Investor Insights & Outlook

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Dollar-Cost Averaging: Slow and Steady

The concept of "dollar-cost averaging" might initially appear intimidating to some, but the practice is actually quite simple. All you have to do is invest the same amount of money each and every month. Pretty simple, right? But what's really nice is that something as straightforward as dollar-cost averaging actually helps you invest smarter.

Say you want to invest $900 in a certain mutual fund. Over three months, the fund's price is $30, $20, and $25. If you invested all of your money immediately, you'd wind up with 30 shares of the fund. However, if you invested $300 into the fund each month, you'd end up with a total of 37 shares. By dollar-cost averaging you were able to obtain seven more shares. Of course, if you knew ahead of time that the fund would fall to $20, you could have bought all of your shares then. But you obviously can't predict the future. Dollar-cost averaging is a smart strategy that forces you to keep investing, even if the market is dropping. It encourages discipline. Instead of being tempted to sell your investments when prices are falling, you actually buy more.

One great thing about an employer-sponsored retirement plan is that it automatically uses dollar-cost averaging—the same amount is taken out of every paycheck. You can also set up automatic dollar-cost averaging programs with most individual retirement accounts (IRAs).

Please keep in mind that dollar-cost averaging does not ensure profit or protect against a loss in a declining market. However, its benefits are quite clear: Dollar-cost averaging minimizes the effects of market fluctuations, encourages discipline, eliminates the need to decide when to invest, and avoids the temptation to time the market.

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Advisor Corner

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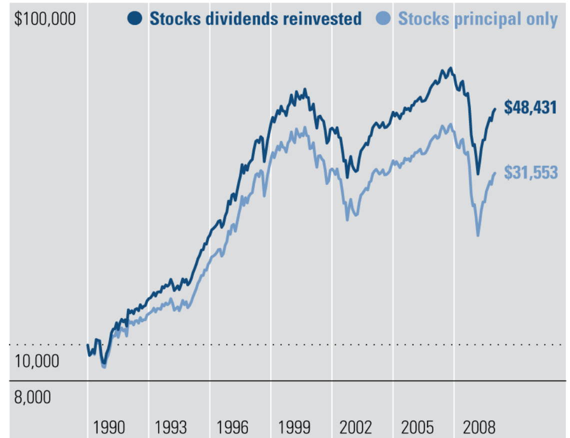
Dividend Discussion

For many investors, the only reward that matters is an increase in share price. But if you look beyond capital gains, you might find a dividend offering significant benefits. A dividend can (1) provide regular income, (2) grow over time through reinvestment opportunities, and (3) offer significant tax benefits. Prior to the 2003 Tax Act, dividends were taxed at ordinary income-tax rate levels, which could be as high as 35%. Now investors pay significantly less taxes, ranging from 5% to 15%.

Despite these advantages, dividends seem to be an often overlooked component of total returns. The image below illustrates the impact that reinvested dividends have on investment returns over time. These paying investments can add value to a portfolio, but keep in mind that it is possible to lose money by investing in them, and that companies cannot always guarantee their dividend payments.

Growth of $10,000:
Principal Versus Reinvested Distributions



This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. Past performance is no guarantee of future results. Returns and principal invested in stocks are not guaranteed.

Source: Stocks with dividends reinvested—Standard & Poor's 500®, which is an unmanaged group of securities and considered to be representative of the stock market in general; Stocks principal only— Standard & Poor's Capital Appreciation.

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EstateLogic (tm)

- EstateLogic® – this new estate and legacy management solution combines the financial and biographical details of your life in one secure, easy to access online location

Over the years many of you have created estate plans that spell out your instructions and wishes on key issues. It's very important that you keep these documents up to date and that they are stored in a secure location where they can be easily accessed by family in the future.

With that in mind, Balanced Financial Planning has recently partnered with a company called Executor's Resource to offer EstateLogic®, an online estate organizer that safely catalogues the location of all of your important documents such as wills, trust agreements, tax returns, insurance policies, and copies of credit cards, right along with your personal instructions, family heritage information, memorabilia, photos and stories. You can even upload electronic copies of your important documents, should you choose.

Since EstateLogic securely stores and encrypts this information online, you can access it from anywhere in the world. It's always at your fingertips, allowing for easy updates. All of this is then made available to your executor in the future so that they are successful in transferring your wealth, honoring your wishes, and preserving all of the biographical things that are important about you.

Please visit www.ExecutorsResource.com to familiarize yourself with EstateLogic. There is a short 2 1/2-minute tour that will provide you with an overview of its features. If you're interested in using EstateLogic you can open an account by visiting www.estatelogic.com/plo/account/accountActivation.seam?agentId=183 or call Executor's Resource toll-free at (866) 645-6051, Ext. 3. Make sure to mention that Balanced Financial Planning is your advisor so that you receive the discounted pricing. For about $7.50 per month or less, depending upon the service level you select, you can create a great complement to the ongoing planning and work that we do every day to accomplish your estate goals.

