when rates begin rising and the herd of investors who devoted $244 Billion to bond funds in 2012 experience another devastating loss.

We are at the beginning of a new year, and I suspect there will be many "Well, Golly!" events in the coming months. Keep your eyes on the horizon and don't get caught up with the day-to-day headlines. Most of all, please don't follow the herd!

*The views are those of Darla Main and should not be construed as individual investment advice. All information is believed to be from reliable sources; however, we make no representation as to its completeness or accuracy. All economic and performance information is historical and not indicative of future results. Investors cannot directly invest in an index.*

# Prediction for 2013

I'm predicting that 2013 will be a year with much discussion and debate around the mandatory requirement in the Affordable Care Act, also known as Obamacare, that all Americans be insured or pay a penalty. This requirement goes into effect in 2014, but individuals and corporations will be preparing for the change in 2013.

It is estimated there are 50 million uninsured people who will be compelled to seek coverage or pay the fine. This means that these individuals must seek insurance from state exchanges that don't even exist today. Some 19 states, including Pennsylvania, have already announced they will not create a state exchange, thereby pushing the responsibility for the development and maintenance back to the Federal level. The exchanges were to be formed early in 2013 because open enrollment begins in November.

Many individuals who currently have health insurance may find themselves seeking new coverage as some corporations may decide to stop paying premiums and, instead, give their employees extra wages or bonuses to purchase their own coverage. Some premiums are as high as $8,000 per year per employee. When the fine for not providing coverage is $2,000, corporations may seriously consider dropping the benefit. The same is true for retirees whose "promised" health benefits from a former employer could be provided at a reduced cost simply by giving the retiree funds to purchase individual coverage.

There may be a rush to "lock in" current medical providers as fear heightens that there will not be enough doctors to handle the new demands. It will also be interesting to witness the changes and discussions that will ensue among insurers.

For more information on the subject, go to
www.Healthcare.gov. ■

# Tax Season: Please Read!

I so hesitate to bring up the subject of taxes because it invokes painful visions. However, it is important to spread the word that we expect the 2012 tax year calculation of gains and losses to be as agonizing, perhaps even more so, than 2011.

The IRS mandated that custodians begin reporting cost basis for non-retirement accounts in 2011 for individual stocks and bonds. This year, custodians must report cost basis for **mutual fund sales**. There will be covered and non-covered transactions to report. Covered refers to purchases and sales of shares after January 1, 2012. Non-covered applies to all shares purchased prior to January 1, 2012 but sold in 2012 or later. You are likely aware than mutual funds often pay quarterly or monthly dividends. Custodians must track the cost basis of these reinvested dividends for tax purposes. In the past, individuals were responsible for this reporting.


*These rules are complex and will likely result in **MULTIPLE 1099 revisions**. I am sounding the warning signal for early tax filers that it may be wise to wait until as late as April 15, 2013 before submitting your tax return.*

We will do everything in our power to offer assistance, but it is recommended that everyone subscribe for online access to their accounts for ease in staying on top of the latest revision to the 1099 tax reports. Online access offers the most up-to-date information for confirmations, statements, and tax information. ■

# *Tidbits and Trivia*

**<$3**…Price per million cubic feet of U.S. natural gas today, compared to $7-$8 in 2008. (Knowledge@Wharton)

**3 or fewer**…Years one needs to live in a home to reach the breakeven point where ownership makes more financial sense than renting, in three-quarters of U.S. cities (based on costs such as mortgage payment, down payment, rent, transaction costs, taxes, etc.). (CNN Money, Zillow)

**52**…Percentage of the general public who perceive China's arrival as a world power to be a major threat to the U.S. compared to 27 percent of scholars. (Pew Research Center)

**59**…Percentage of Americans who would pick a different career if they had the chance to do it all over again. (Yahoo! Finance, PARADE)

**51**…Percentage of Americans who believe the way to get ahead at work is by playing internal politics, versus 27% who say "hard work," 18% "initiative," and 4% "creativity." (Yahoo! Finance, PARADE)

