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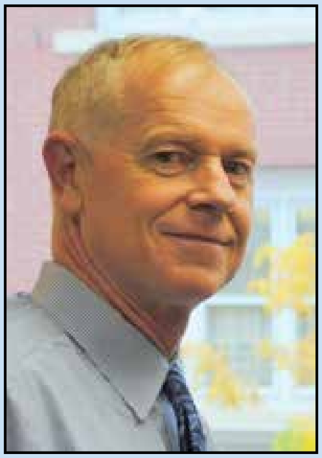

"With stock prices up but bond prices down (and thus their yields up), while corporate earnings growth remains challenged, investors must become far more selective. Moving to the sidelines doesn't make sense for long term investors; no one really knows when the current bull will end and the next one start."

David Dietze, JD, CFA, CFP
CNBC, September 24, 2013

SPECIAL IN THIS ISSUE

Classic Investment Strategies as An Aging Bull Runs Up Against Fed Tapering

By David G. Dietze, JD, CFA, CFP™

Face it! With the market up over 150% since the March 2009 bottom, nearly 20% this year alone, anyone throwing new money at this market is, well, a bit late to the party. Valuations, while not expensive, are hardly at bargain levels, as corporations' last quarterly earnings were up less than 5%, lagging behind the double digit advance in their stock prices.

Investors now have to deal with one of the sharpest interest rate advances in years, with the ten year Treasury now approaching 3%, easily trumping the S&P's payout. As recently as early May, stocks seemed like a no brainer; after all, the market's 2.1% dividend yield easily trumped the 1.6% on the ten year Treasury. It was much easier to bet on stocks for the next ten years versus Treasuries with that kind of head start.

"Anyone throwing new money at this market is, well, a bit late to the party"

What's more, while the Federal Reserve chose not to implement the much dreaded taper – a slowing of the monthly bond purchases by our central bank – in September, we'll see the taper eventually. That's a movement to less liquidity, not more, and can hardly be seen as helpful to holding down interest rates.

Meanwhile, a whole litany of other hurdles confronts the market. Showdown at the Washington budget corral has to rank right up there; a failure of Congress to increase the debt limit and agree upon a 2014 budget could result in a government shutdown. Time for consideration is short with our credit cap expected to be reached in October, especially as we are diverted by issues like Syria.

"Investors now have to deal with one of the sharpest interest rate advances in years"

Bottom line, should you commit new money to this market now, and if you are invested should you stay that way? After all, no one went broke taking a profit!

In A Nutshell

With stock prices up but bond prices down (and thus their yields up), while corporate earnings growth remains challenged, investors must become far more selective. Moving to the sidelines doesn't make sense for long term investors; no one really knows when the current bull will end and the next one start, plus you'd need a microscope to

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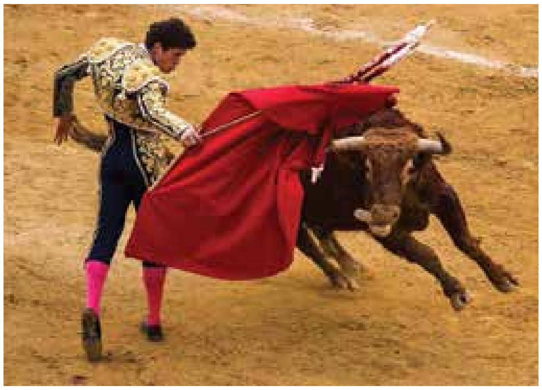
Classic Investment Strategies as An Aging Bull Runs Up Against Fed Tapering . . . *continued from page 1*

see the yield now available on cash. Inflation will erode that cash stash, too.

To become more selective, consider classic investment strategies. Strive for quality investments, companies that dominate their markets, and undoubtedly will be around through many market cycles. But, don't forget valuations, as measured in a number of ways. Eschew the overpriced, the overhyped.



Buy the Laggards

A sound strategy is buying investments that have failed to keep pace with the market leaders. Why does that work? Reversion to the mean is one reason. As the hot stocks get more expensive, profits are taken, with the proceeds rotated into cheaper areas of the market.

