

THE JENTNER REPORT

Wealth Management Strategies from Jentner Financial Group

Summer 2010



MUTUAL FUND INVESTORS FAIL AT MARKET TIMING

Investors are a sorry lot when it comes to market timing. They tend to push money into stocks just before the market declines, and take money out of stocks just before the market begins to rise. Academic studies have found similar results in examining the timing of mutual fund investors. A frequently cited study by Lipper, Inc., showed that although the average stock mutual *fund* gained 11.3% per year from 1973 through 2005, the average stock fund *investor* earned just 3.9% a year due to poor timing.

Bet against the crowd

This poor timing by mutual fund investors may be so pronounced that you can make extra money by moving in exactly the opposite direction. A forthcoming study by three Israeli finance professors, to be published in the *Journal of Financial Economics*, looked at the exchanges between bond and stock funds within individual mutual fund families. Their findings suggest that investors on average tend to follow the stock market as it goes up, switching money into stocks near the peak in the market. After the market falls, they begin switching money out of stocks, often just before the market turns around and starts heading up again. An investor who followed these patterns and did the opposite might be able to make more money than by buying and holding stocks, the authors conclude.

Tax and other costs

Yet this notion highlights the other folly in trying to time the market. After paying taxes because of frequent market-timing switches, and after paying transaction fees, investors probably won't do much better than they would just buying and holding a diversified portfolio. Plus, the buy-and-hold strategy guarantees that your money will be in stocks during the typically intense, brief jumps in prices that account for most of the market's long-term gains. Any trading system that relies on cues to get you into and out of stocks at specific times runs the risk of backfiring: magnifying losses while leading to missed long-term opportunities.

The Jentner proactive investment management approach is designed to se-

You can't predict market fluctuations.

cure the best of all worlds. The first step is to develop a risk-appropriate investment allocation; the second step is to invest into that allocation using institutional-asset class funds and select index ETF's (exchange traded funds). Finally, by responding to market fluctuations through periodic portfolio rebalancing we enable our clients to remain fully invested

INSIDE THIS ISSUE

- The President's Word** 2
Market's lost decade is a myth
- REITS Help You Diversify** 3
Real estate made easy
- Take Mentality into Account** 3
Recession, hindsight, financial attitudes
- Don't Neglect Long-Term Care** 4
This may be the time to prepare

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302 N. Cleveland-Massillon Road
Akron, Ohio 44333-9303
330-668-1000 866-Jentner (536-8637)
www.jentner.com
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Continued on page 2

The President's Word

DON'T BELIEVE MYTH OF STOCK MARKET'S "LOST DECADE"



We have been hearing the hype for over a year: the 10-year-period from 2000 through 2009 was a "lost decade" for stock market investors, featuring two large bear markets and a cumulative loss on the Standard & Poor's 500 Index of 9%. It is true that some investors did not have a good experience over the last 10 years. Those who put all of their money into large-capitalization U.S. stocks probably lost money or made very little. Those who invested in the darling growth stocks of 1999 like Enron and Yahoo and AIG may have lost virtually everything they had.

But investors who heeded the lessons of diversification would have found it hard not to make money over the last 10 years, because most major asset classes enjoyed positive results. U.S. small stocks, as measured by the Russell 2000 Index, gained 41% over 10 years. Their overseas counterparts, as measured by the MSCI EAFE Small Cap Index, gained 52%.

Meanwhile, emerging-markets stocks gained anywhere from 154% to 213%, depending on which index you look at. And despite the problems with real estate in the last recession, an index of U.S. real estate investment trusts gained 176% over the decade.

Conservative investors who decided to hold some bonds in their portfolios to smooth out their returns also profited. Five-year U.S. Treasury notes gained 82% over 10 years, and even super-safe one-month Treasury Bills gained 31%. Including bonds in a portfolio over the last decade also kept that portfolio from plunging as far as the stock market during the two bear periods, which saw all classes of stocks decline together for brief periods of time.

Once again, the benefits of broad global diversification into equities and fixed income made sense. With all the uncertainty of our current economic climate, we believe it also makes sense moving into the future.

Bruce A. Jentner, President
Jentner Financial Group

"market timing"

Continued from page 1

throughout market cycles while taking advantage of fluctuations. Our rebalancing approach enables our clients to "sell high and buy low" without attempting market predictions (timing).

