Investor Insights & Outlook

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Investing in Bond Funds

If you don't want to invest all your assets in the stock market, you may need to consider either cash or bonds for your portfolio. While cash is relatively safe, returns are likely to be less than 1% given the low interest-rate environment. Bond funds are an alternative but most people don't have a good understanding of what to expect. You may want to consider buying a bond fund to give your portfolio stability or help generate income. Unlike individual bonds, bond funds hold a number of fixed-income securities with varying maturities. Therefore, investing in a bond fund provides a diversification benefit. In order to save yourself from making costly mistakes, it helps to thoroughly check up on what a bond fund owns before you buy in. Two basic determinants of bond performance are interest-rate sensitivity and credit quality.

Interest-rate sensitivity is important because an inverse relationship exists between bond prices and yields. If interest rates fall, bond prices rise, and vice versa. The credit quality tells you how risky the bond fund is, which can help determine if the fund fits your risk profile. Consider these factors before you go bond-fund shopping. Just as you wouldn't want to have all of your stocks in one style, you also want to diversify your bond portfolio. A well-rounded bond portfolio should have some exposure to most of the following bond types: Government, mortgage-backed, municipal, corporate, and world bonds. It is important to understand that the right combination of bond funds ultimately depends on your investment goals and risk profile.

Diversification does not ensure a profit or protect against a loss in a declining market.

Pettinga

Get there.

Mark Pettinga
mark@pettinga.com
812-436-4000
www.pettinga.com

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Monthly Market Commentary

The European Financial Crisis Effect.

- The European financial crisis has served as a cap on the performance of stock markets world wide. During the past twelve months stocks struggled to rise in the face of news from Europe that Greece, Italy, Spain or Portugal was ready to default on their debt.
- The Greek problem is coming to a head. The Parliament agreed to enact the austerity measures required by the EU. Now the EU must agree to release the additional $170 billion of aid. If this issue passes, we should see the stock market rally.

The S&P 500 has risen by almost 7% so far in 2012, causing investors to wonder whether the economy is slowly improving or whether this growth was merely the result of the January effect. Global economic news have generally been positive—it included China's slight drop in fourth-quarter GDP (as opposed to a plunge), a relatively quiet Europe, a positive U.S. employment/unemployment report, and the Federal Reserve's promise to extend low rates through 2014. Corporate earnings have so far been a mixed bag, and Morningstar economists believe that even as the U.S. economy continues to recover, earnings may continue to slow, especially for companies with significant exposure to China and Europe.

GDP: Real GDP grew by 2.8% in the fourth quarter, reflecting an overall positive trend in 2011. Consumer goods and inventories (GDP measures production, whether it is sold or simply sitting on a shelf somewhere) led this growth, contributing 1.3% and 1.9%, respectively, while government spending declined by 0.9%, mainly because of cuts in the defense budget. Morningstar economists believe that the 2.8% growth does not represent the new baseline for 2012, because the results were artificially boosted by unexpectedly good weather, the return of more normal auto production, inventory rebuilding, and shifts in retail employment.

Employment: Employment in January grew by an impressive 243,000 jobs, with 257,000 coming from the private sector, while the number of government jobs shrunk by 14,000. Although job growth rose across most sectors (only finance, information services, and government were down), the surprise came mainly from autos and durable goods, which benefited from favorable weather and large jumps in manufacturing and overtime hours, respectively. Retail also came as a surprise, as declines in seasonal hiring were offset by higher department-store and auto-showroom hiring, which boosted overall retail employment into growth territory.

Unemployment: The unemployment rate in January dropped to 8.3% from 8.5%. More important, this reduction came mostly from job growth as opposed to discouraged workers dropping out of the labor force or ceasing to claim benefits. To date, the U.S. economy has regained 41% of the 8.9 million private-sector jobs that were lost during the recession.

Manufacturing: The ISM Manufacturing survey reported better-than-expected numbers, indicating the third consecutive increase in the index and reflecting continued improvement in the auto industry. New durable-goods orders also rose much higher than expected in December, indicating that the manufacturing sector may be picking up steam and growing stronger.

Federal Reserve: The bold decision to keep interest rates low through late 2014 came as a surprise to many, and markets reacted positively to this unexpected news. Morningstar economists believe that continued low interest rates will actually start to pinch savers and hurt the personal income report in a meaningful way. Furthermore, this extended length of time does not lend any sense of urgency to either potential homebuyers or corporations considering large capital expenditures, further suppressing housing and private-sector growth. Given all the global economic uncertainty, there's almost no point in buying anything today when rates are guaranteed to stay low for the foreseeable future.

Despite the good employment news, the overall outlook remains far from optimistic. Rising prices and stagnant incomes put pressure on savings, while the low interest rate environment offers little yield as stocks continue to struggle. Although everybody is hoping for economic growth, the question remains—where will that growth come from?

Assessing Risk

Assessing Your Risk Tolerance.

- At Pettinga Financial Advisors we are committed to understanding how much risk each client is comfortable, or capable of, assumming with their portfolio.
- Investing in the markets involves risk...we can't remove it from the equation. Nevertheless, we want to be sure you have not overstepped how much risk you can justify.

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.

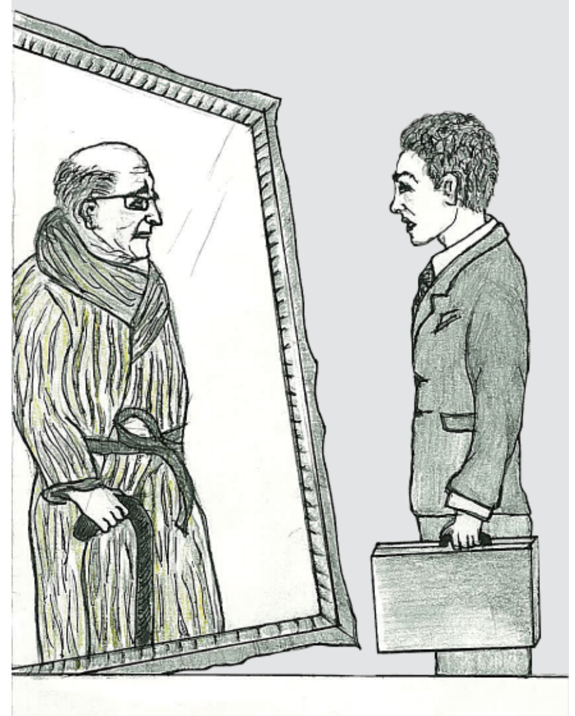
Man in the Mirror

Retirement Projections - What Can One Do For You?

- Pettinga Financial Advisors is a full-service, fee-only, personal advisory firm. We provide comprehensive financial planning services in which we calculate retirement capital acculation and dissipation.
- Retirement projections add confidence you are on track to meeting your retirement goals.

You seldom think about retirement when you're in your 20's or 30's; after all, the reflection you see in the mirror every day looks back at you with a young and confident smile. However, what if the years quickly passed by (as they have a way of doing) and one day retirement found you unprepared?

The most important thing to do is to start saving for retirement as soon as you can. No matter how small, any amount of money you can save when you're young will grow over time and help you reach your retirement goal.



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Mark Pettinga

Pettinga Financial Advisors
519 Main Street
Suite 100
Evansville, Indiana 47708

mark@pettinga.com
www.pettinga.com

Tel:812-436-4000
Fax:812-436-4004