Consider: If you had bought the S&P 500 ten years ago you'd be up 102% cumulatively by June 30 of this year. However, if instead you had spread your money out equally among the nine sectors of the S&P (financials, health care, etc.), and quarterly rebalanced, subtracting from the winning sectors and redeploying into the laggards, you would enjoy a portfolio a third bigger, up 133%.

"Showdown at the Washington budget corral is a major hurdle confronting the market"

Rebalancing into laggards also reduces your risk. You cut your exposure to sectors that have been the hottest and thus likely to be the priciest.

Buying laggard sectors represents less risk than buying laggard stocks. Sectors rebound, but stocks sometimes don't. You can excuse a lagging stock in a lagging sector because you know it's facing headwinds external to the company. This helps you rule out a company specific problem.

So, what are the laggards, and how do you play them? Energy stocks have underperformed the broader market four of the last five full years, with an annual average return of negative 0.65% for the five years ending June 30 versus 6.93% for the broader S&P 500.

"Moving to the sidelines doesn't make sense for long term investors"

Appropriate investment vehicles could include an exchange traded fund targeting just the energy stocks of the S&P 500, like the **Energy Select Sector SPDR (XLE)**. Morningstar rates this five star, its highest category, citing the energy sector as 10% cheaper than the overall market. A profile like this puts the odds in your favor, for both superior long term return and less risk.

We also like simply buying **Chevron (CVX).** From a tax point of view, outright ownership instead of ownership via a fund gives you complete control of any turnover, and therefore control over the tax ramifications.

Chevron potentially has less risk and greater reward. It's got the sixth best dividend on the Dow, more than 1% greater than the S&P 500's average payout. On a multiple of projected 2014 earnings, it's the Dow's third cheapest. Debt is low. Its track record is superior; its 6.16% average annual return over the last five years surpasses both energy funds mentioned.

Bottom line, Chevron's membership in a laggard sector, energy, enhances our confidence that it could be a worthwhile portfolio holding.

Dividend Growth

Everyone loves juicy dividends. Dividend paying stocks outperform low or nil payers. Between 1975 to 2012 the top payers chalked up a higher annual average return (15%) than the non-payers (11%), and with less volatility.

But, the fact is, if your dividend isn't growing, you've essentially got fixed income, like a bond or a preferred stock. And fixed income, as we've seen this year, with the broad based bond index Barclay's Aggregate down about 3%, even including income, is especially vulnerable to higher interest rates.

"Strive for quality investments, companies that dominate their markets, and undoubtedly will be around through many market cycles"

The trick to fending off higher rates is to make sure your companies are growing and are sharing that growth with investors in the form of higher dividends. Search for stocks that not only have a healthy dividend but are raising it at a fast pace, and the prospects are good for continued growth.

A solid fund to do this for you is the exchange traded **Vanguard Dividend Appreciation ETF (VIG)**. It tracks companies that have raised their dividends for the last 10 years straight. It yields 2.17% but more importantly it's raised that payout nearly 8% annually for the last five years. That'll outpace foreseeable inflation.

However, for greater control and profit potential, create your own mutual fund with direct holdings of dividend stocks. We favor **Intel (INTC)**. It controls 80% of the semiconductor market, staying at the cutting edge of technology by virtual of prodigious R&D spending.

Just as importantly, it boasts the third highest dividend on the Dow, at 4%, and has grown that dividend just shy of 10% annually for the last five years. The tech sector has been a laggard over the last 36 months. If techs play catch up, that may provide an additional tailwind for Intel.

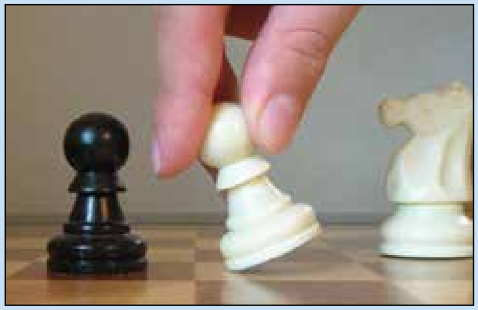
"A sound strategy is buying investments that have failed to keep pace with the market leaders"

For a fuller version of this article log on to http://www.ptview.com/files/Classic%20Investment%20Strategies.pdf

Tax Moves To Make Now

By Claire E. Toth, JD, MLT, CFP™

Higher-income taxpayers will soon feel the full effect of this year's tax increases. Not only are tax rates increased for couples making $450,000 or more, but at lower levels, the Medicare surcharge kicks in. Stealth taxes also come into play by way of limits on itemized deductions and exemptions. Couples with incomes of $250,000 or more and singles with incomes of $200,000 are affected by at least some of these provisions. As we move into the fourth quarter of the year, it's time to position yourself to minimize the effect of these new provisions.



