David Dietze's

POINT VIEW

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SECOND QUARTER 2015

Bull Market Celebrates Sixth Birthday: Will it Turn Seven?

By David G. Dietze, JD, CFA, CFP™

"The soaring US Dollar has mixed implications. It makes imports cheaper, especially oil, a boon to consumers. But, it reduces the competitiveness of our exports, including the value of earnings generated overseas."

David Dietze, JD, CFA, CFP
CNBC, March 17, 2015

SPECIAL IN THIS ISSUE

March 9th marked the sixth anniversary of the start of the current bull market. The ride has been nothing short of spectacular; the S&P 500 has more than tripled since the bear market low on March 9, 2009.

While the current bull is riding a wave of positive developments, like low interest rates, cheap energy prices, and an improving economy, there are certainly a number of headwinds.

Upshot

A one year forecast, like any short term forecast, is most difficult.

"The S&P 500 has more than tripled since the bear market low on March 9, 2009"

Despite a wide array of very positive trends, like an improving jobs picture, positive sentiment, low interest rates, and marked down energy prices, market valuations are now a sticking point. Be prepared to weather a correction or worse, and make sure you have a long enough time horizon to see it through to the other side.

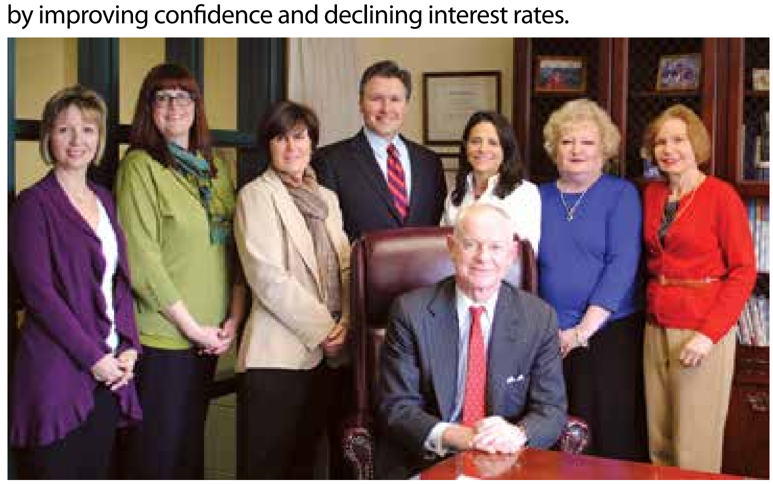
In the meantime, tilt your portfolio toward recent laggards, and lighten up in areas that have become quite speculative.

Corporate Earnings Drives the Bull

Markets are driven by two factors. The first is corporate earnings, the second is the amount investors are willing to pay for them.

Corporate profitability has had a remarkable rebound from the worst recession since the 1930s, doubling since 2009. Earnings per share have grown even faster.

The other factor is the multiple, a/k/a price to earnings ratio, investors are willing to pay for those earnings. That continues to increase, driven by improving confidence and declining interest rates.



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Bull Market Celebrates Sixth Birthday: Will it See Seven?

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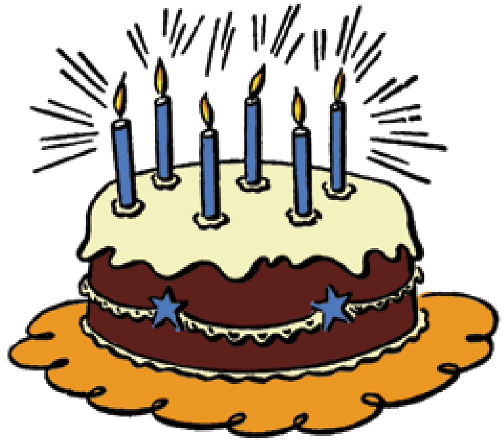
It now sits at over 17 times this year's earnings, the highest since 2004, and over the 14.1x ten year average. The bullish take is that our economy is getting traction, that the only earnings that matter are the next few years', not this year's or last year's; stocks look forward, not backward.



