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3rd Quarter, 2011

David B. Armstrong, CFA
Managing Director

Close the books on the third quarter – it was among the gloomiest quarters on record for the investment markets. The debt ceiling debate, constant indecisiveness in Europe over the default on sovereign debt, political bickering, the downgrade of U.S. government debt, stubbornly high unemployment, and renewed worries over the economic recovery have put investors in a sour mood.

When people are pessimistic about the future, they typically want to sell. We did some basic analysis of the data on the flow of money between equity investments, bond investments and cash, and it looks like they steadily poured out of equity throughout what will be remembered as the gloomy summer of 2011.

Do you remember that just a few months ago the markets were flirting with a full recovery from the 2008 debacle? In fact, before this quarter started the markets were in positive territory overall for 2011.

U.S. Stock Market Returns

The Wilshire 5000 Index is a good, broad measure of the U.S. stock market. With 5000 stocks in the index, it captures all sizes, styles and sectors better than any other index out there: it's simply huge. The Wilshire 5000 dropped a remarkable 12.85% for the quarter, which wiped out the gains of the previous two quarters. The index is now down -7.54% for the year.

The Standard & Poor's 500 Index (S&P 500) lost -13.87% for the quarter and posted a loss of -8.68 year to date (YTD).

The Russell 1000 Large Cap Index was down -14.68% for the quarter and is at a loss of -9.25% YTD.

The Russell Midcap Index fell -18.90% for the quarter and is down -2.34% YTD. The Russell 2000 Small Cap Index fell -21.87% for the quarter and is down -17.02% YTD.

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Why Stay Invested During a Recession?

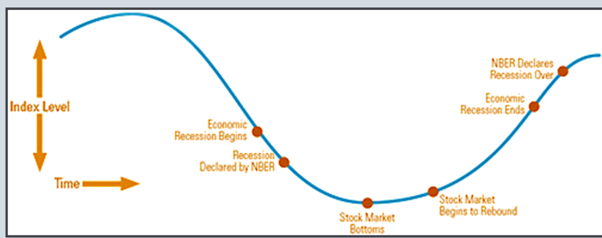
What Exactly is a Recession?

The National Bureau of Economic Research (NBER) defines a recession as a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in production, employment, real income, and other indicators. NBER identifies a month when the economy reached a peak of activity and a later month when the economy reached a trough (bottom). The time in between is a recession, a period when economic activity is contracting. It's important to recognize that a recession, the way we use the word, is a period of diminishing economic activity rather than diminished economic activity.

Tim MicKey, CFP®
Managing Director

A recession is defined by economic data, not market data. Markets move much faster than the economy and see early indications that things are improving - this is reflected in earnings estimates, valuations, and other variables that bring investors back to investing, primarily institutions first. Retail investors slowly gain confidence as the markets go up, they start investing little by little, causing markets to go up further which over time encourages consumers to start spending and employers to start hiring, all of which pumps life back into the economy. Simply put, investors don't feel better until the markets go up and investors determine, based on their behaviors, the state of the economy.

Looking back at past recessions shows us that the stock market typically posts a gain during a recession. For example, during the 16 months of recession from July 1981 to November 1982, the S&P 500 posted a 14% total return. Another recession followed the late 1980s and early 1990s Savings & Loan crisis, during which more than 1,000 U.S. financial institutions failed, primarily as a result of imprudent real estate lending. During this eight month recession, from July 1990 to March 1991, the S&P 500 generated an 8% total return.



Bouncing Back

The table below shows the S&P 500 performance during past recessions, the overall length of the recession and total decline of the markets over that period. It also illustrates the number of months it took for the market to spring back from the bottom to the end of the recession and what the gains along that journey were. As you can see, stocks have always bottomed before the recession was over - typically around the halfway point - and delivered on average powerful 25% gains, recouping nearly all losses by the end of the recession.

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How Much Life Insurance Do You Need?

Timothy R. Lee, CFP®
Managing Director

Whether you are married or single, with or without children, life insurance can play a key role in your financial plans. However, millions of Americans have no life insurance coverage whatsoever, and of those who do, many may not have enough.

Appreciating the importance of adequate life insurance is one step, while assessing your own unique needs is quite another.

