Ranstrom Financial Planning Services

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Thoughts and Comments

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Though millions of individuals and families continue to be affected by the economic and market collapse of 2008 and it is likely many will for some time, it is also clear that there has been both a stock and bond market recovery since the end of 2008. Enclosed is a year to date Performance Report for 2011. While the Report looks only at the first part of 2011, we do want to emphasize taking a long-term perspective. Too often investors focus on short term fluctuations or volatility, up and down, and neglect to maintain a long-term perspective. In the global markets we have today, with competing interests and the impact of large hedge funds and speculators in most every area of the markets, we suspect volatility will increase and it will be even more important to maintain a long-term perspective.

There are a variety of criteria in developing and maintaining a Portfolio. Some are client-specific which Ryan will discuss below. Others are Portfolio-specific. Two of the most important in our estimation is overall allocation and specific investment selection within each allocation group. As I have mentioned many times, though there are no guarantees for the future, we believe the investment world has changed after 2008 and a well-diversified Portfolio with investments from a variety of asset classes including non-traditional asset classes such as Alternative Strategies provide the best combination of long-term return and reduced risk and volatility.

In the Winter 2011 Thoughts and Comments, Courtney outlined how we categorize an overall allocation into five separate allocation groups. If you would like a copy of this, please let us know. The information is also on our website at www.ranstrom.com. The blending of allocation groups and specific investments within those groups lead to your long-term total return and overall Portfolio risk. Though there are no guarantees for the future, we believe by proper allocation and ongoing reviews, we can reduce the impact of volatility and possibly take advantage of it. If you have questions regarding your allocation or return, be sure to give us a call.

New Staff Member

We have a new full-time staff member, Ashley Breberg. Many of you have talked to her on the phone when you have called or met her when you have been in the office. She started working part-time for us in the fall of 2009 and full-time last summer. Ashley will graduate from MSU-Moorhead in May. She is very talented and we are pleased she will be our newest full-time staff member. She will be assisting Courtney and Stephanie in a variety of areas.

Following are articles from Ryan, Courtney and Morgan.

An Update on the Markets from Morgan – Don't Put All Your Eggs in One Basket

From a global perspective, the first few months of 2011 have been eventful to say the least. The tragedy of the massive earthquake and ensuing nuclear concerns in Japan, the regime changes and ongoing demonstrations in North Africa and the Middle East, and the drastic increase in commodity prices, including food and oil, have led to some concern over future economic growth and the sustainability of the market rally. Thus far, equities seem to have shrugged off any such worries and have resumed their upward march. To be sure, corporate earnings have been solid, but we suspect much of the stock market's rise since August of 2010 has been due to the second round of Quantitative Easing (QEII) the Federal Reserve announced in August and instituted in November 2010.

There is much misinformation and misunderstanding regarding QEII, but essentially the Federal Reserve is buying Treasury bonds for the purpose of lowering economy-wide interest rates (think mortgage rates, car loans, small business loans, etc.) and juicing the economy a bit. We think it also juiced the stock market. This "juice" has been good for recent stock returns, especially in the face of so much international turmoil, but in our opinion, it raises a red flag in terms of valuation and bull market continuity. We will keep QEII and its potential impacts on our radar screen. We suspect it will become a more prominent issue as we near the expiration of the program in June.

What else are we thinking about?

- High oil and food prices and the effect on domestic as well as international consumers.
- Inflation in emerging market countries.
- A slowly healing unemployment situation.
- Interest rate increases if QEII is not extended.
- Corporate profit margin compression due to rising input costs.

Given the current circumstances (and an unknowable and uncertain future) we continue to promote a well-balanced, widely diversified Portfolio allocation for the long-term investor. There is a reason why we have the cultural adage: Don't put all your eggs in one basket. It is good advice!

Planning for College from Courtney

During the recent recession and subsequent recovery, there was much discussion regarding the unemployment rate. Based on Department of Labor statistics, the overall unemployment rate is 8.8%. For individuals with a Bachelor's degree or higher, the unemployment rate is 4.3%. While having a college degree does not guarantee a job and many people have found success without a degree, this statistic does highlight the importance of a college education in our economy. However, a college education can be quite costly. As a general rule of thumb, college tuition rates rise about 1.5 to 2 times the rate of inflation.

Given that the cost of a college education shows no sign of decreasing, it becomes increasingly important to plan for this expense. There are many resources that parents and students can use to finance an education:

- The Federal Student Aid program is often a good starting point for parents and students looking into financial aid. They offer many grants and loans that can help finance a college education. The process generally starts with filling out a Free Application for Federal Student Aid (FAFSA).
- College admissions and financial aid counselors can provide information on scholarships offered by the university.
- Online databases with scholarship information continue to grow in popularity. FinAid (www.finaid.org) can be a great resource for finding scholarships based on a student's profile.
- Section 529 Plans are designed to save for college and offer tax benefits for doing so.
    - ♦ In a Section 529 Plan, the account owner designates a beneficiary for whom the funds will be used. If the beneficiary does not use all of the funds, the account can be transferred to another family member of the beneficiary with no tax or penalty.
    - ♦ While contributions to Section 529 Plans are generally after tax, the account grows tax deferred and any withdrawals (including gains) used for qualified education expenses are not taxed. Some states allow contributions to a qualified Section 529 Plan to be deducted on state taxes.
    - ♦ Section 529 Plans are considered the assets of the account owner and not the student beneficiary, which may result in more favorable treatment when determining financial aid awards. According to the federal financial aid formula, 20% of a student's assets are expected to be used for college expenses, whereas only 6% of parental assets are expected to be used.
    - ♦ Section 529 Plans can offer estate planning benefits. Funding a Section 529 Plan is considered a gift to the beneficiary and is no longer part of the donor's taxable estate.

College offers many tangible and intangible benefits to students. My time in college and graduate school prepared me for a fulfilling career as well as a passion for learning. If you have questions on college planning or financing, please let us know.

Investment Objectives and Long-Term Planning from Ryan

We have a vast range of clients, from those who are young and saving for retirement to those who are already retired and drawing upon their life savings. While at any given point in time each of those clients may be invested in roughly the same portfolio, it is much more likely their differing objectives cause us to construct a much different portfolio.

Generally speaking, a 25-year-old saving for retirement can tolerate more risk in a portfolio then someone already retired. The reason this statement is considered true in most cases is because the future value of the 25-year-old's earnings is much higher than what they are worth on paper (or what they have saved thus far). Therefore, the 25-year-old can take more risk with their portfolio, as a potential short-term reduction in their worth will likely not be material in relation to their total wealth (when considering their future earning power). In addition, anyone saving for retirement should focus more on their personal savings rate than how much they are earning on their savings.

A 65-year-old likely has different objectives than the 25-year-old. They are likely nearing or already in retirement, when (hopefully) their net worth on paper is much greater than their future earning potential. Therefore, their objective should be to invest in a way to preserve as much of what they have saved as possible. Unfortunately, most people are not in the enviable position of totally reducing the risk in their portfolio as they also need to invest in a manner to keep up with inflation. This causes us to invest for our retired clients in a manner that attempts to protect as much of their wealth as possible, while taking the appropriate risk where and when it is warranted.

We enjoy working with both clients that have retirement savings as their primary objective and those that are already in retirement and have much different objectives. If you would like to discuss your investment objectives and long-term plans, please contact us.