Further, earnings multiples bear a relationship to interest rates. One can analogize bond prices as a multiple of their income payout. With the 10 year Treasury now yielding about 2%, that security is trading at a 50 multiple. Higher fixed income multiples encourage and warrant higher stock price multiples.

Near term trends are calling into question the bull's future. Corporate earnings for 2014's fourth quarter were barely positive, up just 3.3% year over year.

Although P/E multiples are a function of sentiment and interest rates, the interest rate outlook is, well, mixed. Janet Yellen and the Federal Reserve are determined to try to create some normalcy in interest rates now that they've ended "quantitative easing," the buying of bonds by our central bank.

"Corporate profitability has had a remarkable rebound from the worst recession since the 1930s, doubling since 2009"

The pundits forecast a hike in short term rates as early as June. If short term rates rise, money will come out of longer dated bonds like the ten year Treasury, kicking up its yields.

A rise from 2% to 3% on the ten year Treasury will reduce the bond "multiple" from 50 to 33. That has to have a depressing effect on the stock market's multiple.

Additional Headwinds

Sentiment has been positive, creating tremendous momentum for the market. That's now reflected in the above average valuations. Positive sentiment sows the seeds for a negative turn in the market; when everyone's bullish, everyone is fully invested, so additional buying can start to wane.

As the US has emerged more quickly from recession than overseas economies, money has poured into the States, driving up the value of the US Dollar, 22% over the last year. Indeed, the US Dollar has appreciated 13% against the Euro just this year!

"Tilt your portfolio toward recent laggards, and lighten up in areas that have become quite speculative"

As a result, S&P companies will see earnings pressure, as 40% of their business is overseas; Dollar strength makes exports less competitive and depresses the value of overseas revenues.

How to Play It

Don't be pessimistic longer term. Interest rates won't rise forever. Plus, corporations will always find new ways to increase earnings. Make sure you have an adequate time horizon and prepare to stay the course. You won't be able to time exits and reentries.

Tilt your portfolio to areas of the market where multiples are less demanding, sentiment less bullish. That includes overseas stocks, financials, and energy plays. Lighten up on areas that reflect excess optimism, like biotech and social media.

Overseas Stocks

Overseas markets have greater potential than ours. Valuations are lower, fixed income yields lower, and monetary authorities are hell bent on further loosening the money supply, not tightening it as in this country. The European Central Bank plans to buy over $66 billion of bonds monthly into 2016.

"Higher fixed income multiples encourage and warrant higher stock price multiples"

Europe is the poster child. With many bonds at negative interest rates, yet stocks cheaper than Stateside, there's huge incentive to gravitate from fixed income to equities.

Earnings multiples are nearly 20% cheaper, at 15.1 times earnings. Profits margins are still 20 to 30% below their pre-crisis levels.

Europe also benefits mightily from low energy costs. Some analysts believe European stocks have upside of 70% or more.

Financials

Your opportunity here is that valuations are lower and earnings may well rise as rates rise. Banks will be able to earn more as mortgage rates tick up, while insurers will be able to generate more from their float, meaning the proceeds of premiums held until claims payout.

Many financials will be able to earn more just on the money market funds they offer; right now fund providers are subsidizing returns as the portfolios generate less than the cost of their operations. **T. Rowe Price (TROW)** and **Schwab (SCH)** are two examples of brokers/money managers which will benefit from an uptick in rates.

Energy Stocks

With crashing crude oil prices, down some 50% since last June, many energy stocks have no earnings. Here, the bet is that supply dwindles as incentives diminish, while demand increases as the economy improves. As oil and gas prices rebound, so do earnings and stock prices.