Where to Start

Many people obtain life insurance when they first have children and then forget about it, except when the premium bill comes due. But an effective financial plan includes reexamining your life insurance needs continually throughout your life to ensure the assets you've accumulated are protected and to provide additional opportunities to create wealth.

As a starting point, determine your net earnings after taxes as well as your routine living expenses. Other factors to include in your calculations include:

- Any outstanding debt that you owe, such as a mortgage or education loans.
- Future tuition bills for your children.
- Funeral and/or potential uninsured medical costs.
- How much your surviving spouse might need to adequately fund a retirement nest egg.

Generally, you'll want a benefit that will cover all of these expenses. Some planning specialists believe a good rule of thumb is to buy a policy that would provide the equivalent of five to seven times your annual salary. That standardized approach may work for some people, but in reality your decision may not be that simple.

While ensuring the financial security of loved ones is a critical use of life insurance, there are other ways it can be used to meet planning goals throughout your life. For instance, people in their peak earning years can use life insurance to protect their wealth while accumulating additional tax-deferred assets. Older people can use life insurance as an integral part of an estate planning strategy designed to pass more wealth to future generations.

What Type of Policy Is Right for You

Once you have an idea of the coverage you need, evaluate whether term life or permanent life insurance is more appropriate. Term life is the more basic and less expensive form of life insurance -- particularly for people under age 50. A term policy provides coverage for a predetermined period of time, typically one to 10 years, but policies are also available for longer terms. Premiums increase at the end of each term and can become prohibitively expensive for older individuals. Unlike many other policies, term insurance has no cash value and benefits are paid only if you die during the policy's term.

Permanent life insurance combines death benefit protection with a tax-deferred savings component.

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Strategies for Smart Retirement Planning

Dean J. Catino, CFP®
Managing Director

A study conducted by the Employee Benefit Research Institute estimated that the average American worker will face a retirement savings shortfall of more than $47,000.[1] How can you avoid a similar fate?

Some factors that influence your retirement savings results, such as the types of investments available to you through your plan and the performance of the financial markets, can't always be controlled. But there are some factors you can influence that can help keep your portfolio on track.

Step 1: Stay invested.

It's not easy to see your account value decrease after a decline in the stock market, particularly after a steep, sudden drop of 10% or more. But one of the dangers of cashing out is missing a potential market rebound. Trying to "time" the market is a strategy even the most-seasoned financial professionals have difficulty mastering. It can also lead investors into the trap of "chasing gains"; that is, moving your money from one investment that's lagging into another one that's currently achieving better performance.

2011 Retirement Plan Account Limits	
Maximum contribution limit for 401(k), 403(b), and 457 plan participants	$16,500
Maximum additional "catch-up" contributions for 401(k), 403(b), and 457 plan participants age 50 and older	$5,500
Maximum traditional IRA contribution	$5,000
Maximum additional "catch-up" contributions for traditional IRA account holders age 50 and older	$1,000
Maximum contribution limit for SIMPLE retirement accounts	$11,500
Maximum contribution limit for Roth IRAs[3]	$5,000

Step 2: Regularly monitor your investment mix.

One of the benefits of a diversified portfolio is balance. If one type of investment is experiencing losses, another type may be earning gains. Over time, these gains and losses may cause your asset allocation to skew away from your target mix.[2] Or your tolerance for risk may evolve over time. Lifestyle changes can also necessitate a readjustment to your allocation. That's why it's important to monitor your mix and make adjustments when necessary.

Step 3: Increase your savings rate.

Perhaps the most important way to help fund your future is to sock away as much as possible. Finding the extra money to invest can be tough -- you've got plenty of expenses to worry about today without the added anxiety of worrying about tomorrow. But every dollar you can spare can make a difference. Whether retirement is just around the corner or 30 to 40 years away, regularly setting money aside -- particularly in a tax-deferred vehicle such as a 401(k) or tax-exempt account like a Roth IRA -- can often be the smartest move you make.

[1]Source: Employee Benefit Research Institute, EBRI Notes, October 2010.
[2]Diversification and asset allocation do not ensure a profit or protect against a loss in a declining market.
[3]Roth IRA contributions may be made only by single taxpayers with modified adjusted gross incomes (MAGIs) of less than $122,000 and married joint filers with MAGIs of under $179,000. Phase-out limits for partial contributions also apply. If your MAGI is close to or over these limits, talk to your financial or tax professional before contributing to a Roth IRA.

