



Market Outlook

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Financial Update and Joke of the Month

American Debt Balloons (joke)

Outside an amusement park, a peddler was selling some balloons. The first batch had "Japanese Debt" on them. A group of aging Japanese lined up and bought them up quickly. He took out his second batch with "Greek Debt" on them. Some hedge fund managers snapped them up, but they only threw him a couple of pennies. He yelled, "Thieves!" Hoping for better luck, he took out his last batch, the "American Debt" balloons. There were no buyers. He yelled, "Show some patriotism!" No response. He yelled again, "American Debt, not Greek Debt!" Still no one bought. Then he saw the Federal Reserve Building in a distance. He took his balloons and yelled directly under Ben Bernanke's window. Immediately Bernanke called out, "American Debt, I love it! GIMME everything!"



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A Message from Pension Maxima Investment Advisory

We specialize in 401(k) investment and fiduciary services for plan sponsors. We also help small business owners to set up their pension plans.

Hope you enjoy our joke of the month!

Our Learning website:
www.iclearfuture.com
 Small Business Owners Website:
www.elitepension.com

Economic Outlook for 2012

The U.S. economy grew in 2011, but at a slower rate than everyone expected. Even more surprising than the overall growth rate was the pattern of that growth rate throughout the year. Growth plunged to 0.4% in the first quarter and accelerated throughout the year, with the fourth quarter now likely to produce annualized growth well in excess of 3%.

More Upside than Downside (Though the Downside Is Scary): Morningstar economists' overall forecast for 2012 sees slightly higher growth than the consensus of other economists, but not by a lot. However, the odds of an upside surprise are substantially higher than those of a downside surprise. Potential sources of an upside surprise include increased U.S. oil production, a sharper rebound in automotive and aircraft production, and a stronger housing market.

Corporations Are Scared Even as Consumers Accelerate Spending: It looks like U.S. corporate managers are far more scared about Europe and the economy in general than the U.S. consumer is. Recent reports seem to suggest at least some precautionary spending cuts by corporations in the software arena. Managers also seem to be paring inventories to the bone. However, it appears that U.S. consumers are accelerating spending; they seem to be "thrifty out" and can no longer delay certain purchases, especially autos. This leads Morningstar economists to predict greater production both in the U.S. and in other world economies that export to the U.S. in 2012.

Europe Remains at the Top of the Worry List: The main concern here is the potential of the European sovereign debt crisis to wreak havoc on the worldwide financial system. U.S. exports to Europe represent just 3% of U.S. GDP, and a lot of that is for basic necessities that can't be bought elsewhere. However, with a web of lending in which European banks lend to sovereign governments, and those governments lend the money back to the undercapitalized banks, the failure of any one link could bring down a healthy chunk of the European banking system.

China Slowing Is an Issue for Some, but Potentially Good News for the U.S.: China certainly remains an issue, too, as growth there slows modestly and the construction industry pulls back from its breakneck pace. Slowing there is bad news for a lot of high-profile capital goods manufacturers in the U.S. but, overall, China is an even smaller part of U.S. GDP than Europe. Furthermore, slowing growth in China could mean significantly lower commodity prices, especially in the U.S., which would be good news for low-end U.S. consumers, who were particularly crippled by rising commodity prices in 2011.

A Savvy Consumer May Limit Profit Growth: Corporate margins could begin to shrink in the future as consumers start to gain the upper hand. Consumers are fighting every price increase tooth and nail, with the possible exception of the very high end of the market. The most recent example comes in the banking industry, where a pushback by consumers forced several major banks to cancel proposed increases in debit card fees.

Europe Will Hurt Big Firms More Than U.S. GDP: Although U.S. GDP growth may escape the worst of the effect of a slowing Europe, U.S. multinationals may not. Many of these firms derive 20%-40% of their revenues from Europe. Since many of those goods are produced in Europe or in other non-U.S. markets, they are not counted in the U.S. GDP calculations, and they don't directly add to U.S. employment. Therefore, a weak Europe could significantly affect U.S. companies even if it doesn't make a dent in the U.S. GDP growth rate.

Looking forward to 2012, the U.S. economy is probably better positioned than most of the rest of the world economies, showing accelerating growth even as Europe falls into a recession and as growth in Asian economies slows to a more modest pace.

