Monument Quarterly

www.monumentwealthmanagement.com | 703-504-9600 Spring 2011

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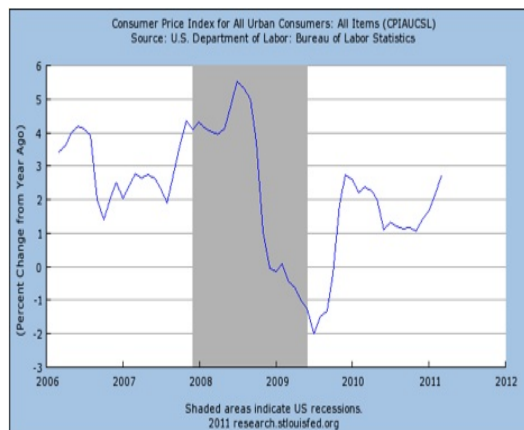
Monument WEALTH MANAGEMENT

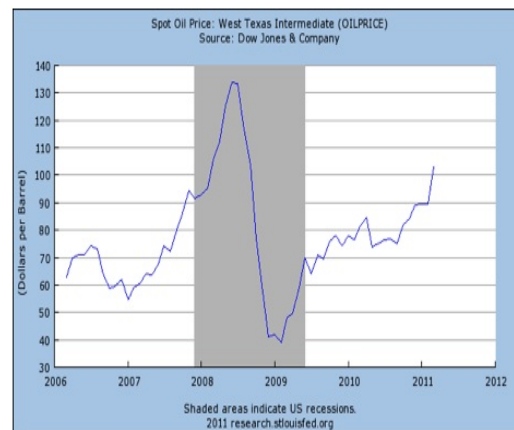
Inflation Fears and Oil Prices

Dean J. Catino, CFP
Managing Director

Inflation has been a widely discussed topic in the media lately, and the government statistics released last month didn't do a lot to quiet the chatter. On April 15th, the government reported that the Consumer Price Index for all urban consumers rose to an annualized 2.7% in March, up from 1.6% in February.

The aforementioned jump in March is eye-catching; however, the raw numbers themselves are fairly expected (and not nearly as startling as certain media pundits like to suggest). Since 1914, the inflation rate has averaged 3.38% in the U.S., making the current rate still below average. Additionally, a closer look at the various components of the U.S. inflation rate suggests that prices in general are not rising; rather, most of the price rise is taking place in the energy sector. The gasoline index is up 27.5% over the past 12 months, which I doubt will surprise anyone who has recently visited the pump. The index for all items except for food and energy rose just 1.2%.





What's more, if you look at the two charts (above) created by the St. Louis Bank of the Federal Reserve Board, you see something interesting. The first chart is the inflation rate since 2006. The second chart is the price of West Texas Intermediate Crude oil, which can be used as a substitute for global oil prices. Notice that the two charts look virtually identical. What this tells us is that when oil prices have risen (over the past five years, at least) so too has inflation, and in roughly the same proportion. Oil prices go down, and so too does the inflation rate. Price changes elsewhere, while not perfectly stable, have been moderate enough that this one factor has tended to control changes in the overall cost of living.

Is there a lesson from this? First, we don't know what oil prices will do in the future, but even if they stabilize at the current higher rates, the inflation rate--which measures changes in cost of living--will become stable. If the various uprisings in North Africa and the Middle East ever calm down, then oil prices could fall.

Sources:
Average historical inflation rate: http://www.tradingeconomics.com/Economics/Inflation-CPI.aspx?Symbol=USD

Looking Back on the First Quarter of 2011

David B. Armstrong
Managing Director

The 1st quarter of 2011 was pretty darn good if you consider that it was the best quarter for U.S. equity returns (in percentage terms, as measured by the Standard & Poor's 500) since 1999. Not bad.

The U.S. equity markets did better than those of the rest of the world, which was something we expected given that the U.S. was lowering interest rates 18 months before much of Europe started lowering rates during the recent global financial crisis.

U.S. Stock Market Returns

The Wilshire 5000 index is a good, broad measure of how well all U.S. stocks have done in general. 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 6.27% for the first three months of 2011. Additionally, it has been up 17.43% over the trailing 12 months.