Tax planning today isn't so much about generating deductions as it is about avoiding income in the first place. To understand this, pull out a copy of last year's tax return and look at page one. That number at the bottom, on line 37, is your Adjusted Gross Income. That's where the action is. The Medicare surcharge on investment income and the cutbacks on itemized deductions and exemptions all key off of that number. You want your AGI to be as low as possible. Importantly, AGI is the number before deductions come into play.

"Higher-income taxpayers will soon feel the full effect of this year's tax increases."

Examine the rest of page one, and you'll notice there don't seem to be many obvious ways to limit your AGI—educator expenses, moving expenses, deductible IRAs, and the like apply to very few investors. So focus on what you can do:

Maximize Retirement Contributions. Money you contribute to your 401k or similar plan never even gets to the tax return. This year you can contribute $17,500 to your 401k ($23,000 if you are 50 or older). Thus, a married couple can reduce their potential AGI by as much as $46,000. Note that earned income remains subject to employment taxes, including the 0.9 percent Medicare surcharge on earned income in excess of $250,000 ($200,000 for singles). When you take retirement distributions, they are exempt from the 3.8 percent Medicare surcharge.

Own Your Own Business. A solo service business—often consulting—can reduce your taxes two ways. First, your legitimate business expenses reduce your AGI. Second, taxpayers nearing retirement age can set aside significant sums in a defined contribution retirement plan—basically, a traditional pension plan. Depending on your age and income, those contributions can run into the hundreds of thousands of dollars each year. These plans must be custom-designed and can cost a few thousand dollars—but even that cost is deductible. Again, eventual distributions are exempt from the Medicare surcharge.

"Tax planning today isn't so much about generating deductions as it is about avoiding income."

Be Savvy With Real Estate. There's no need to pay tax on gain when you sell your investment or business real estate. Business, investment, and income-producing real estate (but not your personal residence) can be exchanged tax free for another real estate holding. Tax law views this as an exchange of two like-kind assets, even if you are exchanging an apartment building for a warehouse. The rules are complicated here, so you'll want expert help.

Even if your only real estate is your home, you can reduce any tax bite on eventual sale. Recall that the first $500,000 of gain ($250,000 for singles) escapes tax. That gain isn't calculated on your purchase price; it's calculated on your adjusted basis. Adjusted basis includes all capital improvements you have made over the years. Keep those receipts and track those costs; they'll make a big difference when you sell.

No plans to sell? If you rent your home for a total of 14 days or less during the year, you don't have to take any of the rent into income. Those who live near a Superbowl or U.S. Open site can make significant sums tax free under this rule—just ask the folks in Augusta.

Harvest Capital Losses. Most investors have some unrealized losses floating around

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Claire E. Toth, JD, MLT, CFP™

Claire E. Toth, as Vice President of Point View Wealth Management, Inc., provides our clients with tax, financial, and estate planning expertise, enabling the firm to offer fully integrated asset management and financial planning services. She works with clients on issues ranging from financial planning to estate planning.

Previously, Ms. Toth was Of Counsel to the law firm of Herold and Haines, P.A., in Warren, New Jersey, where her practice focused on tax and business planning for closely held businesses and their owners. Before joining Herold and Haines, Ms. Toth was with the IRS Chief Counsel in Washington.

Ms. Toth received her A.B. and J.D. degrees from the University of Chicago, where she was elected to Phi Beta Kappa. She has an M.L.T. from Georgetown University and was awarded the CFP™ designation.

What Has Less Risk, More Yield and No Taxes?

By David G. Dietze, JD, CFA, CFP™

Municipal bonds have been pummeled this year. First, all bonds have become toxic, as their historically low yields, coupled with fears of the Federal Reserve tapering off its bond buying, have investors fleeing.

Second, Detroit, owing $18 billion, has gone bankrupt: City leaders have questioned repaying its bond debt before its pension obligations. This weakened a fundamental tenet of muni finance, that issuers' first priority is their debt.

