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financial



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## Economic Indicators: What Can They Tell You?

**S**ooner or later, every investor is curious to know if economic indicators can provide clues for investing. However, the economy is a bit like the weather: forecasters are always talking about it, but what actually happens is quite often a surprise. All the same, it helps to know at least a little bit about what they're talking about, if only to begin to figure out for yourself what indicators you should pay attention to.

With that in mind, here's a brief introduction to some of the most widely watched economic indicators. The organizing principle here is whether they're providing information about the past, the present, or the future.



### Lagging Indicators

The family of "lagging" or "trailing" indicators gets its name from the fact that they reflect economic conditions that have passed. Instead of predicting the future, they confirm what has already happened, so they tend not to cause sharp market reactions when they're announced — unless they diverge sharply from the consensus forecast of economists. Some of the major lagging indicators are:



### Consumer Price Index (CPI).

This is the most-watched measure of inflation in America, measuring changes in the average price of a basket of consumer goods and services in the country's major metropolitan areas. Since 1945, the CPI has averaged just above 3% a year. Significantly higher rates are often associated with an economy that is growing too fast, which can lead to steps by the Federal Reserve to raise interest rates to curb borrowing and

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## Are Your Retirement Funds Adequate?

**W**hether retirement is just around the corner or you are decades away from your final day in the office, knowing how much you'll need and how your nest egg measures up is important. That knowledge should help you make necessary adjustments to your investment strategy to help you enjoy a comfortable retirement.

**Know your goal.** Very simply, take your current gross income and deduct the expenses you no longer expect to have in retirement.

**Estimate your Social Security benefits and other sources of income.** Basically, by (1) finding your target retirement income and then (2) subtracting the estimated income from Social Security and any company pension, you will have the "magic number" of how much your personal retirement savings must contribute.

**Analyze which financial vehicles are best, given your retirement road map.** Being overinvested in any one area isn't wise. Generally, the younger you are, the larger share of your money you should consider investing in growth investments like equities. Equity securities' prices may fluctuate in response to specific situations for each company, industry, market conditions, and general economic environment. Investing in growth stocks can be more risky than an investment in a company with more modest growth expectations. Please call if you'd like help. ○○○

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## Economic Indicators

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slow down the economy. *Issuer: U.S. Bureau of Labor Statistics. Frequency: monthly; mid-month, covering the prior month.*

 **Unemployment rate.** This measures the latest number of initial claims for unemployment insurance, as well as the number of people who are out of work as a percentage of the U.S. work force, defined as people who are already working or looking for work. This is considered a lagging indicator because unemployment continues to increase several months after the economy starts to improve. *Issuer: U.S. Department of Labor. Frequency: weekly; Thursdays prior to market opening.*

 **Consumer credit report.** This measures the dollar balances of consumer debt, including credit cards and bank loans, excluding loans backed by real estate. Since consumer spending accounts for 70% of the U.S. economy, rising levels of consumer credit reflect a strong economy, while declining levels indicate economic weakness. *Issuer: Federal Reserve. Frequency: monthly; five weeks after month's end.*

### Coincident Indicators

Coincident indicators give a picture of the economy's current condition. These tend to cause more market volatility after their release than the lagging indicators. Some of the major coincident indicators are:

 **Gross Domestic Product (GDP).** This is the sum total of an economy's output of goods and services, measured in each nation's currency. The absolute number is less important than the change over time, expressed as a percentage. In the U.S., GDP growth has averaged between 3% and 4% annually since the end of World War II. Two consecutive quarters of negative growth is typically considered evidence of a recession. *Issuer: U.S. Bureau of Economic Analysis. Frequency: quarterly;*

*advance release three weeks after the end of each calendar quarter; with the final report released three months after the quarter ends.*

 **Retail sales report.** This indicator is very closely watched by both economists and investors. It tracks changes in the dollar value of big- and small-ticket goods sold in retail stores, by mail order, over the Internet, and in vending machines. It's taken as a sign of economic strength (again, because consumer spending accounts for such a huge percentage of the U.S. economy) as well as inflationary pressures and an indicator of whether the Federal Reserve is likely to raise or lower interest rates. *Issuers: U.S. Commerce Department and Census Bureau. Frequency: monthly; mid-month.*

### Leading Indicators

Leading indicators are typically the ones used to help make key day-to-day decisions, because they tend to indicate economic conditions six to nine months into the future. As a result, these are the indicators with the greatest potential to move the markets noticeably when they're released.