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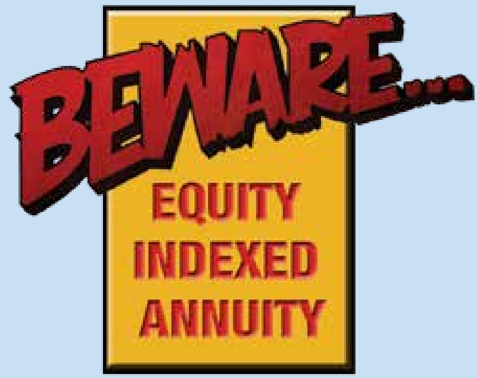
Beware the Equity Indexed Annuity

By Claire E. Toth, JD, MLT, CFP™

A financial product that allows you to participate in the stock market's upside, promises you won't lose money, and gives you income for life—it sounds too good to be true. In most cases, it is. Meet the equity indexed annuity. Many investors who survived the crash of 2008 only to be met with wild stock market gyrations want calm and stability. The equity indexed annuity promises just that—along with



returns based on the stock market. As a result, sales have soared. What's really going on in there?

An equity indexed annuity is an insurance product, not an investment. That matters, because it means equity indexed annuities aren't subject to the same level of reporting and disclosure as mutual funds. Instead, they are regulated by state Insurance commissioners. The result is a lack of transparency, along with no standardization between insurance products. That makes it very difficult to compare apples to apples. As an official with the Financial Industry Regulatory Authority (FINRA) put it, "With equity indexed annuities when you've seen one, you've seen one." There are many common features, but different annuities have different combinations of them:

"An equity indexed annuity is an insurance product, not an investment"

Index Tracking. A person who buys an equity indexed annuity isn't actually investing in a stock market. Instead, the insurance company pays interest based on the performance of a stock market index. Most annuities are linked to the S&P 500, an index of the five hundred largest U.S. companies, as measured by their market capitalization. The S&P 500 is hardly the only index out there, and it excludes large chunks of the world's economy. Further, the majority of equity indexed annuities exclude dividends from their index calculations. Over the past 85 years, dividends have comprised up to 40 percent of the S&P 500's total return. So right off the bat, the annuity will provide less growth than the complete index.

"The majority of equity indexed annuities exclude dividends from their index calculations"

Participation, Caps, and Spreads. These provisions seriously erode any return an annuity purchaser might receive. Again, an equity indexed annuity may have one, two, or all three of these features.

- Participation is the percentage of the index returned to the annuity holder—typically 80 percent. For instance, if the index returned 10 percent, the annuity holder would be limited to an eight
- A cap is the upper limit on a return over a certain time period. Both the upper limit and the time period matter—a shorter time period can seriously limit how much interest the annuity holder actually receives. For example, assume the overall cap on the index return is nine percent but is expressed as a monthly cap of 0.75 percent. If, as is not unusual, the stock market has a great year but the larger returns are clustered in three months, then the annuity holder may receive 2.25 percent (three months of 0.75 percent returns) in a year when the S&P 500 has double-digit returns.
- The spread is a percentage fee deducted from the index's return when calculating the gain the annuity returns. If the annuity company's spread is three percent, that comes off the top, often before calculating the participation and cap.

"Equity indexed annuities come with steep surrender charges"

An equity indexed annuity may provide one potential upside—a first year bonus, based on premiums, added to the contract value. However that bonus, along with any earnings on it, is typically subject to a lengthy vesting schedule. An annuity holder who cashes out before a decade or more has passed may see none of it.

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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.

Time to Take a Bite Out of Apple?

By John J. Petrides, MBA

Apple is arguably the greatest company of all time; with a market capitalization of $740 billion, it is also the largest. The company possesses a cult-like following for its products. Chances are high there is at least one Apple product in your household. It's also likely that if you owned shares of Apple over the past fifteen years, your investment has grown substantially. Because of this, investors must be mindful if Apple has become too large of a position within their investment portfolio. In addition, your total exposure to Apple's stock may be larger than you actually know.