"Municipals remain free from Federal taxes, and state taxes, too, if issued in an investor's home state"

Finally, a rip roaring bull is coaxing retail investors back into equities. Munis, despite their tax advantages, are no match for surging stocks.

Nevertheless, municipals remain free from Federal taxes, and state taxes, too, if issued in an investor's home state. Proposals to change this tax free status don't seem imminent, and may well grandfather any bonds already owned.

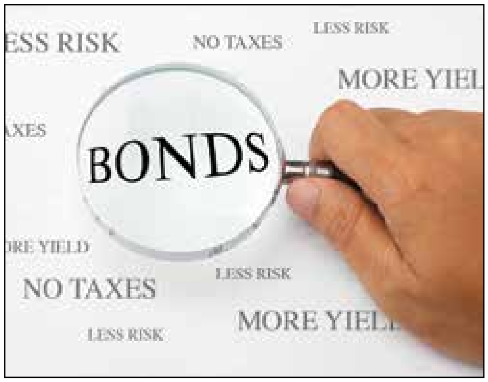
In a Nutshell

Due to a perfect storm of macro events, municipal bonds have become cheap, perhaps not relative to a decade ago, but cheap relative to alternatives and recent history. For safety conscious investors, municipals have a stellar track record, yet yield more than other bonds with the same credit ratings. Finally, despite taxes continuing to rise, municipals maintain their tax free status, enjoying immunity from state and local taxes if issued within an investor's home state.

Bottom line, yields significantly outstrip similarly rated corporate debt, yet the income remains free from taxes; taxable investors are well advised to stock up now.

Why Bonds at All?

Municipals are cheap because investors don't like bonds. Amid the Fed's threats to taper, an improving economy, reviving stocks, and pundits warning of higher rates, Why Bonds? is a good question.



Investors can't forsake bonds. The anti-bond fears may not materialize; pro-bond scenarios could develop. The Fed could defer tapering to combat economic weakness. War, perhaps in Syria, could brake growth, driving bond demand. A good old fashioned bear in stocks could stoke fixed income demand.

"Due to a perfect storm of macro events, municipal bonds have become cheap"

If you do dump bonds, where do you go? In 2008, high quality bonds were one of the few assets offsetting stocks' 37% plunge; moving your bond money to stocks strips you of that defense. Cash is an option, but with no yield despite continuing inflation, that's not a long term strategy; who's going to tell you when to flip out into something better?

Some tout alternatives/hedge funds as a bond substitute. However, most alternatives did not perform a desired function of bonds, offsetting stocks' declines, during the last downturn, in 2008. With the average hedge fund down 16%, most alternatives failed to provide an offset to stocks. However, the broad Barclays Aggregate, the principal bond index, advanced 5.2% in 2008, mitigating stocks' losses.

Finally, with rates up 1% or more over this time last year, yields are improved.

In sum, bonds are a form of insurance. Just as you wouldn't forsake car insurance if premiums got pricey, you can't turn your back on fixed income.

Great Relative Value

Historically, municipals yielded less, just 85% of similarly dated Treasuries, because the income was tax free. Today, however, the ten year stands at 2.75% versus similar munis' 3.4%.

Munis now yield about the same as corporates, 3.4%; historically, munis yielded 25% less. But, with high net worth investors having to pay up to half that corporate interest for taxes, the choice seems easy. Remember, too, that municipals have a far better credit history than corporates.

"For safety conscious investors, municipals have a stellar track record"

Still not convinced that munis offer better value for the same risk? There are some corporations that are the primary backer of municipals, where a public entity has issued tax exempt bonds on its behalf for a particular project. Yet, despite the interest being tax exempt, the yield is greater than the same corporation's fully taxable bonds! For example, International Paper's tax exempt bonds maturing in 2019 recently yielded 4.5%, while its similarly rated conventional corporate bonds yielded 3.23%.

The Detroit Risk

Detroit's problems are unique: Decades of mismanagement, coupled with continued erosion in the health of the auto industry and a rapidly declining population, pushed it over the brink. It's not representative of America. Indeed, most state and local jurisdictions are seeing an uptick in tax revenues and property values as the recent recession fades.

