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Best Of Times Often Have Followed Worst Of Times

These have been tough times for strategic long term investors. While it may seem logical to stay the course through the market's inevitable ups and downs—taking advantage of stocks' tendency to deliver strong returns over very long periods—that logic was little comfort during the bear market, when some portfolios lost more than half their value. Wouldn't it have been better to bail out in, say, late 2007, replacing stocks with cash or with bonds, which have outperformed equities during most of this decade?

Of course it would have been better, but myriad problems stand in the way of executing a successful market timing strategy, which calls for getting out of investments before they swoon and getting back in when they're ready to rise. To investigate market timing's feasibility, Donald Bennyhoff and Yan Zilbering at the Vanguard Group recently examined the performance of the Standard & Poor's 500 stock index from 1928 through 2008 and reported their results in a research note, "Market-Timing: A Two-Sided Coin." Looking only at prices—they left aside dividends because of a lack of data on daily total returns before 1980—Bennyhoff and Zilbering found that the index had returned an average of 5% a year during that 81-year stretch. A clairvoyant investor who had managed to be out of the market on just the 20 worst trading days—avoiding an average loss on those dark days of 9.2%—would have gained 7.5% annually. Anyone who had missed the 20 best days, on the other hand, would have gained only 2.6% a year. That amounts to a 50% swing, up or down, in portfolio performance.

No one could ever hope to forecast all of the market's best and worst days. But given that infinitesimally small changes—being out of the market on just 20 of 20,340 trading days during the 81 years the researchers considered—can have a profound impact, it may seem worthwhile to try to identify some of them. What if, for example, you got out of the market after it had a particularly bad day, or got in after a really good one? Wouldn't more of the same be likely to follow?

Often that's not the case, according to Bennyhoff and Zilbering. Frequently the best and worst days happen within shouting distance of one another, and some of the best days have been particularly likely to follow hard on the heels of some of the

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10 Worst Days for S&P 500 Index and Returns for Five and 20 Trading Days Following

Date	Return	Next 5 days	Next 20 days
10/19/1987	-20.5%	1.2%	9.6%
10/29/1929	-16.1%	4.6%	2.5%
5/14/1940	-10.3%	-11.1%	-3.8%
11/6/1929	-9.9%	-14.3%	8.9%
10/15/2008	-9.0%	-1.2%	-6.1%
12/1/2008	-8.9%	11.5%	9.1%
7/20/1933	-8.9%	1.0%	1.8%
9/29/2008	-8.8%	-4.5%	-23.3%
7/21/1933	-8.7%	8.1%	9.6%
10/26/1987	-8.3%	12.3 %	6.7%
Average	-10.9%	0.8%	1.5%

Source: Vanguard

Moderation Is Wise In A Time Of Financial Upheaval

With nerves still frayed over the near-collapse of the world economic order in 2008, it's difficult to be optimistic. But it may be helpful to put the bad news about the American economy in perspective.

According to the World Bank, U.S. gross domestic product in 2008 totaled $14 trillion. That represented nearly a fifth of the world's total output of goods and services, even though we have less than one-twentieth of the world's population. Whatever its current troubles, the U.S. economy remains the world's mightiest. And though much of the financial and economic news has been bleak—with some respected economists suggesting that recent signs of growth could yet be supplanted by a new downturn—stock prices have continued the strong recovery that began during the spring of 2009. Just as the world was caught off guard by the suddenness and scope of the 2008 collapse, the months ahead could surprise to the upside.

Stocks' resurgence could make this an excellent time to reassess your risk profile. If you learned during the meltdown that you can't tolerate as much investment risk as you had thought, please make an appointment so we can consider changes to your portfolio. In general, we continue to counsel moderation and a broadly diversified approach to investments during this time of upheaval.

Colleen & Rob

Social Security Benefit Cuts Are Likely

You've been paying into the Social Security system your entire adult life. At some point, you expect to retire and collect your fair share of benefits. But will the money be there?

Many experts believe Social Security benefits will be reduced or watered down through taxes and other adjustments during the next few decades. Because you may receive less from Social Security, you may need to save more in other retirement accounts.