According to Morningstar, **Apple is approximately 4% of the S&P 500 index (SPY), 9.7% of the Nasdaq (QQQ) index, 3.4% of the Russell 3000 index (IWV), 3.7% of the Vanguard Large-Cap Fund (VLACX) and 18.5% of the Technology SPDR Sector ETF (XLK).** Recently it was announced that Apple will enter the DOW Jones Industrial Average. A company's weight in the DOW is a function of the stock price, not the size of the company. So, given that Apple's share price is over $120, it will be approximately 4% of the DOW as well. Whether you own individual shares of Apple, or a large cap mutual fund, or an

"Having exposure to Apple is fine. Understanding the amount of exposure you have is the critical question"

index ETF, most likely you have exposure to Apple in your portfolio. Typically, these funds are owned in an account, or a 401k, to provide diversification. However, most investors fail to open up the hood and investigate the holdings of these funds. When examining a household's overall allocation, exposure to Apple might be larger than what it appears. For example, in addition to your holdings, your spouse may own similar funds in a retirement account that also has a large position in Apple, or its in multiple funds within the variable annuity that you own, or it be represented in several of the mutual funds that make up your child's 529 college savings account. Reducing concentration and overlap within a portfolio is critical to risk management.

John J. Petrides, MBA

However, cynics may respond, **"Yeah but it's Apple. They have the best products, an incredible balance sheet, and Carl Icahn as a shareholder. What could go wrong?"** While all of these points are valid, when you are a company of Apple's size, repeating the past is not easily done. Apple's growth is maintained mostly by IPhone. Most recently, CEO Tim Cook said there are 700 million IPhone users worldwide. Based on the company's

"When you are a company of Apple's size, repeating the past is not easily done"

last quarterly results, IPhone is 60% of Apple's sales. Remember, Apple has experienced periods of product transition through upgrades, rather than introducing new products. For example, with the introduction of IPad in 2010, up until the unfortunate death of Steve Jobs, Apple's stock price could do no wrong. Then, during the second half of 2012, when they failed to introduce a new product category, and merely offered tweaks to the IPhone, Apple's stock dropped nearly 30% to close out the year. In 2013, the stock underperformed the S&P 500 by approximately 18%. Then perception swung again. In 2014, aided by Mr. Icahn's involvement, a plan to return cash to shareholders, and the technological innovation of IPhone 6, the stock finished up 38%. Apple is about to roll out IWatch, and many speculate soon "I-tv", and recently rumors of "I-car" by 2020. Success of these products will be crucial for future growth.

Although it has an incredible balance sheet and superior brand loyalty, Apple is not invincible. When you are as profitable and as large as Apple, you are a target for increased competition and face constant attack. Remember IPod? Once a revolutionary product, it could only be redesigned so many times before consumer interest became saturated; IPod's growth rate has been negative for years. Although volume growth is strong,

"If you do have a large position in Apple, with significant amount of unrealized capital gains, have you developed a plan of what to do with it?"

in their latest quarterly report, IPad pricing was down 5% year-over-year. Recently, the ITunes platform has been under attack from music streaming services such as Spotify and Pandora; Apple recently announced is music streaming service from the acquired company Beats will be priced at $7.99, two dollars below the $9.99 subscription service of its peers. The company also recently announced that they are lowering the price of the new version of the Apple-tv from $100 to $69 to remain competitive against the likes of Roku and Amazon. Finally, odds are the company will issue upgrades to IPhone, rather than roll out a new version for a few years, since they just launched IPhone 6 with Apple-Pay. IPhone is Apple's largest margin product across its portfolio by far. Next year the company will be relying on the IWatch to drive growth off a very difficult comparison this year, with the success of IPhone 6. If the IWatch turns out to be a dud, and the company is slow

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Bonds or Bond Funds

By Donna M. St.Amant, MBA, and Portfolio Manager at Point View Wealth Management, Inc.

