Monument Quarterly

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Monument WEALTH MANAGEMENT

2011 Mid–Year Outlook

Timothy R. Lee, CFP
Managing Director

In the first half of 2011, the investing climate has been favorable - producing modest single-digit gains for the major asset classes. Two years after the green shoots of economic growth were first evident in mid-2009, they have blossomed and taken root. However, neither bulls nor bears, we continue to expect the economy and the markets will be range-bound in 2011. Bound by economic and fiscal forces that will restrain growth, but not reverse it, we adhere to our prior forecast for modest single-digit rates of return: high single digits for stocks and low single digits for bonds.

At the mid-point of the year, 2011 is on track for the key elements of our forecast that we articulated at the end of 2010:

- The job market is staging a comeback. Our expectation for the creation of roughly 200,000 net new jobs on average per month in 2011 has been met, so far.
- Policymakers have delivered economic stimulus. The Federal Reserve (Fed) has provided substantial economic stimulus, concluding the QE2 Treasury purchase program on June 30, 2011.
- Investors are playing it safe. Inflows to riskier markets remain anemic, contributing to modest performance for both stocks and more aggressively postured bonds.
- Currencies are influencing returns. As we expected, the currency impact on investing has been pronounced in 2011. The U.S. trade-weighted value of the dollar has fallen about 5% so far in 2011.

Key themes for investors can be found in a set of transitions unfolding in the second half of 2011. These transitions may offer investors positive options, in a period where the performance of the major indexes is likely to be lackluster. These transitions include:

- The evolution in the stage of the business cycle from economic recovery to modest, uneven growth.
- The change in economic policy to the withdrawal of the fiscal and monetary stimulus provided over the past several years.
- The return of inflation that we call reflation.
- The shifting geopolitical landscape.

Market volatility, which we expect to remain elevated, may present risks to be sidestepped and opportunities to be taken advantage of. Investors with a more opportunistic profile may benefit from a tactical approach to investing in order to find attractive opportunities when offered and successfully take profits when appropriate. Longer-term strategic investors should consider remaining broadly diversified.

Please feel free to call me with any questions.

Looking Back on the Second Quarter of 2011

David B. Armstrong, CFA
Managing Director

The U.S., along with several of the world market indices, were looking at decent gains last quarter until they ran head first into June, when myriad economic and political concerns came together to drive the markets lower in pretty much every area in the world. Fortunately, the losses of the second quarter were not enough to overcome the gains of the first three months of the year, so many indices are still ahead for the first half of 2011 (as of the close of the 2nd Q).

U.S. Stock Market Returns

The Wilshire 5000 index is a good, broad measure of how well all U.S. stocks have done. 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 produced a total return of 1.71% for the first two months of the quarter, but posted a -2.63% return in June to finish the quarter down -1.05%. That being said, the good news is that it is up 4.90% year to date (YTD).

Taking a look at the Standard & Poor's 500, we see that it produced a loss of -0.39% for the quarter (which was better than the return on the Wilshire 5000) and is still up 5.01% YTD. This difference in return can be attributed to the performance of the small and mid cap stocks found in the Wilshire 5000. The financial and energy sectors were the worst performing sectors of the S&P 500 while defense sectors such as Health Care and Utilities were the leaders for the quarter.

We still think that the U.S. equity markets will do well in 2011 and we intend to stay fully invested in the U.S. We continue to maintain a focus on the small and mid cap space, as well as the cyclical sectors like technology until the economic cycle signals that we are shifting away from recovery/expansion mode. We will be taking opportunities to increase exposure to the large cap space over the year.

Remember, we publish our weekly market thoughts every Monday on the blog section of our website. 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.

International Stock Market Returns

International stocks did a little bit better than the U.S. for the second quarter, producing some positive returns. The MSCI Europe, Australia Far East (EAFE) Index produced a total return of 0.33% for the second quarter. The European component of the index rose 0.78% despite continuing worries about sovereign debt issues in Greece, Ireland, Portugal and Spain. It should be interesting to investors that despite all the fear and bad news, this MSCI Europe index is up 6.71% YTD.

The MSCI EAFE Emerging Markets Index, which measures the overall performance of less-developed nations, was down 2.11% for the second quarter, and is down 0.45% YTD.

