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S U C C E S S

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Why and How to Diversify Your Stock Portfolio

Ask 100 individual investors what they think is the number-one secret to making money in the stock market, and the answer you're likely to hear most often is: "Choosing the right stocks." But that would be wrong. Because the number-one secret to making money on Wall Street is:

Never suffer a big loss.

In other words, control risk by never losing a lot of money.

Why? Let's say you have \$10,000 to invest, and you hear about a \$20 stock that's a sure thing to generate a 50% return in one year. However, after one month, the stock loses \$1, so you're down 5%. No big deal, you say, stock prices fluctuate and this one's going to be a winner, so you hold. And after two months, the price is \$17.50 and

you hold; and after three months it's \$15, and after six months it's down to \$10.

Now, you're sitting on a 50% loss instead of a 50% gain. Worse, now you need a 100% return in six months just to break even, and a 200% gain to make your goal. However unlikely it may have been for the stock to hit \$30 when you bought it, it's even more unlikely you'll break even now. Instead, if you'd bailed out when you'd only lost, say 10%, you'd only need a

11% return to break even.

The science of modern portfolio management calls for eliminating most of the structural risk of a big loss by spreading your stock holdings out over 10 to 20 different issues. And since it doesn't do much to spread the risk if you put your money into 10 to 20 different banks or software companies, here are the four key diversification criteria that can help maximize your stock returns while minimizing

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Avoid This Mistake

Finding a way to live decades in retirement without worrying about running out of money can seem overwhelming. That goal depends on many variables and assumptions. If you're wrong on even one of those variables, funding your retirement could be in danger.

With all the potential for missteps, what is the one mistake you want to avoid at all costs? Dipping into your retirement savings. Unfortunately, since the funds in your 401(k) plan or individual retirement account (IRA) belong to you, they often seem like a tempting place to get funds needed for other purposes. Tax laws don't help, since they often provide tax-advantaged ways for you to access those funds.

Even if the amount seems small, don't withdraw funds from your retirement account. While it probably won't add significantly to your lifestyle now, it can grow to significant sums over the long term. No matter how much you think you need the money now, don't touch your retirement funds for anything other than retirement. Please call if you'd like to discuss this in more detail. ○○○



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Why and How

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your risk of a big loss:

1. Invest in five or more sectors. Depending on the source of your information, the U.S. economy consists of between 10 and 12 sectors — industry groups that tend to perform in distinctly different ways at different times in the business cycle. This Standard & Poor's list gives you an idea of what a sector is and the types of industries they include.

✔ **Consumer Discretionary** — General and specialty retailers, broadcasting, auto manufacturers, homebuilders, clothing, restaurants, hotels.

✔ **Consumer Staples** — Food, beverages, tobacco, personal care products, drug retailers.

✔ **Energy** — Coal, oil and gas drilling, exploration, field services, refining, marketing.

✔ **Financials** — Asset managers, banks, REITS, insurance, investment banking, brokerage.

✔ **Health Care** — Biotechnology, health care equipment, facilities, services and supplies, HMOs, pharmaceuticals.

✔ **Industrials** — Aerospace and defense, airlines, construction and engineering, industrial machinery, railroads, trucking.

✔ **Information Technology** — Computer hardware and software, data processing and outsourcing services, Internet software and services, semiconductors.

✔ **Materials** — Metals, chemicals, forest products, containers and packaging, fertilizers.

✔ **Telecommunications** — Integrated and wireless telecommunication services.

✔ **Utilities** — Electric, gas, and water.

2. Invest in different company sizes/capitalizations. Stocks are divided into three general classifica-

tions by size: large, mid-sized, and small. A firm's size is determined by multiplying the number of shares that a company has in the hands of investors by the share price. The result is called "capitalization," and you'll often hear the size of a company referred to as its "market capitalization" or "market cap" for short.

Different stock research companies have different definitions of what constitutes a large-, mid-, or small-cap stock. Standard & Poor's currently defines them in this way:

✔ **Large-Cap** — More than \$3 billion

✔ **Mid-Cap** — \$750 million to \$3 billion

✔ **Small-Cap** — Less than \$750 million

3. Invest in different styles.

There are two basic investment styles: growth and value. To enjoy the greatest risk-reducing benefits, invest according to both styles, as one tends to perform well while the other less well (and vice versa), often over periods lasting several years.

