Investor Insights & Outlook

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Balancing Act

Rebalancing your investment portfolio is crucial to maintaining the proper risk profile and asset class mix while reaping the benefits of diversification.

Since investors cannot be sure which asset class will dominate the markets at any given point in time, it is advisable to maintain an asset allocation that is appropriate for you. Investors may tend to avoid rebalancing because it involves buying losers and selling winners, but what they don't realize is that they're buying low and selling high--definitely a good position in investing.

Pettinga
Get there.

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Our Firm

Pettinga Financial Advisors, LLC is an independent, fee-only financial services firm serving clients across the nation from our office in Evansville, Indiana.

We offer a no-obligation introductory meeting to interested persons and institutions to determine if we can add value to their individual situation.

Because you receive our services on a fee-only basis, you pay no sales commissions for our investment counsel. Nor do you deal with sales people tied to transaction commissions. Instead, you enjoy a personal relationship with a knowledgeable, unbiased advisor.

Your personal financial advisor focuses on the future you envision and commits to helping you Get There.

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Monthly Market Commentary

February saw markets continue to inch upward because of a temporary resolution to the Greek debt crisis. A second bailout was approved by European leaders, pending a bond swap in which private creditors are expected to accept a write-off that would significantly reduce Greece's sovereign debt. Also important was a reduction in Chinese bank reserve requirements, sending a message that the Chinese government is willing to do whatever it takes to prevent their economy from slowing too much. In the U.S., the disconnect between corporate earnings growth and economic growth continued to widen, as year-over-year GDP growth was relatively stable over the past year, while the S&P 500 year-over-year earnings growth decelerated throughout 2011.

GDP: Fourth-quarter real GDP growth was revised to 3.0% from 2.8%, with durable goods production and the rebuilding of depleted auto inventories still the two prime contributors to overall GDP growth. Warm weather, falling gas prices, and more auto production by Japanese auto transplants joined forces to artificially boost the fourth quarter. Morningstar economists believe that the 1.7% growth registered for the full year was probably more representative of trend-line growth than the sharp acceleration we saw in the fourth quarter.

Employment: February was the third straight month of solid job growth as employers added 227,000 jobs, mainly from a slower contraction of the public sector and the continued rise in private payrolls. In addition, both January and December job numbers were revised upwards (284,000 and 223,000, respectively), resulting in a net increase of 61,000 jobs. The unemployment rate remained at 8.3% as some previously discouraged workers returned to the improving labor market in search of jobs.

Manufacturing: After three consecutive months of improvement, the ISM manufacturing index for January declined slightly. January durable goods orders fell sharply from December, driven by weaker machinery and transportation product orders. Some of this weakness stemmed from the expiring tax incentive for full depreciation of capital goods, which expired at the beginning of 2012. Morningstar economists believe that while a stronger manufacturing sector provided a big psychological lift, at this stage of the recovery it is not going to be the key driver that it was earlier. The larger services sector has to do better at this point to sustain the recovery.

Housing: January's existing-home sales continued to show signs of life, growing to 4.57 million units, the second-best report in the last 18 months. To put that number in perspective, this metric peaked at 7.27 million units in 2005 and bottomed at 3.30 million units in July 2010. However, other than brokerage commissions, new furniture, and maybe an increase in remodeling expenditures, the existing-home sales statistic typically does not have a large direct impact on GDP, employment, or production, though it is a great indicator of long-term consumer confidence. The Case-Shiller pricing data for homes in December, on the other hand, was a disappointment and showed an accelerated decline from prior months.

Inflation: Commodity markets reacted strongly to positive economic data, with oil closing above $100 a barrel. (Iran's saber-rattling didn't help). Unfortunately, commodity inflation sours consumer spending. But U.S. inflation continued to improve despite the jump in gasoline prices, changing only 0.2% on a month-over-month basis (2.4% annualized). The primary reason inflation came in better than expected was because of a massive 2.9% decline in natural gas, cancelling out the well-publicized rise in gasoline prices.

Six Reasons Why Boomers' Retirement Is Different From Their Parents'

1. Much Longer Retirement: Many people in previous generations worked as long as they could and very few were fortunate enough to have a retirement that would be considered "golden" by today's standards. How many spent the last third (or more) of their lives pursuing hobbies and leisure instead of working? Boomers retiring in their 60s can expect to live about 30 years in retirement, which is a lot longer than their parents did.