Taking a look at the Standard &Poor's 500, we see that it produced a total return of about 5.42%, a little lower than the return on the Wilshire 5000 for that same time frame. This can likely be attributed to the performance of the small and mid cap stocks found in the Wilshire 5000. The S&P 500 also showed that all 10 sectors were positive for the quarter ranging from the energy sector up 16.29% down to the utilities sector up 1.62%.

We think that the U.S. equity markets will remain strong in 2011 and we intend to stay fully invested in the U.S. We are currently maintaining a slight 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 mode. We will be taking opportunities to increase exposure to the large cap space over the year.

International Stock Market Returns

As previously stated, international stocks did not do as well as U.S. stocks in the first quarter, but they did have some positive returns. The MSCI Europe, Australia Far East (EAFE) Index produced a total return of 2.67%. The European component of the index rose 5.88% despite continuing worries about sovereign debt issues in Greece, Ireland, Portugal and Spain. In contrast, Pacific region stocks were down 2.96%, largely because of a drop in the Nikkei stock market.

Other Returns

Bond yields remain low and as of the end of the quarter we saw the 3-month U.S. Treasury bill yield 0.09%, the 1 year at 0.27%, the 5 year at 2.28%, the 10 year at 3.47% and the 30 year at 4.50%. That stinks! Remember when interest rates rise, bonds lose value.

In real estate, the Wilshire Real Estate Investment Trust (REIT) index rose 5.84% in the first three months of the year. The S&P U.S. REIT index was up 5.49%. The S&P Global REIT index, which tracks changes in real estate across developed and emerging markets, rose 4.62% for the quarter.

Commodities prices rose dramatically during the first quarter; the S&P Goldman Sachs Commodity Index (GSCI) was up 11.56%, but most of the change came from a 16.28% rise in petroleum prices. Precious metals rose 4.37% and agriculture was up 3.99%.

Looking Back and Forward

As I look back on my quarterly reviews from 2010, I noticed that there were a lot of people in the industry and in the press predicting a "bleak" 2011 economy. There seemed to be a consensus of weaker growth, higher unemployment and generally cloudy skies for the economy. In particular, the economists were expecting job growth to remain weak. As it happens, U.S. private employers added 216,000 jobs in March, and a revised 194,000 in February, reflecting what could be described as a "reasonably-paced labor recovery."

Meanwhile, the stock market recovery has highlighted one of the peculiarities of investment math. Prior to March of 2009, the S&P 500 had, in round numbers, fallen 54% since its 2007 peak. The recovery, again in round numbers, has achieved a (quite remarkable) 100% gain since the March 2009 low point. Yet the market has not yet fully recovered to its former heights.

The reason, obviously, is that investment math tends to understate losses and overstate gains. After a 20% decline in your investment portfolio, you need a 25% gain before the portfolio is made whole again. As the declines get bigger, the disparity grows dramatically; a 50% drop requires a 100% gain to repair the damage, and an 80% drop would require 500% subsequent rise before you climbed back to where you started from.

In terms of building wealth, that means that the smoothest ride, everything else being equal, is also the most rewarding, which is why so many of us attend industry conference sessions on how to achieve better diversification in our managed portfolios, which asset classes tend to zig when others zag, and what new investment opportunities exist which

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Defining Your Own Retirement

Retirement used to conjure up images of lazy days spent in a rocking chair. Today's retirement is very different. You might plan to open a business of your own, start volunteering at a local charity, or take courses at a nearby college.

Chances are, you'll have time to do whatever you desire. At the turn of the 20th century, the average life expectancy was 47. Today, the average American can look forward to about 78 years of life. What's more, the average life expectancy for today's 65-year-old has increased to 84, according to the National Center for Health Statistics.

So what does this redefined retirement mean to you? There is no one answer. In the coming decades, "retirement" will mean something different to each of us. Regardless of your decision, you'll need to design a financial plan suited to your specific vision of the future.

Income Is Key

A good starting point might be to examine your sources of retirement income. If you pay attention to the financial press, you've probably come across at least a few commentators who speak in gloom-and-doom terms about the future for American retirees, decrying a lack of savings and warning of the imminent growth of the elderly population.