**38%**…of adults age 65 and older who use social networking sites such as Facebook or Pinterest versus 92% of adults ages 18-29. (PEW Research Study August 2012)

# Our Team!

*The Main Advisory Team. Suzanne Campanella, Lauren Peck, and Darla Main.*

## Darla Main - President, Main Advisory, Inc.

This Christmas we received two gifts that are priceless! Both our daughters announced on Christmas Day during the hustle and bustle of opening presents that they are expecting babies this summer. The best part was that neither knew about the other one, so there were surprises on all fronts! These new grandbabies are expected to arrive two weeks apart toward the end of July and the beginning of August. Mac, our 17-month-old grandson, will be competing for lap space. Since he's already got his "Grandpa G" and me wrapped around his little finger, I don't believe he'll lose his place of prominence. No vacations this summer…we'll be staying close to home.

## Lauren Peck - Assistant Director of Investments

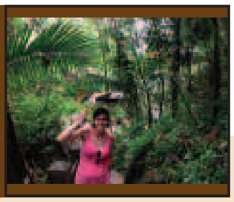
One of my favorite activities to do in my spare time is watch documentaries. I often joke that I get more value out of my Netflix membership than anybody. For me, watching documentaries is a way for me to learn about various subjects I might not otherwise encounter. To give you an idea of my varied taste in documentaries, in the last six months, I have watched documentaries about the following: sharks (*Sharkwater*), the Iditarod (*Iditarod: The Toughest Race on Earth*), Mount Everest (*Everest: IMAX*), ballerinas (*First Position*), Green Berets (*Two Weeks in Hell*), French pastry competition (*Kings of Pastry*), vegans (*Forks over Knives*), Vogue magazine (*The September Issue*) - just to name a few. I'd recommend any of the above!

## Suzanne Campanella - Client Services

I recently watched a PBS special on a newly relocated art museum in Center City Philadelphia: ***The Barnes Foundation***. Dr. Albert C. Barnes began life in a hard-scrabble neighborhood of Philadelphia, attended the University of Pennsylvania, despaired that college was useless, spent a year as a professional bookie, studied in Europe and finally became a physican/chemist who discovered a substance called Argyrol which gave him income for life—and allowed him to indulge his passion for modern art in the early 1920s. With over 69 Cezannes (more than in all the museums of Paris combined), 60 Matisses, and 44 Picassos, this gem of a museum is on my must-see list.

# Journeys & Travels

### *. . . Puerto Rico*



In an act of history in 1903, President Roosevelt declared a little more than five thousand acres of rain forest in eastern Puerto Rico as preserved forest. The El Yunque National Forest now boasts twenty-eight thousand acres of protected land that is set aside solely for public recreation, scientific research, and cultural preservation.

When I thought of a national forest previously, quintessential images of a family piling into an RV and driving into Yellowstone armed with camping gear and bear spray was what played in my mind. I knew that this experience would be different as we were driving down the winding, unmarked roads that looked like they were carved through the jungle along the path of a snake.

The map of El Yunque forest was like a choose-your-own-adventure novel. There were steep trails and steeper trails, short ones and long ones – it was all up to you. Visitors of many ages and nationalities were there to walk amongst the two hundred and forty species of plant life and to hopefully catch a glimpse of the frogs and birds who roamed among the green. In the rainforest, it was not surprising to be a part of one of the daily rain showers, but it was easy enough to grab a fallen leaf large enough to cover my head and shoulders for protection until the shower had passed.

We wound our way up, down, and around painstakingly created paths that we all agreed looked like a tropical version of rural West Virginia at times only to turn a corner and be treated to a beautiful waterfall running through the forest.

There were no RVs and certainly no bears, but what an amazing adventure! The sounds, sites, and smells of my tropical memories I will carry with me until I am able to indulge in them again. Consider trying a different kind of US National Forest experience - no passport required! ■

*By Rebecca Closson*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