Other Returns

Bond yields remain dismal, and as of the end of the quarter we saw the 3-month U.S. Treasury bill yield 0.02%, the 2-year at 0.45%, the 3-year at 0.79%, the 5-year, at 1.75% and the 30-year at 4.36%. Those rates stink! Remember when interest rates rise, bonds lose value.

In real estate, the Wilshire REIT index rose 3.64% in the second quarter and is now up 10.62% YTD.

Commodities prices were mostly losers during the second quarter; the S&P GSCI Commodities Index was down -7.94% with -5.31% coming in the month of June. Most of the loss came from weakness in the energy and agriculture sectors.

Looking Forward

The U.S. Bureau of Economic Analysis reports that the gross domestic product (GDP) rose 1.9% in the first quarter of 2011, which is significantly less vigorous than the 3.1% growth rate reported for the fourth quarter of 2010. If you've take a trip to the gas pump, you are probably not surprised that the Headline CPI number was higher too. (See the recent U.S. News and World Report column from July 15th found here, on our web site, or you can call us for a copy.)

As you've no doubt read, either from us or elsewhere, we are experiencing an unusual recovery from an unusual recession. In previous economic downturns, the economy came thriving back during the recovery, but today we are dealing with a more deliberate climb up off the bottom. A combination of housing, shoppers reluctant to spend and employers hesitant to hire is probably the culprit in holding things back. Many economists are predicting that economic growth will probably stay below 3% for the rest of this year and early next year, and their crystal balls seem to be signaling that the U.S. unemployment rate will end the year about where it is now – over 9%.

Continued on page 6.

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David B. Armstrong @davidbarmstrong

Estate Planning: The Rules Change Again

The federal government isn't making it easy for Americans to feel confident about their estate plans. In the past four years, the estate tax exemption has performed a jitterbug -- jumping from $2 million with a 45% top tax rate in 2008, disappearing completely in 2010, and ratcheting up to $5 million with a 35% top rate in 2011.

The $5 million/35% threshold will remain in place through 2012, but after that, all bets are off. The current law expires at the end of 2012, and unless Congress acts again to extend or change it, the exemption may revert down to just $1 million, while the top tax rate could rise to 55%.

Estate Taxes: A Moving Target

Year	Exemption	Top Tax Rate
2008	$2,000,000	45%
2009	$3,500,000	45%
2010	Estate tax repealed	0
2011	$5,000,000	35%
2012	$5,000,000	35%
2013	???	???

With so many changes over the years and so much uncertainty for the future, it's a good idea for anyone with an estate in excess of $1 million (both individuals and couples) to meet with financial and tax professionals to map out their estate planning needs.

Gift Tax Exemption: Act Before It's Gone?

As part of the new tax act, the gift tax exemption has increased from $1 million to $5 million. Couples can transfer $10 million. But, as with the estate tax exemption, this "gift" is set to expire at the end of 2012.

One important item of note: While the current estate and gift tax exemptions render certain trust arrangements redundant for many, be sure to consider state tax considerations when drawing up your estate plan. Currently, nearly 20 states impose their own estate tax exemptions that can differ widely from federal law. For example, New Jersey allows an exemption of only $675,000. Be sure to check with your advisors to see if your state imposes taxes on estates and if a trust may still be applicable to your situation.

When you do meet with your estate planning professionals, you should also ensure your overall plan includes the following pieces:

- **Durable power of attorney** -- This document allows you to designate to one or more individuals access and control over your financial assets in the event you are incapacitated or unavailable.
- **Living will and health care proxy** -- A living will spells out your wishes in the event you need life-sustaining medical treatment. A health care proxy is similar to a durable power of attorney, but in this case, it allows your designee(s) to make medical decisions for you when you are unable to do so.
- **Business succession plan** -- Business owners should leave clear instructions as to the transfer of ownership of their entities upon their death or incapacitation. If you have a trust, be sure your succession plan complements your trust provisions. ■

Welcome Derek Alexander Lee!

On June 30th, Monument Wealth Management co-founder and Managing Director Timothy R. Lee and his wife Carolyn welcomed a baby boy, Derek Alexander Lee to their family. The Lees, along with the entire Monument Wealth Management team, could not be happier. ■

New Fee Disclosure Rules Help Make Costs More Transparent

Tim MicKey, CFP
Managing Director

Ask most retirement plan participants how much they pay to participate in their workplace plan, and the answer will probably be, "Nothing."