Further, the argument that the claims of pensioners trump secured creditors is unlikely to prevail nationwide. Borrowing costs would surge, while the public is skeptical of public pensions that trump what's generally available in the private sector.

Unfortunately, we would also not rule out a Detroit bailout. Bailouts happen. The

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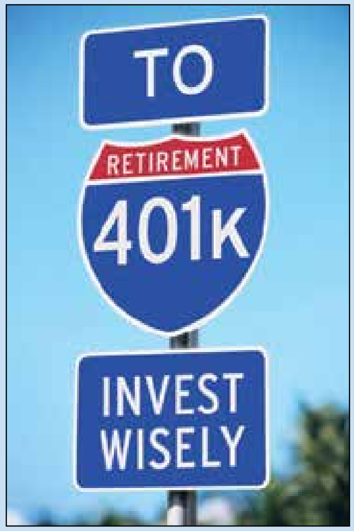
Getting The Best Performance From Your 401(k)

By Donna M. St.Amant, MBA

401(k) plans offer three benefits: Contributions are deducted from your pay pre-tax so they reduce your taxable income; your savings grow tax deferred until retirement; and lastly, some employers offer a company match program. If this is the case, your employer will contribute to your plan by matching your contribution up to a specified percentage. Much of this is common knowledge, yet we often overlook the fundamentals that allow us to get the most out of our 401(k).



Maximizing employer matching: Companies that match contributions are not as common or as generous as in recent years. If your employer does match, this is the most compelling reason to contribute to your company's 401(k) plan. With an employer match, your company deposits a percentage of your contribution into your 401(k) account. Typically, they contribute half of what you contribute, up to a certain limit, say 6%. Hence you will want to select a contribution percentage (of your gross pay) that will allow you to capture the full amount your company is willing to match. The only caveat is that the employer's portion might not fully vest until say, 5 years for example, so be sure to be aware of you company's vesting policy. The money you contribute to the 401(k) is always yours, regardless of how long you have work at the company.

"We often overlook the fundamentals that allow us to get the most out of our 401(k)"

Tax Savings: How much should you contribute? Even if your employer does not match your contribution, you still want to participate to take advantage of the tax savings. Your contributions are deducted from your pre-tax salary and thus reduce your taxable income. Therefore, after ensuring that you've secured your company match, you want to contribute as much as you can to get the maximum allowable tax benefit. The government allows you to contribute up to $17,500 per year ($23,000 if age 50 or older) in 2013. Setting a percentage high enough to reach this amount should be your goal. If you cannot afford to contribute this much, try to contribute 10% of your gross salary. Your age and where you are in your career obviously impacts how much you can afford, but anything is better than nothing, and you should work toward increasing your contribution rate to reach the maximum allowable amount.

"Once you have decided on a contribution percentage, don't leave it at that level forever."

Make adjustments: Once you have decided on a contribution percentage, don't leave it at that level forever. Too many people set a contribution level when they establish the plan and forget about it. Over time as you are able to increase your contribution, remember to do so. When you get a raise, use a portion to increase your 401(k) savings. Especially if you cannot afford to contribute the maximum allowed in your early years of working, try to increase your 401(k) contribution gradually with increases in your income.

Pay attention to the Investment Options: Be sure to take advantage of the investment options available in your plan. Many individuals are not sure what funds to choose and end up in the plan's default investments, which can typically be target date portfolios or money market accounts. A 401(k) plan is a long term investment, therefore you don't want to leave too much money sitting in money market funds earning close to zero percent interest.

"If your employer does match, this is the most compelling reason to contribute to your company's 401(k)plan."

Asset allocation: A first step in selecting investments is to take the time to determine the appropriate allocation between equities, fixed income and cash for your personal financial situation. Do not look at the 401(k) in isolation; it is important to manage it as part of your entire portfolio. Use your personal allocation as a guide and concentrate fixed income investments in your tax deferred accounts and equities in your taxable accounts. Once you have taken

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Donna St. Amant, MBA

Donna St.Amant is a Portfolio Manager at Point View. Ms. St.Amant advises clients on portfolio construction, investment implementation, and management.