Monthly Market Commentary

Recent weeks' economic conditions included prolonged instability in the market, multiple European worries, and a bleak employment report. When the unemployment numbers were announced, the Dow Jones Industrial Average fell (again), reaching its lowest level since February.

Unemployment: An employment report from the Bureau of Labor Statistics was released during the first week of June, causing an immediate drop in the market. The national unemployment rate (constant at 9.7% throughout the first quarter) jumped to 9.9% in April and came back down to 9.7% in May—an improvement, but a disappointing improvement, nonetheless, at a moment when expectations were much higher. A total of 431,000 new jobs were added in May, and this was the biggest monthly expansion in 10 years. This increase, however, as impressive as it may sound, was mostly the result of the government's hiring of temporary census workers and not an indicator of healthy long-term job growth.

Economic growth: U.S. GDP growth for the first quarter of 2010 was first estimated at 3.2%, but the revised number (published on May 27) was revealed to be even lower: 3.0%. This is a healthy number, but it isn't solid enough to guarantee a speedy economic recovery. Morningstar is forecasting overall growth of 4.5% in 2010, although this target will be a little difficult to hit in light of the first-quarter report.

Consumer spending and saving: Spending, which had been increasing faster than income for awhile, was considerably lower in April. This in turn caused the savings rate to increase to 3.6% in April from 3.1% in March, demonstrating that spending can't exceed income growth over longer periods of time, even in the U.S. Real (inflation-adjusted) personal income increased by 0.5% in April, continuing the so-far positive trend this year.

Inflation: Consumer prices were down by 0.1% in April compared with March, and they were up by only 2.2% from April 2009. Core inflation (excluding food and energy) was up by only 0.9% —the smallest increase in 44 years. However, some categories, such as consumer leisure activities, health care, and government services, showed significant price increases. More increases are expected, particularly in the last category, because state and local governments will continue to be under pressure. Overall, though, with falling energy prices and continued stability in rents and housing prices, the short-term outlook (the next three to four months) appears to be very stable, inflation-wise.

The market: By the end of day on June 4, all three major stock market indexes had fallen from their April highs by more than 10%, owing to the gloomy employment report and more unsettling international news. According to Morningstar's Market Fair Value (the ratio of stock price to Morningstar fair value estimate for the median stock in Morningstar's coverage universe), the market was 7% overvalued at the beginning of May, but it was 7% undervalued at the beginning of June.

Global perspective: World markets are still unstable; news from Europe continue to keep investors on edge. Since markets react to investor beliefs and attitudes, the potential result of more negative international news could be another market panic. At the end of May, rumors that China was selling its euro holdings sent the market into upheaval until the rumors were formally denied. As if that wasn't bad enough, on June 4 Hungary hinted that it could default on its debts, throwing markets in turmoil once again.

A World of Opportunity

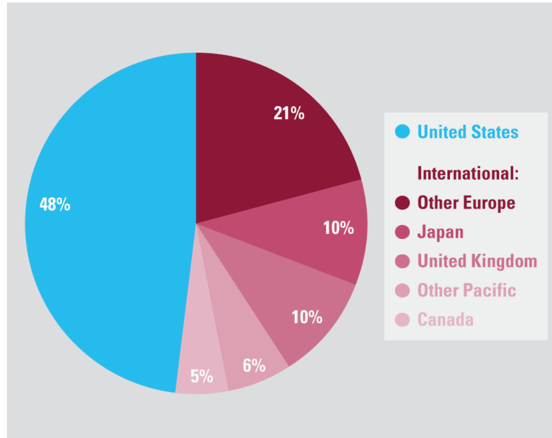
World Stack Market

- Year End 2009

As trade barriers continue to break down, the world economy has become a small neighborhood. Should investors seek to participate in this wave of globalization, or are they getting all they need here at home?

Historically, foreign investments have acted in a significantly different way from domestic investments. When the U.S. market slumped, various opportunities abroad have prospered. An American investor who put some money into foreign markets may have reduced risk while still attaining attractive returns. With the spread of globalization, this benefit decreases as companies across the globe are acting more like each other. However, as the image illustrates, an investor who doesn't take advantage of options outside of the United States is missing out on roughly half of the investable developed stock market opportunities in the world.

World Stock Market Capitalization Year-End 2009



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.

Source: World Market Capitalization by Country is from the Morgan Stanley Capital International Blue Booksm. The data is expressed in U.S. dollars.

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