The Social Security Administration (SSA) says the program's annual costs will exceed its revenues in 2016. And while the SSA projects that the system's trust fund will be able to cover the shortfall through 2037, that's down four years from last year's estimate. And with unemployment still rising—leading to lower tax revenues to fund Social Security benefits—the deficit could worsen, putting pressure on future payments to retirees.

How will Social Security's future play out? The system's financial situation is clearly deteriorating as there are fewer workers to fund retirement benefits for the huge baby boom generation, and there's little appetite for yet another taxpayer-funded bailout of a cash-strapped government program. Yet the likelihood that Congress would actually approve cuts to a program long known as the third rail of American politics also seems low. If benefit reductions come, it may be through the action of a bipartisan commission charged with solving the system's financial woes.

In the meantime, de facto cuts have already begun. An earlier Social Security commission recommended raising the full retirement age from 65, and current rules are gradually increasing the full retirement age to 67 for those born in 1960 or later. You can still choose to begin taking benefits as early as age 62, but you'll receive sharply lower monthly amounts than if you had waited until today's older full retirement age.

Rising Medicare premiums, normally deducted from a recipient's Social Security payments, also serve to undercut cost-of-living benefit increases. Moreover, you're increasingly likely to be taxed on a portion of your Social Security benefits. While only about 30% of current beneficiaries are taxed on benefits, that's projected to rise to 42% by 2020, and high-income retirees may pay tax on up to 85% of benefit payments.

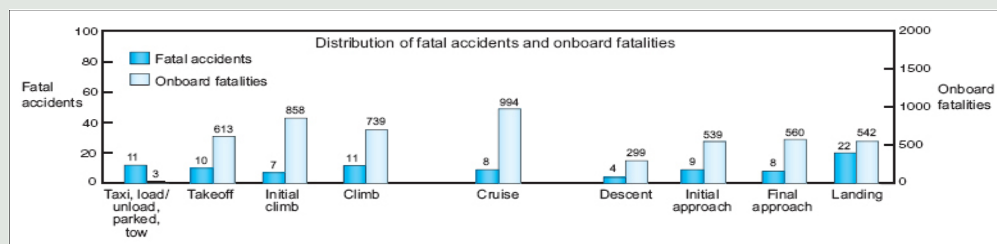
In this volatile environment it is prudent not to rely too heavily on Social Security to provide a large percentage of your retirement income. With the system's future uncertain, your benefits could fall, and even the loss of, say, $1,000 a month could have a negative impact on your retirement plan. We can help you reexamine your retirement income projections, recommend strategies for replacing what you might lose from Social Security, and show you strategies for reducing the amount of taxable Social Security benefits. ●

How You Can Survive A Plane Crash

On Jan. 15, 2009, an airliner crash-landed into the Hudson River and all 155 people aboard survived. Then on Feb. 12, a commuter plane crashed into a house in upstate New York, killing all 49 people on board and one person on the ground.

The January crash was hailed as a miracle, because people assume that virtually all airplane crashes are like the other one, resulting in the death of everyone aboard. Yet statistics show that is very far from true. Not only do most air travelers survive crashes, there are steps you can take to increase your chances of coming out alive.

If you are involved in an aviation accident, you have a 95.7% chance of survival, according to the National Transportation Safety Board. In accidents from 1983 to 2000, a total of 51,207 passengers survived out of 53,487 passengers involved. Even among the most serious crashes, the survival rate was 76.6%, excluding those in which no one had a chance to survive.



"In a crash, many people believe there's nothing you can do to save yourself," writes Ben Sherwood, author of the best-selling *The Survivors Club: The Secrets and Science that Could Save Your Life.* "In truth, however, your life is in your hands. Some experts believe that as many as 30%

Avoiding Abuse Of Powers Of Attorney

A legal document known as a power of attorney can enable a trusted family member, friend, or advisor to make decisions on your behalf, and that can safeguard your interests if you are incapacitated or want to delegate particular responsibilities. But in the wrong hands or with inadequate guidance, a power of attorney may be ripe for abuse. It's important to understand what's at stake and take steps to protect yourself.