 **Institute for Supply Management (ISM) index.** This index is based on a survey of purchasing executives at some 300 major industrial companies, reflecting their firms' activities aimed at future production. The index covers nine production factors, including new orders, production, employment, supplier deliveries, inventories, prices, new export orders, imports, and order backlog. Considered to be the single best barometer of conditions in the manufacturing sector, a value of 50 and higher signals economic expansion, and a value below 50 signals contraction. *Issuer: Institute for Supply Management. Frequency: the first business day of every month; covering the previous month's data.*

 **Consumer confidence index.** This indicator is a summary of interviews with some 5,000 con-

sumers nationwide (for a random sample of Americans) on their feelings about their own financial condition, the strength of the economy, and their outlook for the next six months. Historically, changes in this index have tracked the leading edge of the business cycle well, as it indicates how willing consumers are to spend more and make big-ticket purchases (like a car or a home). A strong report when the economy has been weak can spur a short-term rise in stock prices. Some economists look for an increase of at least five percentage points before calling for a change in the economic trend. *Issuer: The Conference Board. Frequency: the last Tuesday of every month; covering the previous month's survey.*

 **Housing starts and building permits.** This indicator reports on both the number of housing units on which construction has begun, as well as the number of units for which permits have been issued. It's generally regarded as a good indicator of future home sales and consumer spending in general. Permits typically are a good indicator of housing starts three to four months in the future. *Issuer: the U.S. Census Bureau. Frequency: monthly; around the 18th of the month.*

 **Stock market prices.** Stock price trends are considered one of the most important indicators of future economic conditions, which tend to indicate future economic health some six to nine months into the future.

Only a portion of major economic indicators that economists and investment professionals watch on a regular basis have been reviewed. The truth is that all of the major indicators are meaningful, but tend to make the most sense when taken in context with each other. To get the latest reading on what the economic indicators are saying and what they might mean for your investment strategy, please call.

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## Does Your Insurance Need Adjusting?

The policies that were just right for you five years ago — or even one year ago — may not be just right today. Thus, you should review your insurance every year or after a major life event, such as marriage, divorce, the birth of a child, a new job, or the death of a spouse or dependent. During that review, consider these seven questions:

**Have you recently married or divorced?** A marriage or divorce may affect several different types of insurance needs, including:

✔ **Life** — If you've recently married, you may want to purchase a life insurance policy that would provide additional income to your surviving spouse if you die. If you've recently divorced, you'll want to remove your ex-spouse from your insurance policies and name a new beneficiary.

✔ **Health** — You'll typically need to add your spouse to your employer-sponsored health insurance within 30 days of marriage or wait for the open enrollment period that typically occurs once a year. If you're divorced, you'll want to remove your ex-spouse from your plan.

✔ **Homeowners** — If you're combining households, you may need to increase personal property insurance so that all of your possessions are protected in case of theft or damage.

✔ **Auto** — Many insurance companies offer discounts for multiple policies. The savings can be significant if both you and your

new spouse have autos insured by the same company. Insurance companies that offer both auto and homeowners insurance may provide even larger discounts for those who purchase both types of policies.

**Has your spouse died or become disabled?** These types of changes warrant a reassessment of all your insurance needs. If your spouse died, you'll want to rename beneficiaries on your life insurance policies.

**Have you had a baby?** You should ensure that your life insurance coverage is sufficient to provide for the child's needs until adulthood, perhaps including educational expenses in addition to day-to-day expenses.

Also review your disability insurance coverage, since you now have another dependent relying on your income. Look into both short-term and long-term disability coverage. Many employers offer some level of disability insurance coverage. However, you may need to purchase additional insurance to supplement that offered by your employer.

Keep in mind that you typically have 30 days after birth to add your child to your employer-sponsored health plan.

**Are there any new drivers in your household?** If you have a teenager who has just started driving, be prepared for significant increases in your auto insurance. Insurance companies often give premium discounts when the new driver has taken a certified driver's training course or is a good student, so make sure to check with your insurance company. Once your child goes away to college, inform your insurance company if your child did not take a car to college.

**Have you switched jobs and/or dramatically increased or decreased your earned income?**



**Have you retired?** If you have a significant increase or decrease in your income that has caused changes in your lifestyle, you may want to adjust your life insurance policy.