True, there is widespread concern about at least one traditional source of income for retirees --Social Security. Under current conditions, Social Security funds could fall short of needs by 2037. But the reality is that Social Security was intended only to supplement other sources of retirement income. In fact, Social Security benefits account for only 36% of the aggregate income of today's retirees. Even pension plans, once considered a staple of retirement income, only account for 17% of the retirement-income pie.[1]

This shift makes it even more important for individuals to understand their goals and have a well-thought-out financial plan that focuses on the key source of retirement income: personal savings and investments. Given the potential duration and changing nature of retirement, you may want to seek the assistance of a professional financial planner who can help you assess your needs and develop appropriate investment strategies.

As you move through the various stages of the new retirement, perhaps working at times and resting at others, your plan may require adjustments along the way. A professional advisor can help you monitor your plan and make changes when necessary. Among the factors you'll need to consider:

• **Time-** You can project periods of retirement, reeducation, and full employment. Then concentrate on a plan to fund each of the separate periods. The number of years until you retire will influence the types of investments you include in your portfolio. If retirement is a short-term goal, investments that provide liquidity and help preserve your principal may be most suitable. On the other hand, if retirement is many years away, you may be able to include more aggressive investments in your portfolio.

• **Inflation-** While lower-risk fixed-income and money market investments may play an important role in your investment portfolio, if used alone they may leave you susceptible to the erosive effects of inflation. To help your portfolio keep pace with inflation, you may need to maintain some growth-oriented investments. Over the long-term, stocks have provided returns superior to other asset classes.[2] But also keep in mind that stocks generally involve greater short-term volatility.

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1Source: Social Security Administration, Facts & Figures About Social Security, 2010.
2Past performance is no guarantee of future results.

Looking Back on the First Quarter… *Cont.*

...are less likely to follow the same return patterns as U.S. and international stocks.

Achieving this diversification is not always easy, as evidenced when virtually every asset class fell in lock step during the Great Recession downturn; indeed that was when many investors--including some professionals--learned all over again the value of having a cash cushion in their portfolios. We were fortunate in this first quarter of the year that nearly every one of the traditional asset classes offered positive returns; we do not anticipate that being the case forever. Your investment eggs are in many baskets as a precaution against choppier markets whenever they decide to manifest. ■

Five Strategies for Tax-Efficient Investing

Timothy R. Lee, CFP
Managing Director

After factoring in federal income and capital gains taxes, the alternative minimum tax, and potential state and local taxes, your investments' returns in any given year may be reduced by 40% or more. Here are five ways to potentially lower your tax bill.[1]

Invest in Tax-Deferred and Tax-Free Accounts

Tax-deferred accounts include employer-sponsored retirement accounts such as traditional 401(k)s and 403(b) plans, individual retirement accounts (IRAs) and annuities. In some cases, contributions may be made on a pretax basis or may be tax deductible. More importantly, investment earnings compound tax deferred until withdrawal, typically in retirement, when you may be in a lower tax bracket. Contributions to nonqualified annuities, Roth IRAs and Roth-style employer-sponsored savings plans are not deductible. Earnings that accumulate in Roth accounts can be withdrawn tax free if you have had the account for at least five years and meet the requirements for a qualified distribution.

Withdrawals prior to age 59½ from a qualified retirement plan, IRA, Roth IRA or annuity may be subject to a 10% federal penalty. In addition, early withdrawals from annuities may be subject to additional penalties charged by the issuing insurance company.

Consider Government and Municipal Bonds

Interest on U.S. government issues is subject to federal taxes but is exempt from state taxes. Municipal bond income is generally exempt from federal taxes, and municipal bonds issued in-state may be free of state and local taxes as well. Sold prior to maturity or bought through a bond fund, government and municipal bonds are subject to market fluctuations and may be worth less than the original cost upon redemption.

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Look for Tax-Efficient Investments

Tax-managed or tax-efficient investment accounts and mutual funds are managed in ways that can help reduce their taxable distributions. Investment managers can potentially minimize portfolio turnover, invest in stocks that do not pay dividends and selectively sell stocks at a loss to counterbalance taxable gains elsewhere in the portfolio.

Put Losses to Work

You may be able to use losses within your investment portfolio to help offset realized gains. If your losses exceed your gains, you can offset up to $3,000 per year of the difference against ordinary income. Any remainder can be carried forward to offset capital gains or income in future years.