In its simplest form, a power of attorney gives another individual the authority to act on your behalf. As the person conferring the power of attorney, you're referred to as the "principal," while the person who is appointed to act for you is called the "agent," or "attorney in fact." Your power of attorney could be broad, giving your agent control over all of your assets. Or you could limit its scope, restricting the agent to a particular task such as selling your home or other real estate.

A durable power of attorney, the most common type, remains in effect indefinitely during your lifetime, even if you're incapacitated, while a non-durable power of attorney is typically used for a specific purpose. A "springing" power of attorney, which is not recognized by all states, can be triggered by a specified future event—an illness or disability, for example.

The main danger in creating a power of attorney is that your agent will abuse—sometimes unintentionally—the authority you've delegated. An agent might exceed his authority, for example, by giving unsanctioned gifts of property. Or the agent could be guilty of intentional "self-dealing"—buying a personal car, say, instead of using funds to pay for the principal's health care. In what may be the subtlest form of abuse, an agent might act within his authority but take an action that undermines the principal's objectives—say, by making a gift that exceeds the annual gift tax exclusion and affects the principal's estate plan.

The consequences of abuse can be devastating. Consider an elderly widow, suffering from Alzheimer's, who enters a nursing home. She has given a power of attorney to a cousin, who has transferred the woman's $100,000 savings to his own account. Whether he thought he was helping her qualify for Medicaid, by reducing her assets, or he just walked away with her money, she would be left unable to pay for her care but also barred from Medicaid, which doesn't recognize "impoverishment" resulting from such transfers.

In some cases, problems may stem from the power of attorney document itself. If the language isn't clear, the agent may inadvertently exceed the intended limits of his responsibility. Other times, a principal may be tricked by an opportunistic relative into relinquishing control or the document could be executed improperly and not be accepted by financial institutions.

How can you enjoy the benefits of a power of attorney without putting your financial well being at risk? These suggestions could help.

1. Get it right from the start. Have the document drafted by an attorney experienced in estate planning, and then discuss the details with everyone who might be affected. If there are questions or objections, the attorney can address them in the final document.

2. Consider limiting the powers in the document to a specific few. While a broad power of attorney may be advisable in some situations, a narrower scope, with detailed explanations of what the agent can and cannot do, could reduce chances of abuse.

3. Use a professional you trust as the agent. There are clear benefits to working with someone who is experienced and is bound by a profession's standard of ethics. Another option is to use co-agents—for example, pairing an adult child with a professional—although this can be burdensome unless responsibilities and procedures are clearly defined. And if the estate is large enough to separate some assets into a trust, a corporate trustee could be best. It's also important to have at least one successor agent in case there's a problem with the primary agent.

4. Require regular reports to a third party. Having your agent provide accounting statements to a third party such as an attorney or a CPA creates a system of checks and balances that could prevent or uncover irregularities.

5. Coordinate the power of attorney with other aspects of your estate plan. Handled properly, a power of attorney can be an essential estate planning tool, and it should be reviewed periodically to make sure it reflects your current wishes. We can work with your lawyer and other advisors to make sure all of your interests are being served. ●

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of the deaths in airplane accidents could have been prevented if people knew what to do and took action."

Sherwood, who attended the plane crash survival course at the Federal Aviation Administration's training center in Oklahoma City, offers the following advice on how to survive a plane crash:

• Be calm. The odds you will die on any single flight are one in 60 million.

• Choose a seat on the aisle within five rows of an exit row. After looking at seating plans and interviewing 2,000 passengers involved in 100 crashes, a British safety expert concluded that this significantly increases your chances of making it out of an airplane that catches fire.

• Listen to the pre-flight safety briefing and develop a plan in the event of an emergency—and have a back-up plan, too. Know how many rows are between your seat and the nearest exit row, and the next closest. That could help you feel your way in case of smoke or darkness.

• During the first three minutes and the last eight minutes of your flight, focus on your emergency plan. About 80% of accidents occur during those times.

Still not convinced? Consider these additional tips, from howstuffworks.com, on how to increase your survival odds:

• Avoid alcohol because it slows your reflexes.