Once you retire, reevaluate your life insurance to see if any changes are warranted. And, if you're no longer commuting every day, you may qualify for lower auto insurance premiums. Also make sure to review your long-term-care needs.

**Have you acquired any new valuables?** Your homeowners insurance policy, which also covers personal property up to specified limits, typically covers new purchases automatically. However, make sure that any new purchases don't exceed the limits of your policy. Periodically review your inventory of personal property to make sure everything is covered.

**Have you made extensive renovations on your home?** Make sure to review your policy limits when you add significant value to your home. It's actually a good idea to review your limits periodically to make sure your policy will replace your home if it is totally destroyed. Changes in the cost of rebuilding a home can outpace the limits of your policy, and you don't want to be left unprotected.

It's a good idea to reassess your insurance needs at least once a year. Please call if you'd like to discuss your insurance needs in more detail. ○○○



## What's Causing the Jobless Recovery?

**A**lthough the recession officially ended in June 2009, unemployment rates are decreasing slowly, the average length of unemployment remains at a historical high, and the unemployment rate is projected to remain above 7.8% until 2013. The concern is that we are again facing a jobless recovery, with economic activity growing while the unemployment rate remains high. The prior two recessions, in 1990–91 and 2001, were also considered jobless recoveries, with the unemployment rate continuing to increase 15 months after the end of the recessions. However, the most recent recession has even more persistent and unusually high unemployment. What is causing this jobless recovery?

Many researchers consider a labor market mismatch as a significant cause for the persistently high unemployment. One study of employment opportunities over the past three decades found that employment growth has polarized into relatively high-skill, high-wage jobs and low-skill, low-wage jobs, while middle-skill routine jobs have declined. Some middle-skill jobs have been replaced by technology, while others have been outsourced overseas. During the most recent

recession, employment in middle-skill and middle-wage jobs declined 7–17% (Source: *The Regional Economist*, April 2011).

Another study found that job opportunities have significantly reallocated between industries. During the recent recession, employment in the construction industry declined 20% and 6% in the financial industry. Between June 2009 and December 2010, employment dropped an additional 7% in the construction industry and 2% in the financial industry. Manufacturing and information service industries were also severely impacted (Source: *The Regional Economist*, April 2011).

During the recent recession, small firms lost proportionately more jobs than larger firms. Small firms accounted for approximately 10% of total net job loss despite their 5.3% employment share. They also take longer than large firms to rehire.

One study found that college graduates entering the job market during economic downturns experience a significant negative effect to their lifetime opportunities. Even 15 years after graduation, their wages and career attainment remain lower than those who graduated in better economic times. ○○○



## Keeping Score of Your Progress

**Y**ou only know if you're making progress toward your goals if you've created a plan that tells you where you need to be and when. Essentially, there are two numbers to focus on: your total net worth and your liquid net worth.

In both cases, the basic formula is the same: Net Worth = Assets minus Liabilities.

Assets are what you own, and liabilities are what you owe — essentially, debt of any and all kinds. Your liquid net worth is a more accurate measure of how much you can spend without altering your lifestyle, especially in retirement.

From here, you can generate a series of annual interim goals for that principal value. These are the scores that you need to meet or beat to be winning the contest toward meeting your goals.

In order to do this annual review properly, you need to determine the current value of your assets. In some cases, this is relatively easy to do. In the case of less liquid assets, establishing the current market value can be difficult. ○○○

## Financial Thoughts

**W**hen preretirees were asked to rate six factors that could impact when they would retire, the factors mentioned most frequently were the cost of health care (72%), inflation (62%), and energy prices (60%) (Source: Gallup, 2011).

Approximately 58% of investors surveyed have lost faith in the stock market, while 44% believe they will never invest in

stocks again. When describing their portfolio allocation, 37% believe their investing style is aggressive, down from 46% before the recession began (Source: Prudential, 2011).

A recent survey looked at the key financial behaviors exhibited by individuals who were able to accumulate a minimum of 10 times annual income by retirement age. The four financial

behaviors included getting advice from a financial professional, participating in a qualified retirement plan (either employer sponsored or an IRA), saving steadily, and maintaining an investment strategy. Among those who achieved this goal, 29% received an inheritance, 15% sold their primary residence or other real estate, and 11% sold a business or shares of corporate stock (Source: Lincoln Financial, 2011). ○○○