Assessing Risk

Investing and poker have been compared on many levels. For starters, poker is a zero-sum game—what the winner wins has to be equal to what the losers lose. But investing is not a zero-sum game because over time stocks tend to have positive returns, making it possible for investors to be overall winners.

Both, however, are games of incomplete information with unknown variables and conditions that cannot be controlled. To offset these uncertainties, it is important for players of both groups to assess and understand their appetite for risk. Doing so develops discipline, a strategy, and may help reduce unexpected setbacks.

The questions below are designed to help shed light on your risk tolerance. The questions are hypothetical in nature and are not meant to represent investment advice. Answers are symbolic of different risk levels: “a” conservative, “b” moderate, and “c” aggressive.

1. I am comfortable with investments that may often experience large declines in value if there is a potential for higher return.

a. Disagree b. Uncertain c. Agree

2. Suppose you owned a well-diversified portfolio that fell by 20% over a short period of time. Assuming you have 10 years until you begin withdrawals from your account, how would you react?

a. I would immediately change to a more conservative portfolio. b. I would wait at least 6 months to one year before changing to more conservative options. c. I would not change my portfolio.

3. Which statement best describes your investment goals?

a. Protect the value of my account by minimizing loss and accepting lower long-term returns. b.

Balance moderate levels of risk with moderate levels of returns. c. Maximize long term returns and accept large or dramatic swings in the value of my investments.

4. Portfolios with the highest average returns also tend to have the highest chance of short-term losses. The data below represents five hypothetical investments of \$100,000 over a one-year time frame. Which range would you feel most comfortable with?

a. Portfolio A: \$139,000 – \$88,800 b. Portfolio B: \$179,000 – \$75,700 c. Portfolio C: \$215,000 – \$59,500

Now, keep in mind that these are only guidelines meant to give you insight into how you think and behave as an investor. Once you have discovered that you are, let's say, aggressive, this certainly doesn't mean that you now have to invest in high-risk stocks and emerging markets for the rest of your life. On the contrary, your risk tolerance may change over time, and revisiting these questions periodically may let you know if it's time to change your investment strategy.

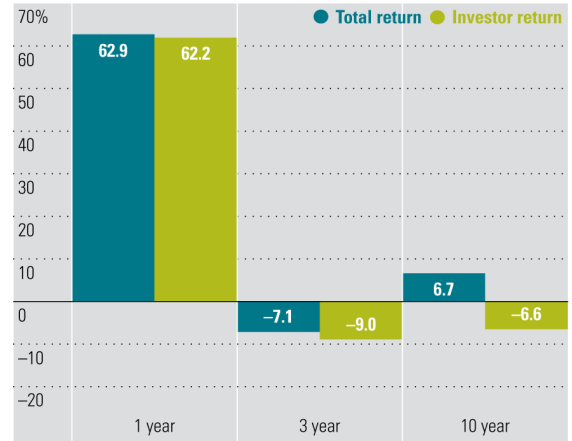
Diversification does not eliminate the risk of experiencing investment losses. Past performance is no guarantee of future results.

Chasing Performance

Investors often endure poor timing and planning as many chase past performance. They buy into funds that are performing well and initiate a selling spree following a decline. This becomes evident when evaluating a fund’s total return compared with the investor return. Overall, the investor return translates to the average investor’s experience as measured by the timing decisions of all investors in the fund.

The image illustrates the investor return relative to the total return for a given fund. Over the short term, both the total and investor returns were positive, with the investor return ending slightly lower. Over a 10-year period, however, total return greatly exceeded investor return. Investors who attempted to time the market ran the risk of missing periods of exceptional returns.

Comparison of a Fund’s Return Performance Over Time



Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. Returns and principal invested in stocks are not guaranteed. Morningstar investor returns measure how the typical investor in that fund fared over time, incorporating the impact of cash inflows and outflows from purchases and sales. It is not one specific investor’s experience, but rather a measure of the return earned collectively by all the investors in the fund. Total return measures the percentage change in price for a fund, assuming the investor buys and holds the fund over the time period, reinvests distributions, and does not make any additional purchases or sales. Investor returns are not a substitute for total returns but can be used in combination with them. Data as of February 2010.

Source: The fund illustrated in this example was selected from Morningstar’s open-end database.

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