• Wear long pants, long sleeves, and closed-toed shoes to protect your body from flying objects and the elements. ●

Caveat Emptor: Long-Term Care Policies

Most long-term care (LTC) insurance policies today are much better than those offered in previous decades. Still, there remain potential drawbacks, and would-be buyers need to make sure they know what they're getting and that it suits their needs.

Many early LTC policies paid benefits only for "skilled nursing home care" for a limited period of time. Moreover, there were often stringent requirements to qualify for benefits, such as having to spend three days in a hospital before going into a nursing home.

Most states now require LTC policies to provide benefits for all levels of care, and competition among insurers has led to innovations that make LTC insurance a significantly better value. Yet these policies remain complex and expensive, and getting the right mix of benefits means understanding the LTC landscape. Consider these factors:

Range of coverage. Most policies offer benefits for care in a variety of settings, including at home, in an assisted living facility, and adult day care as well as in a nursing home. Payment may vary with the setting, so make sure the specified amounts cover the cost of care in your area. And beware of hospitalization requirements, because only about half of nursing home admissions follow a hospital stay.

Benefit triggers. Usually, LTC benefits are available once the insured needs assistance performing a specified minimum number of activities of daily living (ADLs) —commonly including eating, bathing, dressing, "toileting," continence, and mobility. Better policies kick in when someone requires help with just two or three ADLs. Some policies also begin coverage when there is "cognitive impairment."

Waiting period. Most policies specify a 90-day waiting period between the time need is demonstrated and the beginning of benefit payments. However, it is important to check the policy's definition of a "waiting period," as it could refer to either calendar days or service days.

Premiums. The younger you are when you begin coverage, the lower the premium, which will also be affected by the range of policy benefits you choose, including type of policy (reimbursement, indemnity, or cash); health status; waiting period; and inflation factor chosen (simple, compound, or none).

Inflation protection. The cost of all health care, including long-term care, is rising much faster than the overall cost of living. So it's essential that a policy increase benefits as costs rise—particularly if it could be years or even decades before care is needed.

Desirable policies are guaranteed renewable for life and cover pre-existing medical conditions. Additional riders and options may be worthwhile, but it's important to weigh the costs of extra benefits. We can help you make sense of this complicated insurance market and help you find a suitable policy at a reasonable price. ●

Best Of Times Follow Worst

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worst. In dramatic turnarounds, eight of the 20 best days occurred within 10 trading days of one of the worst 20 days. On October 29, 1929, the S&P sank by 16.1%; the next day, it soared 12.5%. In 2008, a 7.6% loss on October 9 was followed by an 11.6% gain on October 13.

Post-plunge rebounds often last more than a day, with the market frequently recouping, during the next few weeks, a significant fraction of what it has lost. For example, the worst sell-off in the Vanguard study—on October 19, 1987, when the S&P 500 lost 20.5% of its value—was quickly followed by a lot of buying. Within 20 trading days of Black Monday, the market had rebounded by 9.6%. A similar thing happened during the 1929 crash; after that 16.1% free fall on October 29, the S&P stabilized temporarily, regaining 2.5% during the 20 trading days that followed. And in 2008? Twenty days after December 1, when the market fell 8.9%, it had regained 9.1%. Looking at the S&P's performance following all 20 of the worst days, the market regained an average of 2% during the next 20 trading days.

For would-be market timers, those tendencies make a difficult job virtually impossible. While it may be feasible to anticipate broad market shifts and to make tactical adjustments to a portfolio based on certain metrics like price-to-earnings ratios, any attempt to time a wholesale market entrance or exit will probably fail. Few people expected the stock market to surge when it did in the spring of 2009, or to advance as much as it did during the next several months. Investors who had cashed out their portfolios during the market rout almost certainly missed some (if not all) of the rally.

The recent volatility of the S&P 500—from day to day, week to week, and month to month—only reinforces how unlikely it would be for anyone to get in or out at just the right time. Rather than try to time the market, which almost always backfires, most investors would do better to stick with a well-diversified portfolio with regular asset allocation rebalancing to keep volatility in check and increase potential long-term gains. ●

Performance data quoted represents past performance and does not guarantee future results. Indices are unmanaged and do not reflect the payment of fees and other expenses associated with an investment. Investors cannot directly invest in an index.

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