But your retirement plan isn't really free. While employees typically aren't charged any out-of-pocket costs to participate in their plans, participants do pay expenses, many of which are difficult to find and even more difficult to calculate. New regulations from the Department of Labor (DOL), which oversees qualified workplace retirement plans, should make it easier for participants to locate and comprehend how much they are paying for the services and benefits they receive.

The regulations take effect for plan years beginning on or after November 1, 2011, so most participants won't start receiving the new information until the beginning of 2012, probably with their 2011 year-end statements. The DOL will now require your employer and any other provider to the plan (such as the plan's financial advisor and record keeper) to ensure the distribution of the following information to you.

1. **Investment-related information**, including information on each investment's performance, expense ratios, and fees charged directly to participant accounts. These fees and expenses are typically deducted from your investment returns before the returns (loss or gain) are posted to your account. Previously, they were not itemized on your statement.

2. **Plan administrative expenses**, including an explanation of fees or expenses not included in the investment fees charged to the participant. These charges can include legal, recordkeeping, or consulting expenses.

3. **Individual participant expenses**, which details fees charged for services such as loans and investment advice. The new disclosure would also alert participants to charges for any redemption or transfer fees.

4. **General plan information**, including information regarding the investments in the plan and the participant's ability to manage their investments. Most of this information is already included in a document called the Summary Plan Description (SPD). Your plan was required to send you an SPD once every five years. Beginning in 2012, you will receive one annually.

The new regulations have been hailed by many industry experts as a much-needed step toward helping participants better understand investing in their company-sponsored retirement plans. Why should you take the time to learn more about fees? One very important reason: Understanding expenses could save you thousands of dollars over the long term.

	Expense ratio	Initial investment	Annual return	Balance after 20 years	Expenses paid to the fund
Fund A	0.99%	$100,000	7%	$317,462	$37,244
Fund B	1.34%	$100,000	7%	$296,001	$48,405

Calculating Fees and Their Impact on Your Account

While fees shouldn't be your only determinant when selecting investments, costs should be a key consideration of any potential investment opportunity. For example, consider two similar mutual funds. Fund A has an expense ratio of 0.99%, while Fund B has an expense ratio of 1.34%. At first look, a difference of 0.35% doesn't seem like a big deal. Over time, however, that small sum can add up, as the table above demonstrates.

Over this 20-year time period, Fund B was $11,161 more expensive than Fund A.[1] You can perform actual fund-to-fund comparisons for your investments using the FINRA Fund Analyzer (http://apps.finra.org/fundanalyzer/1/fa.aspx).

If you have questions about the fees charged by the investments available through your workplace retirement plan, speak to your plan administrator or your financial professional. ■

[1]Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so you may lose money. Past performance is no guarantee of future results. For more complete information about any mutual fund, including risk, changes and expenses, please obtain a prospectus. Please read the prospectus carefully before you invest. Call the appropriate mutual fund company for the most recent month-end performance results. Current performance may be lower or higher than the hypothetical performance data quoted. The hypothetical data quoted is for illustrational purposes only and is not indicative of the performance of any actual investments. Investment return and principal value will fluctuate, and shares when redeemed, may be worth more or less

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Timothy S. MicKey

@timothysmickey

Americans Becoming More Realistic About Retirement

Dean J. Catino, CFP
Managing Director

More than half of American workers surveyed (57%) recently said they believe they will need to work longer than they had originally anticipated in order to fund their retirements. Only 15% believe that they are well on their way to meeting their ideal retirement date.[1]

What's more, a full 50% of Americans are not confident that they will have enough money to live comfortably in retirement, although 71% feel that they will have enough to cover basic expenses. Yet only 59% report that they are currently saving for retirement.[2]

While these results can be discouraging, it's important to realize that in your personal preparation, you don't have to become another statistic. Try to think about what you can do, prior to retirement, to be able to get by during your later years. Here are some tips to help you reach your retirement goals.