Ms. St.Amant has spent over 15 years working in the financial industry and has a strong track record of building extensive client relationships. She has focused much of her career on wealth management, fixed income credit product, and marketing and relationship management. Prior to joining Point View she held senior positions at Prudential, Bank of America Securities, and Merrill Lynch.

Ms. St.Amant received her MBA from Columbia Business School and her Bachelor's degree in Business Administration from Villanova University. She serves as Treasurer of the Summit Junior Fortnightly Club, a local charity organization, and also volunteers for the Summit Educational Foundation, SHIP (Summit Helping Its People) and at her children's schools. She lives with her husband and three boys in Summit, New Jersey.

After The Fall: We're Older; Are We Wiser?

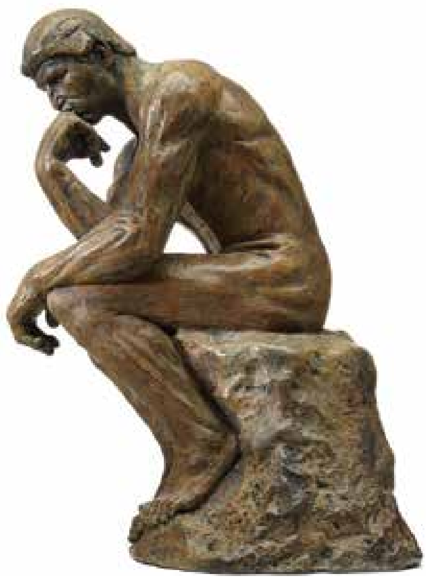
By Claire E. Toth, JD, MLT, CFP™

The financial press is replete with reminders that five years ago, the financial world was ending. Today, with the Dow comfortably above 15,000, it's almost hard to remember: the market was dropping 500 points a day, investors were worried that money market funds would be worth less than 100 cents on the dollar, and the yield on short-term Treasury notes actually went negative. "This time it's different," the pundits told us all. Well, not exactly: as Mark Twain famously put it, "History doesn't repeat itself, but it does rhyme." 2008's downturn—and the subsequent recovery—may have been sharper and faster than in the past, but the lessons coming out of it sound familiar.

"History doesn't repeat itself, but it does rhyme.

Asset Allocation Matters. From the Lehman Brothers bankruptcy to the market low on March 9, 2009, stocks lost more than half their value. Other asset classes did not. In the six-month period ending February 28, 2009, taxable bonds (notably, Treasury securities) rose 2.19 percent, while even cash rose over a percentage point. Thus, although the classic allocation of 60 percent equities, 35 percent fixed income, and five percent cash would not have made you money during the worst of the meltdown, it would have kept you relatively better off—and thus more likely not to panic and bail out altogether.

When setting your own asset allocation, balance what return you need to meet your financial goals with what will keep you from panicking during a large market correction. If you need to keep a large chunk of cash on hand in order to sleep at night, so be it. What's key is that your asset allocation should change only when events in your own life change, not when the market takes a tumble. Having a defined asset allocation can help you focus on the long term, instead of reacting to the latest media report.



Diversify, Diversify, Diversify. It isn't enough just to own a fixed percentage of stocks—or bonds—in your portfolio. Within each asset class, diversify among the various economic sectors. Morningstar has identified eleven different industrial sectors for stocks, and you should own all of them. Despite what you may think, not everything totally collapsed five years ago. In 2008, financial stocks as a group lost more than half their value. Consumer staples (think toothpaste and toilet paper) declined by less than 15 percent. Investors with holdings across the industrial sectors held up much better, and were less likely to panic at the bottom, than those concentrated in financials.

"Your asset allocation should change when events in your own life change, not when the market takes a tumble."

Likewise, bonds didn't move in lockstep, either. Treasury bonds were the stars, while high yield (junk) bonds fell along with the stock market. Municipal bonds and high-quality corporate paper respond to their own pressures as well.

Therefore, across your portfolio, you should diversify among the different sectors of each asset class. No one can predict the future, but a balance between different market sectors spreads your risk. Similarly, when an out-of-favor sector gets hot, you're already invested in it.

Rebalancing Really Works. No one likes to sell a hot stock or buy one that's out of favor, but that's what prevents the boom and bust cycle in your portfolio.

Consider this: in March 2000, just before the tech bubble burst, technology stocks made up 37 percent of the S&P 500. Similarly, in early 2008, financial stocks constituted 23 percent of that index. Merely reducing exposure to these sectors would have saved many investors much heartache.