Why Stay Invested During a Recession *Cont.*

S&P 500 PERFORMANCE DURING PAST RECESSIONS

Peak	Bottom	Total Decline	Length of Recession in Months	Months to spring back from Bottom to End of Recession	Gain from Bottom to End of Recession
06/15/48	06/13/49	-21%	11	5	+18%
02/02/53	09/14/53	-14%	10	9	+28%
07/15/57	10/22/57	-21%	8	6	+11%
08/03/59	10/25/60	-14%	10	4	+21%
11/29/68	05/26/70	-36%	11	6	+26%
01/11/73	10/3/74	-48%	14	6	+34%
02/13/80	03/27/80	-17%	6	4	+24%
11/28/80	08/12/82	-27%	16	4	+35%
07/16/90	10/11/90	-20%	8	6	+29%
03/24/00	10/09/02*	-49%*	8	*	*
Average ex-2002		-24%	10	5	25%
10/09/07	Current	-30%			

Source: Bloomberg and the National Bureau of Economic Research, LPL Financial Research
* This recession ended in November of 2001—from the low point during the recession (9/21/01) until the end of the recession stocks were up 18%—but stocks fell again in late spring of 2002 as accounting scandals renewed the market decline, culminating in a 49% total decline for the entire two and one-half year bear market.

The Springboard

Early drivers triggering a rebound are typically fiscal or monetary policy actions. Past examples:

- In October of 1990, after a tripling of oil prices due to Iraq's invasion of Kuwait, oil prices finally began to recede as stepped up production by OPEC and non-OPEC members ensured oil supplies remained sufficient. The Fed also began to cut rates aggressively starting in October of 1990. These factors marked the turning point for the 1990 bear market.
- An FDIC takeover and the Fed rate cuts that followed one of the largest bank failures in history helped to end the long November 1980-August 1982 bear market.
- The Fed cut rates substantially beginning in March of 1980 ending the market decline, as inflation finally began to fall after peaking in that month at a 14.8% year-over-year pace, reversing a series of rate hikes that had taken the fed funds rate to 20%.

Fed rate cuts of 375 basis points helped to put a close to the 1973-74 bear market. The cuts coincided with the October 1974 failure of Franklin National Bank, which was at that point the biggest bank failure of all time. Closure of the issues surrounding Watergate also helped this recovery.

Don't let your emotions make your investment decisions; these can be intimidating times. Plan long-term and consider historical performance. Talk to your financial advisor and stick to the plans you make together to help you reach your financial goals.

This research material has been prepared by LPL Financial. Stock investing involves risk including loss of principal.
S&P 500 is an unmanaged index which cannot be invested into directly. Past performance is no guarantee of future results.

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'I wish we had a retirement plan that didn't require matching six numbers.'

3rd Quarter, 2011 *Cont.*

The technology-heavy Nasdaq Composite Index lost -12.91% for the quarter and is now down -8.95% so far this year.

International Stock Market Returns

Internationally, the results were also negative and much worse. The EAFE Index, which represents large cap stocks across the developed world, lost -19.60% for the quarter and is down -17.18% YTD. Europe as a whole was down -23.00% for the quarter; the Far East dropped -9.64%, and the EAFE emerging markets index of developing nations fell -22.88%.

Other Returns

Bond yields remain horrible. Just when no one thought they could get any worse – they did. As of the end of the quarter, we saw any bond with a maturity of one year or less paying essentially zero interest. The 5-year Treasuries are paying 1.00% and the 10-year Treasuries are paying 2.125%. Those rates stink! Remember: when interest rates rise, bonds lose value.

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The Wilshire REIT Index of real estate investment trusts was down -12.10% for the quarter and is now down -2.54% YTD.

Looking Forward by Looking Back

On August 2, the S&P 500 was hit with a -2.2% loss – this was right after Congress finally agreed to compromise on the debt ceiling. I think this was the day a lot of investors questioned whether our lawmakers have a clear grasp of the financial and economic challenges facing our nation.

On top of that, when investors looked overseas, they saw that European governments seemed even less functional in their approach to repairing the global economy.

On August 4, the S&P 500 fell -4.3%. It fell -5.6% on August 6 and another -4.4% on August 8. Those three days represent most of the damage for the quarter.