What role do bonds play in a portfolio? The answer varies from one investor to the next but for most investors, they diversify and offset equity volatility. In addition, some investors are looking for bonds to provide a steady stream of income.

Bonds, especially high quality ones, generally do not move in sync with equities. During a bear market for stocks, bonds should outperform thus reducing overall portfolio losses. A younger investor with a high allocation to equity is primarily looking for bonds to limit the portfolio downside. In this case, the allocation to bonds would be a smaller portion of the overall holdings. How much exactly depends on the individual's age, appetite for risk, size of the nest egg, and the overall tolerance for volatility. Older investors who are closer to or in retirement might have a larger portion of their holdings in bonds. The main priority here is capital preservation, balanced with some growth. During retirement individuals may also be looking for a predictable source of income. Bond coupon payments can provide this supplement to monthly cash flow.

Bonds do play a vital role in a portfolio, but the amount of fixed income and the particular sector of the bond market is determined by individual goals and circumstances. After deciding on a bond allocation, what is the best way to invest? Do you buy individual bonds or a mutual fund?

"Bonds, especially high quality ones, generally do not move in sync with equities"

There is no right or wrong answer but again it depends on your personal situation. Individual bonds are single securities that pay a fixed interest payment, usually twice a year. As long as the issuer of the bond does not default, principal is paid back on a set maturity date. It is predictable and the exact return is known with certainty. This can be useful for someone with a known expenditure at some point in the future or when building a portfolio of bonds to generate a steady income stream. Bonds work well for investors that have a large enough nest egg to construct a portfolio of bonds across different maturity dates and sectors of the fixed income market. A bond ladder is an effective tool for those with a sizeable nest egg. The risk becomes too concentrated when holding just one or two bonds.

Donna St. Amant, MBA

Treasures are the safest and most straight forward sector of the market; however, investors looking for more yield will have to look to corporate bonds or high yield. These come with added risk but in return pay more in semi-annual income. High yield bonds may be attractive in an improving economy. This is where personal goals come into play. Income focused investors with a very low allocation to equity can stand to take on more risk in the bond portion of the portfolio. By contrast, a portfolio with a high allocation to stocks and a goal of counterbalancing equity risk would not choose the corporate sectors of the market. These bonds increase the corporate exposure already existing in the stock component of the portfolio. Furthermore, the high yield market is highly correlated with equities so it may seem you are diversifying, but the equity risk is not counterbalanced. This goal is better accomplished with treasuries or agency bonds, which are negatively correlated with stocks.

Municipal bonds are another way to reach for a little more yield than treasuries offer. They can offer tax-free income so are a good choice in a taxable account. However, not all municipal bonds are tax-free. These bonds, called taxable-municipals, can be used in tax-sheltered accounts like an IRA, and the yields can be directly compared with other taxable bonds.

Owning individual bonds can be advantageous for tax purposes because the investor has control over the timing of sales. Bond losses can be used to offset gains in other areas of the portfolio. A mutual fund cannot pass through realized losses to the shareholders of the fund. An investor can only use a loss on the sale of the entire fund to offset gains.

Bond funds are similar to open and closed end stock funds. Investor money is pooled together to purchase bonds in one or more sectors of the bond market. Shares of the fund are purchased at a daily NAV price, and a professional manager selects bonds to buy. As with stock funds, benefits include convenience, liquidity, and access to a large diverse mix of bonds with only a small amount of capital. Unlike a bond, you do pay an annual expense ratio for as long as you hold the fund. There are monthly income payments but they fluctuate, and there is typically no contractual date when the fund must pay back your principal. The monthly income payments can help to offset any losses, but the payment stream is not as predictable as it is with an individual bond.

"During retirement individuals may also be looking for a predictable source of income"

Some funds will focus on one sector of the market, say government bonds or corporate bonds. Other funds represent the market as whole. Funds are professionally managed, which can be helpful when looking for exposure to emerging markets or high yield.