✔ **Growth** stocks exhibit high rates of annual revenue growth and high valuation figures, the chief being their price/earnings (P/E) ratio. To be considered a growth stock, the underlying company typically shows revenue growth of at least 20% a year and has a P/E ratio of at least 20; ordinarily, true growth stocks show higher figures in both areas. Growth investors buy these kinds of stocks, because booming business growth often leads to rapidly rising stock prices.

✔ **Value** stocks are stocks of companies with relatively low rates of revenue growth — anywhere from 5% to 15% a year — and relatively low P/E ratios, normally below 15. If you think of growth stocks as the hares of the market, value stocks are the tortoises — they are the slow but steady performers that never go up very far very fast,

but are less likely to go down as far or as fast as growth stocks do in bad markets.

4. Invest in different geographies. The final dimension involves where the companies whose stocks you buy are based: the United States, in a highly developed foreign country, or in less-developed countries, called collectively the "emerging markets."

The key here is that these three different geographic classifications take turns being the top performer. From the end of World War II until recently, as a group, the stocks of companies based in Western Europe, Japan, Canada, and Australia had higher long-term rates of return than stocks based in the United States. Lately, their performance has been closer to the U.S. long-term average, but they still are on a somewhat different time cycle than U.S. stocks.

As a group, since the 1970s, stocks of companies in the emerging markets — Eastern Europe, China, India, Israel, Southeast Asia, Africa, and Latin America — have had higher rates of return than either U.S. or the developed foreign markets. A downside is that these stock markets show much higher volatility than those in the other regions of the world.

To recap: diversity in your stock portfolio is an important way to reduce risk. Introduce some diversity by investing in different sectors, different size companies, both growth and value stocks, and different geographies. For help determining the best way to diversify your portfolio for your unique needs, please call. ○○○



Make Sure There's One, and Only One, You

By now, you've probably heard plenty of the horror stories: people's bank accounts emptied, loans taken out for which they've never applied, bills unpaid, and credit ratings ruined. The cause: identity theft.

While we typically believe that identity theft is strictly a high-tech enterprise, the truth is that in addition to computer hacking and Internet scams, there are a number of low-tech ways of stealing someone's identity. Here are 10 different ways to guard against identity theft:

- ✓ Never give anyone you don't know or trust your Social Security number, in person, through the mail, over the telephone, or via the Internet.
- ✓ Buy a shredder and shred every document or item that has vital identity or financial information before tossing it into the garbage — especially your expired credit and debit cards.
- ✓ Don't fall for e-mail inquiries that ask for your passwords or any other high-stakes personal information. Typical attempts include requests from "banks" to verify information, notifications that you've won a sweepstake prize, or requests from a stranger who needs help moving a gigantic sum of money. These are typically phishing schemes. Phishing involves convincing consumers to divulge personal financial information on fraudulent websites. For example, a consumer might receive an e-mail message from a phisher asking the recipient to click on a link in the e-mail to confirm account information. The website the consumer is directed to is a fake or copy of the real website. When the consumer enters the financial information, the phisher acquires all information needed to access the

consumer's bank account or commit other forms of identity theft.

- ✓ Cut down on the number of credit and debit cards you carry in your wallet. Purse and wallet thefts are one of the most common forms of low-tech identity thievery.
- ✓ Report the loss of your wallet within 24 hours to assure that you'll be protected against any unauthorized charges on your credit cards. Keep a list or photocopy of all of your credit cards in a safe place inside your home, so you can quickly notify every issuer if they're lost or stolen.
- ✓ Never leave a restaurant with a signed credit or debit card bill sitting on the table. Make sure you hand it to your server or the cashier.
- ✓ Never permit your credit card number to be written on one of your personal checks.
- ✓ Always take your credit card receipts with you. Never throw them away in a public trash bin.
- ✓ Order a copy of your credit reports once a year. By federal law, credit bureaus are required to provide you with one copy a year free of charge.
- ✓ Place a "freeze" on your credit reports, which means you prevent them from providing any information without your express permission. This prevents thieves from taking out loans, opening new credit cards, or charging accounts in your name without your knowledge.

Security experts will tell you it's impossible to protect everyone from identity theft. But by taking these 10 precautions, you can significantly reduce the chances that the next victim will be you. ○○○

Are You Saving Enough?

While this question is of paramount concern to anyone planning for retirement, it is a difficult one to answer with certainty. The problem is the answer depends on so many variables and assumptions. If even one of those variables changes, it could have a significant impact on the amount you need to save.

