



July 5, 2010

**D3 Business Update:**

Hopefully, everyone had a festive 4<sup>th</sup> of July holiday. For all our Comprehensive and Retainer clients, we are almost finished with the annual updates to the financial plans. All clients should receive their reports by the end of the week. **These plan updates are one of the most important services we provide. By updating your goals and your household's cash flows, and recalculating the return you need to generate on your investments to achieve those goals, we can better help you understand how much risk is appropriate for your investment portfolios.**

After we reconcile your June 30<sup>th</sup> account statements, we will generate your semi-annual performance reports. Patty will be calling you to schedule meetings towards the latter half of July. Our agenda for these meetings is to discuss the financial plan update and review your portfolio's performance to make sure we are moving forward towards achieving your goals.

**D3 Market Comments:**

During June, investors continued to sell stocks and riskier bonds in all categories, with the S&P down over 5% for the month, and over 11% for the quarter; seeking the safety of U.S. Treasury bonds. Most global stock markets also fell during the month, with many European stocks falling over 15% due to the weakening Euro currency. **While this downturn has shaken the confidence of many investors, after the market's steady rise beginning in April of last year, it is still an average correction by historical standards.** Fueling the downturn was consistently disappointing U.S. economic data released throughout the month which reduced the market's confidence in the strength of economic recovery. The employment report showed significantly fewer jobs were created than expected, retail sales were lower, and home sales plunged by more than expected after the expiration of the home buyer's tax credit. The manufacturing sector continues to grow, but its growth rate is slowing. Many economists are convinced that economic growth in the U.S. will slow from the current rate of 2.7%, but there is no consensus on how much it will slow. Some analysts are writing about the possibility of the U.S. economy dipping back into a recession.

**Peter attended an investment conference at McCormick Place last week, and noticed two strong sets of opinions on the global stock markets.** Bearish investors are worried about the huge amount of government debt, by both Europe and the U.S., the reality of heightened government regulation, and higher taxes. Additionally, they are not convinced that the efforts by European governments to cut spending are deep enough to significantly reduce their budget deficits, but are concerned that they may negatively impact economic growth. They're also concerned that the European government debt problem will spread to the U.S., causing interest rates to rise and economic growth to drop further.

However, analysts who research individual companies point out that corporate managers have

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successfully restructured their businesses to remain profitable despite the fragile economy, and that corporate balance sheets are in a very sound financial condition. With the dividend yields on many large company stocks higher than the interest rate on the 10-year U.S. Treasury Bond, some analysts believe that stocks are attractively priced right now.

The combination of the European debt crisis and the surprising slowdown in growth here in the U.S. has provoked fear among many investors, who have obviously not forgotten the market meltdown of 2008. **The market is seeking confirmation that the European government debt bailout is working**, and that the problems in Europe won't significantly impact growth in a fragile U.S. economy. Economic data confirms that actions taken by the Chinese government are finally slowing economic growth, but it's difficult to forecast how much an economy managed by the government will actually slow down. **These concerns will exist for a few more months.**

### **D3 Investment Outlook and Strategy:**

We believe the growth rate in the U.S. economy is slowing, but we're not sure by how much. **We'll be watching to learn if lower investor confidence is significantly impacting the spending decisions of business managers and consumers.** When corporate earnings are released later this month, we will also be monitoring the companies' comments on the outlook for future business. We acknowledge that stock prices in some categories are attractive, but negative outlooks from several large companies could promote continued downward pressure on stock prices. **We think there is a low likelihood that the U.S. economy will slip back into a recession** with interest rates at historically low levels, and a Federal Reserve committed to avoiding the policy mistakes made during the 1930's which prolonged the Great Depression. **Because of all of this uncertainty, our conclusion is that the heightened volatility in the stock markets will continue throughout the summer.** Consequently, our investment efforts continue to focus on researching mutual funds which implement alternative strategies to reduce the volatility of client portfolios.