2. Higher Expectations: Not considering tours of duty in Europe or the Pacific, how much traveling did past generations of retirees do? Boomers' parents were Depression-era babies who practiced frugality and continued to pinch pennies throughout retirement. In stark contrast, boomers want their retirement to include travel, vacation homes, new cars, dining out, etc. This is fine, but it is expensive. Therefore, boomers need to plan for a much more expensive retirement than their parents ever would have expected.

3. Personal Savings Instead of Pensions: The greatest generation might have had a lower per capita income but many also had corporate pensions. Boomers wanted higher salaries, freedom to change employers and the ability to save independently. Corporate pensions were largely phased out, giving way to the 401(k). However, when given the option, most boomers didn't start saving enough or early enough. Today, many boomers haven't amassed enough in personal savings, and most don't have meaningful pensions compared to their parents.

4. Rising Instead of Declining Interest Rates: In the 1980s, when the greatest generation started to retire, interest rates were much higher than they are today. The long decline in interest rates provided a great return to bond investors. The boomers are facing the very opposite situation. Instead of an ever-declining interest rate, they are facing the likelihood of steadily increasing interest rates during their retirement.

5. Exotic Investment Options: The greatest generation had relatively few investment options; mostly ordinary bonds and certificates of deposit. Today's boomers, on the other hand, are being offered an ever-expanding universe of income securities. The investment industry has provided a lot of rope, and a lot of new and exciting ways to lose it all.

6. Deregulations: If they felt like taking risk, the boomers' parents might buy some dividend-paying stocks. At the time, most of the dividend-paying industries, such as finance and utilities, were highly regulated. Decades of deregulation have caused these industries to become less predictable and more risky; hence, the certainty of previously assumed dividends is now extremely uncertain.

What Boomers Really Need: As boomers give up on stock gains, they tend to focus on income investing, and are always on the hunt for higher yields. There is no secret to finding higher yielding securities. In one way or the other, a higher yield just means higher risk: either term risk, credit risk or price risk. Higher-yielding securities always have more risk than lower-yielding securities. And some high-yield securities can even be riskier than a simple basket of stocks, but with a lower expected return. For these reasons, you may want to ask your advisor to establish a sustainable withdrawal rate and build a diversified portfolio focusing on total return rather than focusing on dividend-producing, interest-paying securities.

Diversification does not ensure a profit or protect against a loss in a declining market. The opinions herein are those of Morningstar, Inc. and should not be viewed as investment advice.

Retirees: Inflation Protection for Retirement Portfolios

How We Utilize TIPS at Pettinga Financial Advisors

- At Pettinga Financial Advisors we employ TIPS in a couple of ways. First, we may purchase individual TIPS in client accounts. Second (and more common), we use mutual funds that invest in TIPS. Vanguard and Pimco each have outstanding mutual funds dedicated to investment in TIPS.

Retirees and pre-retirees have been challenged by the investing environment during the past few years. As it becomes harder to generate a livable income stream from retirement portfolios given the low bond yields, retirees have to choose between tapping their principal and venturing into high-yielding, but also riskier, securities. Investors are concerned about what could happen to their bond portfolios if interest rates were to rise. While inflation currently appears to be in line with historical norms, retirees remain concerned about the potential for rising inflation and its effect on their portfolios. Inflation-linked securities like Treasury Inflation-Protected Securities (TIPS) are the most direct way to hedge against inflation. But even investors who are convinced that TIPS are a good place to be still have questions about implementation.

Here is why inflation protection is important for retirement portfolios. Retirees miss out on some of the inflation protection that working people normally enjoy. Paychecks will generally trend upward to keep pace with rising prices but retirees don't have that safety net. Social Security payments are adjusted upward in an effort to keep pace with rising prices. But to the extent that a retiree is living off a portfolio anchored in fixed-rate investments, the payout from that sleeve of the portfolio will be fixed. If prices go up, the purchasing power of that portfolio, and in turn the retiree's standard of living, goes down. This is why inflation-indexed securities like TIPS, whose principal values adjust upward to keep pace with inflation, are an important part of a retiree's fixed-income portfolio.

TIPS are guaranteed by the full faith and credit of the U.S. government as to the timely payment of principal and interest. TIPS are subject to unique risks, most notably liquidity risk and inflation risk.

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