Keep Good Records

Maintain records of purchases, sales, distributions, and dividend reinvestments so that you can properly calculate how much you paid for the shares you own and choose the most preferential tax treatment for shares you sell. Keeping an eye on how taxes can affect your investments is one of the easiest ways you can enhance your returns over time.

Call me with any questions regarding this topic. I, or any member of the Monument Wealth Management Team, will always help in any way possible. ■

[1]This information is general in nature and is not meant as tax advice. Always consult a qualified tax advisor for information as to how taxes may affect your particular situation.

"Can't a man name his dog 'Management Inc' without being accused of a corporate tax dodge?!"

Young Investors: Build a Solid Foundation

Is your child graduating from college this year? Here are some tips to help ensure financial security in the future.

Building wealth takes time and work. It doesn't happen overnight and not without making it a priority. You need to set goals, have a good blueprint, stick to your plan and keep building on your success. By establishing good savings habits, you can accumulate wealth over your lifetime. Here are a dozen tips to build on:

1. Dream big but stay grounded. All big projects begin with a vision, require solid execution, and are grounded in practical matters. What's your vision? Know what you want to do in retirement, and what you're saving for. Then, take action and make it happen.

2. Start early. Put time to work for you. The earlier you begin to save, the longer your money can compound. In fact, by starting earlier, you can achieve more while saving less than someone who waits. In a hypothetical example, Jim begins saving at age 25 and accumulates $1 million by age 65 by saving just $522 a month and earning 6% a year on his investment. But Janet waits 20 years and only begins to save at age 45. Earning the same 6% a year, she'd need to save $2,195 a month to reach $1 million by age 65.

3. Go for growth. If you start early, your time horizon should help shape your investment mix. When you save for longer periods, it's easier to live with greater volatility (ups and downs) because you have more time to recover in the event of a loss. By investing more aggressively, you should have a greater chance for your money to earn a higher rate of return.

4. Pay yourself first. Invest the money before you can spend it. Payroll deduction in your retirement plan is simple, convenient and effective.

5. Don't leave money on the table. If you receive an employer matching contribution, contribute enough to receive the full match. Anything less is like leaving money on the table, or turning down a raise.

6. Sweat the small stuff. Little things add up. Bring a lunch to work, make your own coffee in the morning, don't buy on impulse, eat at a less expensive restaurant or dine out less frequently. Good financial habits make a difference and they leave you in control.

7. Live within your means. Don't spend money that you don't have. Spending less than you make frees up money for future use.

8. Use your 2% well. For 2011, the government gave everyone a gift: 2 percentage points off the Social Security tax of 6.2%. Put that money right into your retirement savings.

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Defining Your Own Retirement.. *Cont. from pg 3*

• **Taxes-** Even after you retire, taxes will remain an important factor in your overall financial plan. If you return to work or open a business, for example, your tax bracket could change. In addition, should you move from one state to another, state or local taxes could affect your bottom line. Tax-advantaged investments, such as annuities and tax-free mutual funds, may be effective tools for meeting your retirement goals. Tax deferral offered by 401(k) plans and IRAs may also help your retirement savings grow.

Prepare Today for the Retirement of Tomorrow

To ensure that retirement lives up to your expectations, begin establishing your plan as early as possible and consider consulting a professional. With proper planning, you can make retirement whatever you want it to be. ■

Considerations When Selecting Beneficiaries

Tim MicKey, CFP
Managing Director

Sometimes retirement planning and estate planning go hand in hand. This is especially true when it comes to naming or changing beneficiaries for your retirement plan. It is important to know the rules surrounding plan beneficiaries, as decisions you make can have a big impact on your family.

Know the Rules

You generally can name anyone as your beneficiary: your children, your grandchildren, your next-door neighbor. You can also name a trust. But if you are married, the law requires that your spouse be the main, or primary, beneficiary of your company-sponsored retirement plan unless he or she waives that right in writing. This point can be especially important in the case of second marriages. A waiver may make sense if your new spouse is already set financially or if children from a previous marriage are more likely to need the money.