- **Contribute as much as you can afford to your retirement accounts.** For 401 (k) and 403(b) plans, the maximum annual employee contribution in 2011 is $16,500. Workers aged 50 and older can contribute an additional $5,500. Keep in mind that these are federal maximums and your employer can impose lower limits. If you do not have access to an employer-sponsored plan, or already contribute the maximum, consider funding an IRA. The maximum contribution for 2011 is $5,000, plus an additional $1,000 for investors aged 50 and older.

- **Consider lifestyle choices that could potentially make a big difference.** Downsizing from your current residence into a smaller home could allow you to save on your mortgage payments and property taxes. Paying down your credit card debt and any other high-interest loans can also have a big impact.

- **Prepare to work longer, at least part time.** The notion that the work "spigot" simply turns off once you turn 65 is a myth. Many senior citizens work well into their 70s and 80s. In fact, 92% of all seniors who work say they do so because they want to stay involved and stay active.[2] Working longer can have additional benefits, such as providing access to health insurance.

Consult with a professional. A financial advisor can help you determine how much you need to invest prior to retirement to live comfortably during your later years. Having a retirement savings goal -- and an expert in your corner -- may help you stay focused on how much you need to accumulate and what you need to do to pursue your goal. ☐

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Dean J. Catino

@deanjcatino

[1]Source: Aviva USA, Aviva Consumer Attitudes to Savings, February 2011.

[2]Source: Employee Benefit Resource Institute, 2011 Retirement Confidence Survey, March 2011.

Looking Back on the Second Quarter… *Cont.*

In order for the unemployment rate to drop by one percentage point, GDP growth would have to reach 5% for a full year. Also, 125,000 jobs must be added each month just to keep up with population growth, so there is that hole to fill in as well. In the latest month where we have statistics (May), 54,000 net jobs were added, down from 194,000 in March and 232,000 in April. Ouch.

The other headline-grabbing issue is housing. Most economic reports show that existing home sales and new home sales prices have all been essentially flat since January of 2009. But with interest rates at record lows, a new house is far more affordable today than it was in 2007. In some areas of the country, it is reported that it is less costly to own than rent a home.

But the rocky month of June, which started with six straight days of losses in the U.S. markets, is evidence that even when there is positive growth (i.e. GDP) and positive returns, there is no guarantee of a smooth ride. The returns of the first half of the year have come with a certain share of nervousness, but remember that the returns of 2009 came at a time when many investors were living in a state of fear, even terror.

It's important to keep things in perspective - the mild reversal of the past three months wasn't enough to offset the gains in the first quarter of the year for most of the elements in a diversified investment portfolio.

Achieving this diversification is not always easy, as evidenced when virtually every asset class fell in lock step during the Great Recession downturn in 2008; indeed that was when many investors, including some professionals, learned all over again the value of having a cash cushion in their portfolios. Your investment eggs are in many baskets as a precaution against choppier markets whenever they decide to reveal themselves.

Please be sure to call us with questions. ■

Making the Most of your Insurance Policies

By Timothy R. Lee

Many investors are so focused on searching for their next investment idea, they overlook a great opportunity to protect their current assets and contain their annual expenses. While not generally thought of as an investment topic, asset protection insurance—property and casualty as the insurance industry calls it—should be a key component of every investor's portfolio.

Consider the seemingly infinite set of choices you face: Insurance companies will offer you coverage against "loss" of a particular asset, cash flow, or even against the liability of a misjudged action. With that in mind, here are some tips to help you make the most of your insurance policies.

Pay now or pay later. I recently had a plumbing leak in my house that caused substantial damage to the ceiling of the room below. As my wife and I considered the cost of repairing the damage, we contacted our insurance company about making a claim against our home owners' policy. After speaking with our insurance carrier, it became clear that we'd end up paying for the repairs in one way or another. We could either pay for the repairs "out of pocket" or over time in the form of higher premiums tacked on to the initial deductible on our policy.

For us, it didn't make sense to tap our insurance policy to cover the damage. Insurance is designed to spread out the risk of a catastrophic event that has a low probability of occurrence. In choosing a policy, you should consider what level of loss you can absorb and what level of loss would be too great to accept. Then set the deductible on your insurance policies just below this threshold.

Set your deductible to match your ability to pay. Many investors buy a new car or house and put insurance coverage in place as a matter of requirement, without much thought or analysis. If you were in a car accident and could comfortably afford to write a $1,000 check to replace your fender, why would you set your deductible at $500?

