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This is Bull

Financial news often refer to a "bull market" (when the market is doing well) or a "bear market" (when the market is doing...not so well). These terms may have originated from the animals' styles of attack. A bear mauls (downward movement), while a bull thrusts its horns (upward movement).

Whether you're reading news about a bull market or a bear market, always be mindful of the source. There are many financial wizards out there who are ready to promise you 20% returns, so it's best to always check the credentials and reliability of a financial professional or information source.

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OUR MISSION
Helping people attain an easier and less stressful life through the achievement of their financial goals by providing comprehensive, client focused financial advice and exceptional service.

Economic Outlook for 2012

The U.S. economy grew in 2011, but at a slower rate than everyone expected. Even more surprising than the overall growth rate was the pattern of that growth rate throughout the year. Growth plunged to 0.4% in the first quarter and accelerated throughout the year, with the fourth quarter now likely to produce annualized growth well in excess of 3%.

More Upside than Downside (Though the Downside Is Scary): Morningstar economists' overall forecast for 2012 sees slightly higher growth than the consensus of other economists, but not by a lot. However, the odds of an upside surprise are substantially higher than those of a downside surprise. Potential sources of an upside surprise include increased U.S. oil production, a sharper rebound in automotive and aircraft production, and a stronger housing market.

Corporations Are Scared Even as Consumers Accelerate Spending: It looks like U.S. corporate managers are far more scared about Europe and the economy in general than the U.S. consumer is. Recent reports seem to suggest at least some precautionary spending cuts by corporations in the software arena. Managers also seem to be paring inventories to the bone. However, it appears that U.S. consumers are accelerating spending; they seem to be "thrifted out" and can no longer delay certain purchases, especially autos. This leads Morningstar economists to predict greater production both in the U.S. and in other world economies that export to the U.S. in 2012.

Europe Remains at the Top of the Worry List: The main concern here is the potential of the European sovereign debt crisis to wreak havoc on the worldwide financial system. U.S. exports to Europe represent just 3% of U.S. GDP, and a lot of that is for basic necessities that can't be bought elsewhere. However, with a web of lending in which European banks lend to sovereign governments, and those governments lend the money back to the undercapitalized banks, the failure of any one link could bring down a healthy chunk of the European banking system.

China Slowing Is an Issue for Some, but Potentially Good News for the U.S.: China certainly remains an issue, too, as growth there slows modestly and the construction industry pulls back from its breakneck pace. Slowing there is bad news for a lot of high-profile capital goods manufacturers in the U.S but, overall, China is an even smaller part of U.S. GDP than Europe. Furthermore, slowing growth in China could mean significantly lower commodity prices, especially in the U.S., which would be good news for low-end U.S. consumers, who were particularly crippled by rising commodity prices in 2011.

A Savvy Consumer May Limit Profit Growth: Corporate margins could begin to shrink in the future as consumers start to gain the upper hand. Consumers are fighting every price increase tooth and nail, with the possible exception of the very high end of the market. The most recent example comes in the banking industry, where a pushback by consumers forced several major banks to cancel proposed increases in debit card fees.

Europe Will Hurt Big Firms More Than U.S. GDP: Although U.S. GDP growth may escape the worst of the effect of a slowing Europe, U.S. multinationals may not. Many of these firms derive 20%-40% of their revenues from Europe. Since many of those goods are produced in Europe or in other non-U.S. markets, they are not counted in the U.S. GDP calculations, and they don't directly add to U.S. employment. Therefore, a weak Europe could significantly affect U.S. companies even if it doesn't make a dent in the U.S. GDP growth rate.

Looking forward to 2012, the U.S. economy is probably better positioned than most of the rest of the world economies, showing accelerating growth even as Europe falls into a recession and as growth in Asian economies slows to a more modest pace.

Assessing Risk

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 pereiodically 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.

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.

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