Keep in mind that only spouses can roll over assets to a tax-deferred individual retirement account (IRA). Nonspouse beneficiaries are not eligible for a tax-deferred transfer to an IRA, which means they will be subject to income taxes on any distribution they receive (as will spouses who do not roll over the assets).

You can name more than one beneficiary, but you will need to specify how much each person will receive in percentage terms. Otherwise, the distribution will be divided equally. Changes in your life, such as the birth of a child, can affect how many beneficiaries you may have. Again, with company-sponsored plans, spouses must waive their right to receive 100% of the assets if they are distributed to multiple beneficiaries.

Your beneficiary designation can also affect your own distributions during retirement. The distribution amounts you receive may depend largely on the age and relationship of your named primary beneficiary.

Keep Your Wishes Up-to-Date

When reviewing your overall estate plan, make sure to include your retirement plan and update your beneficiary designations if necessary. This will help ensure that the entire estate plan flows smoothly and that changes in your family structure are addressed. Also keep in mind that beneficiaries are paid directly as named. Wills generally do not override the directions given on your beneficiary designation form, so do not assume that changing your Will is enough to make sure your wishes for your retirement plan are carried out.

Seek Advice

Consider all consequences, financial and emotional, when naming or changing beneficiaries for your retirement plan. You may want to seek the advice of a tax advisor or an estate planning attorney, as well as a qualified financial professional. ■

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Barron's Top Advisors Conference 2011

In March, Monument Wealth Management's co-founder David B. Armstrong was a speaker at the annual Barron's Top Independent Advisor Conference in Orlando, Florida. Monument Wealth Management was proud to be invited to this elite conference for the 3rd straight year in a row.

Armstrong's presentation, which covered the topic of social media usage in wealth management practices, was a huge hit among attendees. Check out Monument Wealth Management's Facebook page for pictures! ■

Housing Values in Your Neighborhood

Many homeowners take a special interest in housing values because their home is an asset that they are exposed to almost every day. While it is almost impossible to know for certain where housing values in your neighborhood are headed, you may be able to make an educated guess by paying attention to the following factors:

The number of "For Sale" signs - and how long they stay up.

In "hot" real estate markets you probably won't see many such signs in the same place for long. Buyers are often in a rush to buy and may even bid up the prices of the homes above the initial asking prices. When a market is in decline, however, "For Sale" signs often start to pop up all over the place - and stay up for a while. In particular, pay attention to the presence of foreclosures. A glut of homes for sale often has the effect of lowering prices.

A neighborhood in transition.

It is important not to underestimate the importance of infrastructure changes on a community. For example, a bridge over a canal that connects a stylish neighborhood with an industrial part of town could cause prices to fall in the nicer part of town and rise in the industrial part. Or a new exit off the freeway that increases traffic through a residential neighborhood could push prices down. The key here is to be on top of planned developments so that you can act long before the change has been implemented.

Commitment to education.

Communities with excellent schools frequently attract families willing to pay considerable sums to ensure that their children are educated in a top school system. A local school system need not be the absolute best but should compare favorably with peers.

Employment trends.

Widespread job losses can have a negative effect on a neighborhood's home values. If many people in a community work for a single employer, or for a single industry that faces an uncertain future, there is a good chance that home prices will fall if the business or industry experiences layoffs or relocates.

For insights on prices in a specific community, consider speaking with an experienced real estate professional about factors (such as historical pricing trends, local economic health, population movements, etc.) on housing trends. ■

Cont... Build a Solid Foundation

9. Think for yourself. Many investors follow the crowd. They don't want to miss out on the latest big thing. But often by the time a crowd is following a trend, the best opportunity has come and gone. It's better to think for yourself and follow your own path.

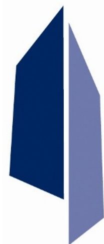
10. Learn from others. Make your own decisions, but learn from others and build on their knowledge and experience. Talk about investing with a relative or close friend, attend seminars, and read books and magazine articles.

11. Take your time. Don't be rushed into quick decisions. If you have several decades, keep on doing what has worked for you, and maintain a steady course.

12. Stay focused. Review your progress regularly, but keep moving in a straight line. It'll get you to your goal faster.

Hopefully these tips will be helpful in starting to build wealth at a young age, rather than waiting until it’s too late!

Call us with questions, we are always happy to help. □



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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.*