New video describes Jentner approach
A 3-minute video highlights the advantages of the Jentner investment management approach. Visit www.jentnerglobalmanagement.com/movie to see this short video clip.

REITS PROVIDE PORTFOLIO DIVERSIFICATION

Investors who own a typical stock and bond portfolio don't have to go too far afield to find a handy diversifier. Shares of real estate investment trusts (REIT) are traded on the major exchanges just like any other stock. REITs offer ownership in commercial real estate, giving shareholders access to a steady income stream from property rents and the potential to participate in capital gains if the real estate becomes more valuable.

Age-old investment

Diversifying by owning both real property and businesses is an age-old concept. The two types of investments sometimes move in parallel, but more often than not their gains and losses are not highly correlated. This makes real estate a good diversifier for someone heavily invested in stocks of operating companies. Until recently, it was hard for the average investor to diversify into real estate because of the significant capital outlays and fixed costs involved in owning and maintaining properties.

The advent of REITS has changed the equation. Now, for the price of 100 shares of stock, an investor can own part of a professionally managed real estate venture and participate in its ups and downs without having to do any physical or managerial work. Hundreds of REITS are traded publicly on the New York and NASDAQ exchanges. They invest in offices, shopping centers, hospitals, hotels, and industrial complexes.

High income

Unlike the stocks of industrial or service companies, REITS are required by law to distribute the majority of their operating income to investors. Thus, their dividends are usually much higher than dividends paid on other common stock. The average returns of REITS have differed from the stock market over the short- and long-term. For instance, the Dow Jones REIT index lost almost 14% per year from 2007 through 2009, compared to a loss of just 5% for stocks. But over the 10 years ending in 2009, while stocks had a slight loss, REITS gained almost 11% per year.

It's all mental

Break the cycle of unproductive attitudes

Life-changing recession affects behavior

Young people who grow up in a recession form lifelong economic and political beliefs, including the belief that success depends more on luck than effort, says the National Bureau of Economic Research. Its study said that those between the ages of 18 and 25 may also come out of the recent recession as greater supporters of government wealth redistribution efforts.

We all may want to redouble our efforts to help our children and grandchildren understand the financial benefits of hard work, living within their means, regular investing into a diversified portfolio, and avoiding excessive debt in order to achieve their own financial independence.

Hindsight bias warps judgment

Long after an event has occurred, we tend to look back and overestimate the accuracy of our foresight, cognitive research has shown. With the later benefit of knowing what happened, we tend to believe we had a more accurate grasp of events. Research shows our minds try to harmonize our recollections with actual outcomes. This bias makes investors more confident in their abilities than they ought to be!

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LONG-TERM CARE COSTS CAN DEVASTATE YOUR FUTURE

Much attention has been paid to lifetime health care costs during the recent debate over the federal health care overhaul plan. The group with the most concerns may be those in or nearing retirement, because health care costs tend to go up with age.

Retirees have to deal with the costs of Medicare premiums, supplemental coverage, out-of-pocket expenses, and potential long-term care costs. How much should a couple have set aside for retirement health care costs by age 65?

Wild card costs

Many experts have tried to quantify this amount for the average retiree. However, the fact is that not all retiree experiences will be alike. Health, of course, is a big factor in costs, but the ultimate wild card is whether one or both members of a couple will need long-term care, says a recent study by the Center for Retirement Research at Boston College.



“The cost of long-term care represents a substantial financial risk for all but the poorest households,” the Center noted. It predicts about a third of individuals turning age 65 in 2010 will need at least three months of nursing care, while 24% of those turning 65 will need more than a year’s care. An unlucky 9% will need five or more years of care. It notes that in 2008, the latest year for which national statistics are available, the average one-year nursing home stay cost \$79,000 for a private room. Employing a home health aide for four hours a day, five days a week would cost about \$22,000, the Center says.

Few alternatives

The Center says the average 65-year-old couple needs about \$197,000 at retirement to handle lifetime health care costs, but that there is a 5% probability that the cost of all care including nursing care will exceed \$570,000. It notes that fewer than 15% of households have total financial assets in excess of that amount at retirement. The best alternative is to consider long-term care insurance—and do it well before age 65, since costs go up dramatically for older buyers.

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“Financial life planning provides better wealth management by asking smarter questions, listening more carefully and applying sound financial and investment strategies to help you achieve personal and objective goals. It is not something different or new; it’s simply planning the right way.”

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