



April 8th, 2011

Here is our newsletter for the 2nd quarter.

The Markets

The equity markets continued their bull market run that started just over two years ago. For the quarter U.S. large-cap stocks gained 5.9%, international stocks gained 3.0% and emerging markets stocks gained 1.8%. High grade bonds were essentially flat but high yield and emerging market bonds did better at 3.8% and 2.9% respectively.

For the quarter our equity-tilted composite gained 3.1% compared to 4.5% for the benchmark and our balanced composite gained 3.2% vs. 3.7% for the benchmark. The underperformance can be largely attributed to our current conservative bias and underweight to equities in preference to bonds and other alternative strategies. We simply don't believe investors are being compensated for the risks presently in the equity markets.

Another View of Our Debt Situation

In our newsletter last quarter I included a chart that shows the large mountain of household debt that was created over the last 30 years. Some progress has been made over the last couple of years as families have reduced their debt and increased their savings. This is good news. The bad news is our federal government debt has ballooned due to a combination of increased spending and lower revenues. In addition to the federal debt which stands at \$9.1 Trillion, Bill Gross with PIMCO shows in his April Investment Outlook the liabilities our government faces for future costs from Social Security, Medicare and Medicaid (the discounted present value of those costs). From the size of the balls shown below one can see that our biggest problems are the costs to fund Medicare and Medicaid, and those costs are expected to increase over time.

So what does all of this mean for families in the coming years? Here is my take.

1. We will be paying more for health care in the form of higher taxes, higher insurance premiums and higher out-of-pocket costs.
2. Tremendous pressure will be applied to health care providers to cut costs.
3. All of us will simply have to expect less from the government, fund more of our own health care and do a better job of maintaining our own good health.

A great video that not only details our problems but also offers solutions is on my website at <http://www.compfinancial.com/need-to-know.html> under the Information You Can use section (look for the I.O.U.S.A. link). I mentioned this video a couple of years ago and it has been updated per recent events. There are plenty of solutions: we just have to gather the will to get it done.



Source: A Basic Summary of America's Financial Statements, USA Inc., Mary Meeker

Health Care Planning

How are we helping clients plan for covering the increasing costs of health care?

1. Make sure your current health coverage is appropriate. Look at options such as high deductible policies to reduce your insurance premiums.
2. Understand the limits of your coverage and have enough cash in the bank to cover possible out-of-pocket costs.
3. Contribute to a Health Savings account to reduce your current taxes by paying for health care cost pre-tax.
4. Make sure a realistic budget for health care insurance and out-of-pocket costs is in place.
5. For your retirement plan, make sure assumptions about the escalation of future costs are adequate and are taken into account in your plan.
6. Understanding requirements to file for Medicare when you turn 65 and the need for additional insurance, so called Medigap policies that will supplement Medicare.
7. Analyzing the need for disability and long term care insurance during your working years and in retirement.

During the planning process we evaluate the client needs and, if insurance is part of the solution, work with several independent insurance agents to find the best solutions for our clients.

Portfolio Changes

We implemented some major changes to our portfolios last quarter which we previewed in our January newsletter. The major result has been to decrease our exposure to conventional stock and bond funds and increase our use of alternative asset classes in an effort to reduce risk and increase potential returns in the low return environment we face over the next few years. We also hope to offer protection in what should be a rising interest rate environment and a falling dollar against developing world currencies. We have increased our allocation to emerging market equities and currencies and increased our long/short, inflation-protected and other alternative assets.

Durango Herald Article

For those of you who missed the article I wrote for the local paper, here is a link. Readers of this newsletter will recognize it from my newsletter 15 month ago.

<http://www.durangoherald.com/article/20110216/NEWS04/702169987/-1/News04/Rats-can-teach-humans-some-investing-savvy>.

I would love to get some input from you about what subjects you would like to see in future additions of this newsletter. Give me a call or send me an email at stan@CompFinancial.com and let me know what you would like to see.

Sincerely,

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