September was even worse. The handwriting was on the wall when the S&P 500 experienced its worst first week start in its five-decade history. (Yes, that includes the fall of 2008.) A brief five-day rally gave us a 4% bump in value, but the end of the month was dismal, with a -2.9% drop on September 21, followed by a -3.2% fall the next trading day. Altogether, the index was down -6% for the month.

However – there's more to it than that. First quarter 2011 U.S. Gross Domestic Product (GDP) came in around 0.4%, and the second quarter came in at 1.3%. I think a lot of blame can be laid upon the tsunami that hit Japan, the supply shortages that it caused, and rising oil prices. Currently, many analysts are calling for third quarter U.S. Gross Domestic Product to actually grow somewhere between 2 and 2.5%.

Question: with oil prices down drastically from earlier this year and the supply shortages caused by the tsunami

How Much Life Insurance Do You Need? *Cont.*

With permanent life insurance, as long as you continue to pay the premiums, you are able to lock in coverage at a level premium rate for the life of the contract.

Part of that premium accrues as a tax-deferred cash value. As the policy's value increases, you may be able to borrow up to 90% tax free at attractive interest rates. If you do not repay the borrowed money, it will be taxable as income at then-current rates. And if you're younger than age 59 1/2, you may also be subject to an additional 10% IRS early withdrawal penalty.

Determining the right type and amount of life insurance coverage you need is easier said than done. Your financial professional can help you make an accurate assessment of your needs.

3rd Quarter, 2011 *Cont.*

behind us, does the GDP increase from 0.4% to 1.3% to an estimated 2-2.5% make it look like we are heading into a double dip recession, which is what investors seem to fear?

Another fear is that the Eurozone will collapse under the weight of Greek debt. It seems to already be reflected in the current levels of the equity market indices. Seriously - will anyone wake up tomorrow surprised if the headlines read “Greece defaults overnight”?

Here are a few other causal observations to consider. Supply shortages of oil have eased from the start of the year, causing oil prices to drop. Consumers have paid down enormous amounts of debt over the past three years, bringing the consumer debt burden in line with where is has been for the past 30 years. Corporate profits and cash levels remain at record high levels, and there are signs (hope) that the unemployment problem is starting to ease - although I think it will be years before we see unemployment fall to levels seen in the early part of this century. That will probably require several back-to-back quarters of +5.0% GDP.

It is hard to predict whether the markets will rally decisively, but it is also difficult to bet against a sudden shift in sentiment. Successful investors tend to see the optimistic side of the situation when the markets are most gloomy.

Despite what you hear anyone saying on the financial news channels, nobody really knows how long stocks will remain undervalued or how long it will take for the global economy to finally sort itself out.

We do know, from past experience, that eventually the economy recovers from even the most severe shocks, and eventually the markets return to health. History tells us that a recovery is inevitable, and it seems to be visibly underway somewhere behind the noise of the negative press, partisan bickering, and occasional market panics.

When investors figure that out, there will be another bull run and people in that happy time will forget all over again that stocks can go down as well as up.

Please be sure to call us with questions.

Remember, we publish our weekly market thoughts every Monday on the blog section of our web site www.monumentwealthmanagement.com. Additionally, we email and post the weekly blog to our social media sites on Facebook and Twitter. See our website for links to access all the social media channels.

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This material was prepared in part for the representative's use.

Definitions:

- *The Standard & Poor's 500 Stock Index (S&P 500) is an unmanaged capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.*
- *The Morgan Stanley Capital International ("MSCI") Europe, Australia, Far East Index ("EAFE") is an unmanaged index of over 900 companies, and is a generally accepted benchmark for major overseas markets. Index weightings represent the relative capitalizations of the major overseas markets included in the index on a U.S. dollar adjusted basis. The index is calculated separately without dividends, with gross dividends reinvested and estimated tax withheld, and with gross dividends reinvested in both U.S. dollars and local currency.*
- *The S&P GSCI is a leading measure of general price movements and inflation in the world economy and is a benchmark for commodities markets.*
- *The Wilshire 5000 Total Market Index, which consists of more than 5000 companies, represents virtually all of the capitalization of the entire U.S. stock market.*
- *Economic forecasts set forth may not develop as predicted and there can be no guarantee that strategies promoted will be successful.*