Often times it is said that by owning a bond, the holder is

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The Bear Market Security Blanket

By Elaine F. Phipps, MBA, CFA, and Portfolio Manager at Point View Wealth Management, Inc.

We've all been hearing the rumblings: This bull market is in its sixth year; earnings are ahead of themselves; the Fed is about to raise rates and rain on the parade. Headlines shout the various reasons why the bull market's blue sky should begin to fall. Markets are inherently volatile and it is a reasonable expectation that there may be some type of correction in the near future. If the bear market is inevitable, how do you prepare?

"Focus on the long-term and you will usually be rewarded; we have always bounced back from a bear market"

Don't try and anticipate – Research has continually shown that investors who try to time the market invariably come up short. No one has a crystal ball that accurately predicts market tops and bottoms. Usually, investors end up buying into the euphoria of rising markets, adding to holdings at the absolute wrong time. Similarly, after a market plunge few have the courage to put money back in to take advantage of bargain pricing. A cautious balanced approach is best. Select your target equity ratio and add to holdings when they fall below the target, pare back when they exceed.

Don't overreact – All of us who are of a certain age remember the pit in our stomachs when equity markets plunged in 1987. For the younger generations, ditto that feeling in the 2000 dot.com bust and 2008 financial meltdown. The underlying sector-specific market problems were exacerbated when investors panicked and threw the baby out with the bathwater – even healthy companies that didn't carry the specific industry baggage plunged. History and research show the better strategy was to just sit tight. The

Elaine F. Phipps, MBA, CFA

S&P 500 is up over 200% since bottoming out in March 2009.

Remaining un-invested and in cash has risks as well – Sitting on the sidelines in cash while waiting out the bear market may seem like a viable strategy for preserving capital, but is not without risk. While asset preservation is there during the ride down, few will put their money back into stocks at the right time. With cash currently earning close to zero, and almost always underperforming other asset classes (equity, fixed income), the lack of return and the opportunity cost of a missed re-entry point is something investors should consider. In addition, inflation continues to erode cash's real value.

"If the bear market is inevitable, how do you prepare?"

Diversify your portfolio - The best insurance is a portfolio designed to handle the dips in various markets. Asset classes often move in opposite directions of each other. An appropriate mix of stocks and fixed income can cushion the blow. While bonds historically have not generated the returns seen in the equity market, they are also not as volatile and usually provide superior income generation. Often when equity markets sag, the bond market rallies as investors seek quality and safety. This was exemplified by the outperformance of Treasury bonds in 2008. A properly diversified portfolio will help you to ride out the storm. Similarly, within asset classes diversify by industrial sectors. Too much exposure to any one sector, be it technology or financial stocks, magnifies the risk.

Select an asset allocation and rebalance – There are many formulas out there for calculating the optimal stock/bond asset allocation for various life scenarios. However, the magic really is wrapped in an investor's individual needs: what type of return do you expect, how much risk you want to take to get it and how much income does your portfolio need to generate for you? The longer your timeframe and the larger return you want, the more your assets should be shifted to equity. Once you determine and implement that allocation, revisit your portfolio's makeup to be sure the parameters are holding. Many have been burned by letting a bull market cause stocks to take up a larger share of the pie, only to have the bear market tank a disproportionate share of their wealth. When stocks move up, take some off the table and redeploy into bonds and vice versa. Keep balanced. Having a set asset allocation serves as a mechanical prompt to rebalance when market fluctuations drive you away from the target. Rebalancing reduces risk by reducing outperforming and perhaps overvalued names.

"No one has a crystal ball that accurately predicts market tops and bottoms"

Incorporate dividend-paying and undervalued stocks- Dividend plays tend to do best in an uncertain market. When investors get skittish and market returns fall, the onus often rests on dividends to drive total stock returns. Dividends have contributed approximately 34% of the S&P's total return since 1926. In periods of stock declines, such as the 1970s and 2000s, dividends were the only returns investors received. Investors look to these established, larger names with demonstrated earnings generation capability. The dividend payment often serves as an anchor, connecting the payment stream with the underlying fundamentals of the business versus the volatility of the overall market.