### **Last But Not Least:**

When there is uncertainty in some people's lives, they seek out guarantees. Annuities are an insurance product with some guarantees. We have included a summary of annuity characteristics from the Financial Planning Association for your information. Call us if you would like to learn more about them.

**As always, thank you for your confidence.** Please keep us in mind if you know someone that has questions about their financial situation, retirement planning or investment needs.

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## As Annuities Get Attention in Washington, It's Worth Reviewing the Basics

Recent research from the Financial Planning Association® (FPA®) shows that planners are embracing annuity products to help a more conservative generation of clients protect assets and reach their retirement goals. Apparently the White House is getting in on the annuity bandwagon as well.

The question is, should you? First, start with the definition. An annuity is a financial product that accepts funds from an individual with a plan to grow them, and then at a specific time begins a stream of regular payments to guarantee a steady flow of inflation-protected cash to that individual until they die. Annuities come with various features, which will be detailed below.

The whole notion of guaranteed payments after an economic crisis seems to be more attractive these days.

A report in the April FPA *Journal of Financial Planning* stated that 35 percent of advisers surveyed said the recent financial crisis had changed the way they viewed annuities and as a result, they were more likely to use or recommend them than they were before the crisis. Washington also appears to be getting friendly with annuities as a conservative solution for those in retirement. In January, the Obama Administration released a report from its Middle Class Task Force favoring annuities as one of a series of tools that might offer guaranteed life income to millions of Americans.

Annuities have plenty of promoters and detractors, and it's best to start by reading as much about them as possible first, and then discussing your retirement savings choices with your tax professional and an experienced financial adviser. Some basics:

**Annuities come in two flavors – fixed and variable:** Fixed annuities offer a return that are tied to interest rates or a particular index, meaning these are “fixed” investments your money will always be tied to. Variable annuities are invested in a series of investments -- including mutual funds -- that allow the investor to change their investment allocations. If you are willing to pay heftier fees, you may be able to receive a guarantee that your variable annuity will not dip below the value of the initial principal.

**Tax-deferred growth, but payments are taxed as ordinary income:** Just like a 401(k) or IRA, the contributions and earnings within an annuity grow tax-deferred until the funds start coming out. But also like a 401(k) or IRA, you pay a 10 percent penalty for early withdrawals if you are younger than age 59 ½. Yet there's a tradeoff for a lifetime guaranteed payment, and that's the



taxman. All withdrawals are treated as ordinary income and don't qualify for more favorable long-term capital gains treatment.

**Money for life, but check the company thoroughly:** The number one selling point of any annuity is that the issuer – typically an insurance company that writes up an annuity contract – guarantees that you will receive money for as long as you live. Of course, you need to make sure the insurance company behind the annuity contract is financially healthy. Check its Comdex ranking, which is an average percentile ranking of credit ratings provided for life and health insurance companies by firms such as Moody's Investors Service, A.M. Best Company and Standard & Poor's Corporation.

**Fees and commissions can be steep:** Always ask how much commission an agent makes (and planners can be agents if they are properly licensed (**not D3 Financial Counselors**)) when they sell you an annuity. And be sure to compare commissions and ongoing fees on any annuity products you consider. Also keep in mind that some annuities can charge a surrender fee if you withdraw your money before age 59 ½, in addition to the 10 percent penalty.

**Compare promised returns:** We're still in a low interest-rate environment. Understand how any annuity you're considering will react in various interest rate scenarios. Be wary of promises that seem too good.

**Understand and Compare the Cost/Benefit of Contract Riders:** Annuity riders come in many flavors. Some have guaranteed withdrawal benefits, guaranteed accumulation benefits, some have guaranteed income benefits. All of these riders come with costs. As always, know what you are paying for to determine if the benefit is worth the cost.

**Check out consequences of transferring an annuity:** Find out what the tax and economic ramifications might be for transferring an annuity to spouses or other family members when you die. This effort should be part of an overall review of your personal finances and the creation of an estate plan.

**Stay diversified:** Keep in mind that putting everything you have into an annuity is not good financial planning. Discuss how you should allocate all your assets as you head into your retirement years.

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