That's terrifically difficult to do. Behavorial economists identify "recency bias" as the culprit—that's the belief that what has happened in the recent past will continue forward indefinitely. When markets change direction abruptly—as they are wont to do—many investors are caught flat footed.

"Despite what you may think, not everything totally collapsed five years ago."

Routine rebalancing is critically important. Choose some set schedule—quarterly or even monthly—to trim back your biggest gainers and redeploy funds to your laggards. Rebalance between both asset classes and industrial sectors. Rebalancing on a fixed schedule has two advantages. First, it helps take the emotion out of the process. Second, frequent rebalancing reduces the likelihood of having to make a big change, always harder than a small one.

Rebalancing also helps you avoid the herd mentality, where investors rush to buy what's done well lately. Chasing performance results in buying high and selling low—precisely what you don't want to do. Every year, investors pile into the prior year's top performers, only to sell when that performance doesn't repeat itself. Over the past 15 years, the average U.S. stock fund has returned 6.6 percent annualized, while the average investor in those funds made only 4.6

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Tax Moves To Make Now

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in an investment account. Triggering that loss can help offset a capital gain—even from an unrelated investment. Further, if

"You want your AGI to be as low as possible."

capital losses exceed capital gains, $3,000 of the excess can offset other income, with the remainder carried forward indefinitely.

Beware the wash sale rule! If you sell a losing investment, you can't buy it back—even in a different account—for more than 30 days. If you buy it back sooner, you can't take your loss. Instead, the purchase price will be adjusted upwards by the amount of the unusable loss.

That doesn't mean you have to sit on the investment sidelines for more than a month. Instead, buy a different but similar security. Even though wildly disparate pieces of real estate are considered "like kind," the IRS views Coke and Pepsi or Exxon and Chevron as dissimilar investments.

Make Savvy Charitable Gifts. Gifts to charity don't appear on the first page of your tax return; they're over on Schedule A, where they are subject to limits and cut backs. Still, you can give to charity in ways that reduce your AGI.

Those aged 70-1/2 or older can again direct that their required minimum distributions from their IRAs go directly to charity, bypassing their tax returns altogether. No income and no deduction is never worse (and often better) than income plus deduction. This provision is currently in place for this year and next; the maximum that a taxpayer can direct to charity each year is $100,000.

Give appreciated securities to charity, and you can deduct the entire value of the gift—without paying tax on the appreciation. For instance, if you buy stock A for $2,000 and more than a year later give it to your college when it is worth $5,000, you can deduct the entire $5,000, without ever having paid tax on the built-in gain. This holds true even if you are subject to the Alternative Minimum Tax, a fairly recent change. There are some restrictions here—you have to have held the asset more than a year. Gifts of non-financial assets (for instance, art work) have to be related to the charity's mission to take the full deduction. Check with a tax advisor in these more complicated situations.

Move Future Earnings off Your Tax Grid. Making gifts to family members won't reduce your tax bill this year—but it keeps the income those gifts would generate off future tax returns. Over time, that adds up. Even better—there are ways to keep those earnings off of everyone's tax return.

Money in a 529 plan used for qualified higher educational expenses (generally, anything an accredited U.S. college bills you for) is tax-exempt forever. You can even turbo charge your 529 funding by giving five years of annual exclusion gifts at once—that's $70,000 per donor—without having it count towards the $5.25 million you can give away tax free. If the beneficiary for whom the account is established doesn't need all of it for college, you can change the beneficiary and help out another family member.

"You can give to charity in ways that reduce your AGI."

Beyond that, you can pay medical or tuition costs directly to the medical provider or school without having it count as a gift at all. Here, tuition includes payments to private elementary and high schools, as well as to colleges. The only trick here is that the payment must go directly to the medical provider or school. Given the growth in both these areas, generous grandparents can transfer substantial sums without having it count as a gift.

Getting The Best Performance From Your 401(k)

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this important step, you can then determine the best allocation for your 401(k) account and select your investment choices. Keep it simple. Select funds with low expenses and stick with 4-5 funds overall. Each fund itself is well diversified. By holding half a dozen to a dozen funds you are likely duplicating investments and not gaining additional benefits of diversification.