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Beware the Equity Indexed Annuity

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As if that isn't enough, many equity indexed annuity contracts give the insurance company the right to change any of these numbers, as frequently as annually. Once the annuity owner has purchased the contract, he has no negotiating power to prevent this.

Downside protection—sort of. Beyond the quasi-stock market participation, equity indexed annuities claim a guaranteed return and no loss of initial investment. Take a close look at that guaranteed return. Typically, the annuity promises to return 87.5 percent of the initial investment, plus interest ranging from one to three percent annually on that 87.5 percent. Thus, if you don't make much on the stock market participation, the interest guarantee won't necessarily make you whole.

"A product that pitches stock market performance returns less than a portfolio made up 90 percent of Treasury notes"

Further, equity indexed annuities come with steep surrender charges. They can begin as high as eleven percent of initial investment, stepping down one or two percent each year before terminating. Cashing out of an annuity with that surrender charge in place can swamp any gains an investor may have managed to eke out. This makes equity indexed annuities very illiquid.

Some annuities offer a guaranteed lifetime withdrawal amount—at a cost. That benefit is usually limited and reduces the annuity's return by another percentage or so annually.

"If there are any gains in an equity indexed annuity, they come out as ordinary income"

Finally, if there are any gains in an equity indexed annuity, they come out as ordinary income. Gains on sales of securities are typically capital, taxed at a lower rate.

Remember that any guarantee on an annuity is only as good as the insurance company issuing the product. There is no federal guarantee behind it, and insurance companies have been known to fail.

Given all of that, it should be no surprise that in 2012, FINRA issued an investor alert, warning to be wary of equity indexed annuities. Although FINRA issues many investor alerts, this is only the sixth one it has issued in the area of insurance and annuities since 2002. That shows how seriously it views this product's structure and consumers' ability to understand it.

What's a cautious, concerned investor to do? Fidelity ran an analysis, comparing a typical equity indexed annuity to an investment portfolio consisting 90 percent of zero-interest Treasury notes and 10 percent of the S&P 500 Index. The 90 percent Treasury note was to match the annuity's income guarantee, and the 10 percent S&P index was to match the index participation. Fidelity ran simulations over 53 different ten year periods and determined that on average, the Treasury note/S&P 500 Index basket had an annualized rate of return of 3.39 percent, while the equity indexed annuity returned only 2.65 percent annually. Think about that for a minute—a product that pitches stock market performance returns less than a portfolio made up 90 percent of Treasury notes. Moreover, those Treasury notes have less credit risk and more liquidity than the equity indexed annuity.

All this demonstrates the benefits of asset allocation in achieving a long-term, sustainable rate of return. You don't need fancy, expensive products to manage risk. Asset allocation, diversification, and disciplined rebalancing—with an eye to managing the tax consequences—will reach that result at far less cost.

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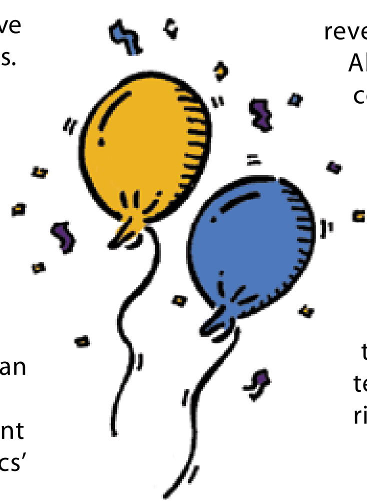
Here again, overseas energy outfits generally have lower valuations, particularly per barrel of reserves. **Royal Dutch (RDSA), BP (BP),** and **Total (TOT)** have operations rivaling **Exxon (XOM)**, but with substantially lower valuations.