Instead of increasing their insurance rates, many people simply pay the repair shop for the work and don't make a claim. You can save money by raising your deductible to the amount you could not afford to pay "out of pocket."

What changes should you make? You don't need an actuary to analyze risks to your cash flow. Here's an easy checklist of action items:

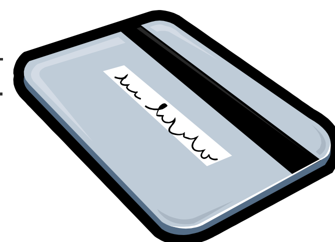
Continued on page 7.

Simple Steps to Help Reduce Credit Card Debt

The United States has a cumulative revolving debt of more than $850 billion, according to the Federal Reserve. A whopping 98% of that figure is composed of credit card debt -- with 54 million households in arrears for an average balance of $15,788.[1]

If you are contributing to the staggering sum of outstanding credit card debt in America, you need to start digging your way out, and the sooner the better. Debt can stand between you and your financial goals, such as buying a home and being able to fund your retirement. Here are some simple steps to help you start paying down those charges.

Step 1: Consolidate and pay aggressively. The best approach to paying off debt is to become systematic and aggressive. If possible, try to consolidate your balances into one card with the lowest interest rate. Then cut out some of your indulgences -- lay off the morning coffee fix and brown bag your lunch. The $50-$200 a month you can save by making a few small sacrifices should go right into your credit card payment. If you can't consolidate your debt, start with the card with the highest interest rate, and double or triple your monthly payments until you eliminate your balance. Then do the same thing with the next highest interest rate card, and so forth.



Step 2: Pay debt first, invest later. Conventional wisdom states that if you can earn a higher after-tax return on your investments than the interest rate you are paying on your debt, you should invest. Otherwise you should pay off your debt.

As an example, say you have a credit card balance of $8,000 with a 14% interest rate. Given current market performance, paying off the card before investing is a no-brainer. But even if the stock market was experiencing an annual gain between 8% and 9%, paying off debt would still be your better bet.

Step 3: Ask for a lower rate. You can accelerate the pay-down process by calling your card issuer and asking for a reduced interest rate. According to a survey conducted by the U.S. Public Interest Research Group, more than half (57%) of those who called and requested a lower interest rate were successful. On average, the rate was lowered between seven and 10 percentage points.

It may take months or even years, but becoming debt free is your first step to true financial freedom. It is also a prudent move for individuals who are nearing retirement.

For More Information
These websites offer information on competitive rates and more. Be sure to shop around for the best rates. ■
http://www.creditcards.com
http://www.lowcards.com/CreditCardIndex.aspx
http://www.bankrate.com/brm/rate/brm_ccsearch.as

[1]*Source: Federal Reserve, G-9 Report on Consumer Credit, March 2010.*

Making the Most of Insurance Policies..*Cont.*

- **Match your policy deductible with your budget.** If you have the means to set aside $500 or $1,000 to pay for a small problem, set your deductible payment above that amount. You'll save premium dollars.
- **Ask for pricing.** Many times the discount for consolidating policies with one company can be significant.
- **Make sure your policies don't overlap.** Ask your insurance agent or company how to make your policies work together.
- **Re-price periodically.** The insurers do this, and you should too.

Homeowners', auto, and excess liability insurance seem to be the most overlooked financial instruments. Regardless of their net worth or sophistication, most people just "set it and forget it" when it comes to these policies. Unfortunately, no one can afford to ignore this issue. A sophisticated financial adviser will be able to help you navigate through these issues and coordinate your coverage with your risk and budget.

A few minutes reviewing your policies now can result in significant savings in insurance premiums over time. ■

Monument
WEALTH MANAGEMENT

1701 Duke Street, Suite 425

Alexandria, VA 22314

703-504-9600

email: info@monumentwm.com

www.monumentwealthmanagement.com

Monument Wealth Management is an independent Private Wealth Planning[SM] and Investment Management firm in the greater Washington D.C. area.

Our clients are wealthy individuals, corporate executives, and business owners, who receive sophisticated financial planning, portfolio management, and personalized client services.

As a fully independent and conflict-free firm, we are able to provide unbiased financial advice while making the best choices for our clients tailored to their individual situations.

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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.*