Automatic Rebalancing: This is a nice feature many plans offer that is often overlooked. As the value of your investments fluctuate throughout the month, the percentage you have allocated to equities and fixed income will move off target. By using the auto rebalance feature, your accounts will be reviewed and slight adjustments will be made to the balances to bring them back to your target percentages. Take advantage of this option if offered. This will help to ensure the portfolio stays in line with your investment objectives and meets your asset allocation.

Consolidating Balances: After years of working and perhaps switching companies multiple times, many people find themselves with separate 401(k) plans from their previous employers. It is a good idea to consolidate these balances and roll all 401(k)s from previous employers into a single, combined IRA. This can be done by having the funds sent from the old 401(k) plan directly into your IRA so that you don't incur any tax penalties. Contrary to a common misconception that maintaining 401(k)s at separate institutions helps with diversification, it's more likely that you would find considerable duplication between funds. In addition, it is impossible to monitor multiple 401(k) accounts. In the end, it is likely you are doing more harm than good, and skewing your desired overall allocation by maintaining separate 401(k), with possibly more fees.

In terms of how often you should adjust, remember these funds are long term investments. Do not be overly concerned with day to day movement. Expect balance fluctuation as the market moves. You should however check periodically to make sure your allocation is on target and remains in line with your personal financial objectives.

If you are not contributing to your company's 401(k) plan, open enrollment for these plans occurs once per year and is typically offered in the fall so now is a good time to investigate your options.

After The Fall: We're Older; Are We Wiser?

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percent. Rebalancing helps capture that lost 30 percent of investment return.

Further, buying an index fund does not mean you're balanced. Most index funds, including the S&P 500, are market weighted—as a stock's relative price (and its overall market capitalization) rises, so does its influence on the index. Indices do not rebalance, and that's precisely how the technology and financial bubbles caused excess exposure to these sectors in the indices. In their defense, indices were not developed as investment vehicles. More recently, equal-weighted indices have appeared. These newer indices are explicitly investment vehicles and rebalance within their own parameters. In the past five years, equal-weighted indices have out-performed traditional indices, but they are not a substitute for investors' monitoring of their own portfolios, including developing the appropriate asset allocation in the first instance.

"Rebalancing helps you avoid the herd mentality."

What Has Less Risk, More Yield and No Taxes?...

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implications for all borrowing nationwide might be severe if Detroit's bondholders are stiffed. Politicians could successfully argue that it would be cheaper to make Detroit's creditors whole than for states and municipalities to pay higher rates due to its default.

In sum, Detroit should not cause you to abandon munis.

Buy a Muni Basket

While we don't think Detroit is representative of most issuers, there are other troubled debtors out there. A ruling in Detroit adverse to bondholders may put pressure on similar bonds elsewhere.

"If you do dump bonds, where do you go?"

Diversification is the answer. While Detroit may or may not be too big to fail, there's no dispute that the muni market en masse is too big to fail. Take advantage by simply buying a muni mutual or exchange traded fund containing many different bonds.

Select a fund with longer maturities to garner more income, but only if you are willing to take on greater risk should rates rise. Accept greater credit risk for higher yields, but your fund may have greater exposure to weak jurisdictions like Detroit, and sag if economic conditions deteriorate.

We favor **Fidelity's Spartan Tax Free Bond (FTABX)**, yielding 3.3%, and the exchange traded **iShares National AMT Free Muni Bond (MUB)**, with a 3% yield.

Get it Guaranteed

Many municipals are guaranteed by an insurance company. This eases decision making; instead of having to research the typically murky financial statements of a municipality, you can simply rely upon the credit strength of the insurance company guarantor.

"Bonds are a form of insurance"

Unfortunately, insurance companies don't have the credit strength they used to, pre-mortgage crisis. Further, you don't want too much exposure to any one insurer and there aren't too many of them. On the other hand, you have as a backstop to the insurer the underlying municipality.

Many investors shy away from a tough credit despite the insurance. A Detroit bond, maturing in nine years, is fully insured by AGC so is rated AA- by S&P. But, it yields 5.3%. For a high bracket tax payer that's the same as a 9.4% pre-tax yield. You won't find a 9.4 pre-tax yield with that credit rating.

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