Health Care Sector, Specifically Biotechs, Seems Overpriced

Biotech and health care stocks generally have done rings around the general market. It's not just mom and pop investors bidding these up; merger and acquisition activity reflects an overheated sector.

A good example is **Abbvie's (ABBV)** recent bid for **Pharmacyclics (PCYC)**. Pharmacyclics' revenues were just $700 million last year, but Abbvie agreed to pay $21 billion to acquire the company, a whopping 30 times trailing sales. Pharmacyclics' key drug had been acquired for just $6 million in 2008. Pharmacyclics' stock traded for just $1 per share back then; the current buyout reflects a per share price of over $231.



In sum, higher rates and more challenging valuations make it uncertain if the current bull will turn seven. However, longer term investors have plenty of opportunities to ride out any volatility.

The Bear Market Security Blanket. . . . continued from page 6

Find assets that zig when markets zag – Within stocks, commodity based issues (metals, mining, and energy) often move in the opposite directions of the general market. The traditional appeal of commodities is their lack of correlation with other major assets classes such as stocks and bonds. When stocks or bonds fall, commodities often remain stable or move in the opposite direction. Similarly, international markets often move differently than US markets and can provide a stabilizing influence on a portfolio.

Embrace the opportunity – If an investor has a long-term time horizon, a bear market provides a red tag sale of sorts. Good core stocks can be purchased at bargain prices, depressed multiples and with universal pessimism dictating the value. We all like to be value buyers.

"The best insurance is a portfolio designed to handle the dips in various markets"

Focus on the long-term – If your time-frame permits, always take the long-term perspective. Looking back over modern financial history, markets have always bounced back. While the recovery was often dotted with smaller setbacks and took a longer period of time than most investors wanted, the optimism in the world and U.S. financial system has been rewarded.

Bear markets, while not frequent in U.S. financial history, are a necessary corrective mechanism for overheated equity markets. While we should not get overly obsessed with anticipating or predicting the timing of the next "big" one, we can take steps to protect our downside. Allocate your portfolio between stocks and bonds, rebalance when the market moves up or down, and diversify within your equity holdings by sectors and industrial segments. Focus on the long-term and you will usually be rewarded as we have always bounced back from a bear market.

Bonds or Bond Funds. . . . continued from page 5

resistant to fluctuations in market price as long as the bond is held to maturity. While it is true the principal remains intact, depending on the size of the nest egg, an investor may be better off in a fund for the diversification benefits. For example, if a bond within a fund defaults, it is a small percentage of the holdings and the overall investment would be down to a much lesser extent than if a portfolio held only two or three individual bonds and experienced a default. Investors in mutual funds still need to be mindful of exactly what the fund is invested in. For example, investors found themselves unknowingly invested in Puerto Rican bonds within a mutual fund. This is because mutual funds that focus on a particular state will at times add a small allocation to other unrelated high yield type investments as a way to enhance their yield.

Both bonds and bond funds are adversely impacted by a rise in interest rates. Some ways to manage the risk of rising rates is to shorten the maturities, as the longer dated bonds are more sensitive to market rate moves. Construct a bond ladder so that bonds mature each year allowing the investor to buy new bonds at the higher rates. Move into sectors that are less sensitive to interest rates.

In the end no one knows for sure what the next move will be in the market so it is not a good strategy to move in and out of fixed income based on rate predictions. It is best to evaluate your personal goals and preferences, pick a fixed income allocation and stay the course.

Time to Take a Bite Out of Apple?

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to introduce other new products, then the question of, "has Apple lost its mojo?" will return and with it stock price volatility.

Investors must be cautious as to how much concentration and overlap they own across all of their accounts of Apple, (or for any stock for that matter) and reduce risk accordingly. Having exposure to Apple is fine. Understanding the amount of exposure you have is the critical question. Finally, if you do have a large position in Apple, with significant amount of unrealized capital gains, have you developed a plan of what to do with it? Consider gifting. Sell to rebalance in retirement accounts. Explore other possibilities.

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