But just because it's difficult to come up with a precise answer, don't give up on planning for retirement. Some tips to help ensure that you reach your retirement goals include:

- ✓ **Start saving now.** Even if you can't manage to save the amounts needed, start saving what you are able to. You want to get into the habit of saving on a regular basis.
- ✓ **Maximize your contributions to tax-deferred retirement plans.** The tax deferral of earnings and possibly contributions typically means that you'll have a larger retirement portfolio than if you had been paying taxes through the years. Contribute to your 401(k) plan, contributing at least enough to take advantage of all employer-matching amounts. Also look into traditional and Roth individual retirement accounts.
- ✓ **Look for ways to increase your savings.** Even increasing your savings by a small amount can make a significant difference in your ultimate nest egg. For instance, if you invest an additional \$50 per month in a tax-deferred plan earning 8% annually, you will have an additional \$29,451 after 20 years, before paying any income taxes.
- ✓ **Use investment vehicles that are appropriate for the long-term nature of your retirement savings.** Even small differences in rates of return can have a significant impact on your investment portfolio over the long term.
- ✓ **Evaluate your retirement plan every year.** This will give you an opportunity to measure your progress toward your goals and to determine if your savings amount needs to change. ○○○

Multiple Plans for Retirement

Many variables are used to design a plan for retirement, and none of them are easy to predict. These variables can seem especially difficult to predict if you are many years away from retirement. Get just one variable wrong, and you may not be able to retire in the style you desire.

So, instead of preparing just one plan for retirement, you may want to prepare three different plans to give you an idea of what could happen under different scenarios.

A bare bones plan — This plan would envision a subsistence level of retirement, just meeting your basic needs with no luxuries. You would tally your expenses for housing, food, transportation, health care, and other necessities. Unnecessary expenses like travel and dining out would not be considered in this plan. Income would include Social Security benefits, pension benefits, and other predictable income sources. This plan helps you determine the minimum amount needed to just survive during retirement. While this might not be a particularly pleasant view of retirement, it does give you an idea, in case your plans don't pan

out, of the minimum amount you need for retirement.

A moderate plan — This plan adds some fun expenditures to the bare bones plan, including travel, entertainment, and dining out. This plan would involve increased levels of savings to support the additional expenditures but would assume modest rates of return on savings.

The dream retirement — This plan incorporates all your desires for retirement, perhaps extensive travel, relocation, or expensive hobbies. On the income side, this plan would require the largest savings level and assume the best-case scenario for portfolio returns.

Developing three plans will hopefully provide motivation to increase your savings to attain your dream retirement. This will also show you what will happen if you don't save enough or your investment returns aren't high enough to fund your dream retirement. This may allow you to enter retirement with a higher comfort level, knowing that even if things don't turn out as planned, you will still have enough money to pay the bills. Please call if you'd like help assessing your retirement plans. ○○○



Tame Your Spending

Having a difficult time finding ways to save for retirement? One of the best strategies is to tame your spending. Your lifestyle impacts you now and in the future, since you will typically want a similar lifestyle in retirement. Become a big saver now and you gain two advantages. First, you save significant sums for your retirement. Second, you're living on much less than you earn, reducing the amount you'll need for retirement.

For instance, if you live on 100% of your income, you'll have nothing left to save toward retirement. At retirement, you'll probably need close to 100% of your income to continue your current lifestyle. That will be no easy task since you haven't accumulated any savings over the years. But save 10% of your income every year and you'll be living on 90% of your income. At retirement, you'll probably be able to maintain your current standard of living with 90% of your current income.

Please call if you'd like to discuss your retirement plans in more detail. ○○○

Financial Thoughts

According to a recent study, the majority of working Americans over age 18 will not be able to afford to retire at age 65. At current savings levels, most Americans will need to work until at least age 73 to fund a financially secure retirement. On average, employees above age 55 need to contribute more than 45% of their incomes to be able to retire at age 65. Those age 45 to 55 need to save an average of 19%

of their salaries to retire at age 65 (Source: Nyhart, 2010).

Approximately 55% of the respondents to a recent survey indicated that they spend about as much as they earn or more. And approximately 60% do not have an emergency account with enough money to cover three months of living expenses (Source: FINRA Foundation, 2010).

In 2009, 59% of workers over age 16 had a defined-contribution plan at work, compared to 63% in 2003 and 60% in 1998. Approximately 45% of eligible employees participated in their plans. Nearly half of eligible workers contributed less than 5% of their pay to their retirement plan in 2009, while one-quarter contributed more than 10% (Source: Employee Benefit Research Institute, 2010). ○○○