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THE FINANCIAL FORMULA

Giving You The Financial Information You Need

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Spring is here! Enjoy this month's newsletter - please let me know if you have any questions!

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In This Issue

The tone was set early, as a post-holiday surge inspired by upbeat economic news helped kick off 2012 on a high note.

First-Quarter 2012 Market Recap

(For the quarter ended March 30, 2012.)

U.S. stocks posted their best first-quarter returns in more than a decade, propelled by growing investor optimism about the U.S. economy, as well as improving sentiment regarding worldwide growth in general and Europe's debt problems in particular. However, the run-up wasn't limited to U.S. equities: Several markets in Asia and Europe, including those in Germany and Japan, also experienced their best first quarter in years. Among the quarter's high-flying U.S. stocks were Bank of America, up 72%; Apple, up 48%; and JP Morgan Chase, which rose 38% in the first three months of the year. The tone was set early, as a post-holiday surge inspired by upbeat economic news helped kick off 2012 on a high note. U.S. nonfarm payrolls increased by 200,000 and unemployment dropped to 8.5% in January, while news of higher factory orders and auto sales also helped bolster investors' confidence in the U.S. economy. Unemployment then fell again in February, and Greece's parliament approved strict financial reforms needed to obtain international bailout funds, further boosting equity prices. By mid-March, the S&P 500 was above 1400 for the first time since 2008, where it stayed for most of the rest of the month.

Through 3/30/12*	Quarter	1-Year	3-Year	5-Year	Closing Value
S&P 500	12.0%	6.2%	20.9%	-0.2%	1408.47
Dow Jones Industrials	8.1%	7.2%	20.2%	1.4%	13,212.04
Nasdaq Composites	18.6%	11.2%	26.5%	5.0%	3091.57

Source: Standard & Poor's. The S&P 500, Dow Jones Industrials, and Nasdaq Composite are unmanaged indexes. It is not possible to invest directly in an index. Past performance is no guarantee of future results.

**Price only. Does not include dividends.*

Fed outlook The March 13 FOMC meeting statement said that although "significant downside risks" remain, "strains in global financial markets have eased," slightly improving the Fed's economic outlook.

Fixed income U.S. Treasuries suffered their worst quarter since 2010 as investors moved out of safer assets and back to stocks, according to *The Wall Street Journal.* The 10-year Treasury yield rose during the quarter to 2.21% from 1.88% at the end of December. Treasury yields have an inverse relationship to price.
Commodity prices Oil prices rose to $103.26/barrel on Friday, March 30, up from $99/barrel, at the beginning of January. Gold prices rose modestly -- moving to $1,666/ounce, from $1,534/ounce at the end of 2011 -- boosted by weakness in the dollar and by expectations that U.S. interest rates will remain low for an extended period of time.

Consider underweighting stocks with a significant revenue base in economically troubled European countries.

Are Recent Stock Market Advances Sustainable?

The S&P 500 Index closed at 1402 on March 15, 2012, the first time the index closed above 1400 since June 5, 2008.[1] The latest upward progression began in October 2011 when the debt crisis in Europe showed signs of receding and economic reports in the United States began displaying a more positive outlook. Between October 3, 2011, and March 23, 2012, the S&P 500 gained 27%, and U.S. investors have been riding a wave of mostly good news.

- Economic activity in the manufacturing sector, including new orders and production, expanded in February 2012 for the 31st consecutive month.[2]
- Real gross domestic product, a gauge of economic growth, accelerated 3.0% during the fourth quarter of 2011, compared with 1.8% during the third quarter of the year.[3]
- Although the unemployment rate remained high at 8.3% for February 2012, the rate declined from 9.0% in February 2011, creating optimism that the worst period of high unemployment may be over.

The question on the minds of many investors is: Will this momentum last, or is another crisis waiting in the wings? Risks remain, both within the United States as well as abroad. The European sovereign debt crisis appears to have stabilized, at least temporarily, thanks in part to the recent agreement among Greek private debt holders to accept a proposed restructuring of Greek sovereign bonds. If Europe is plunged into another crisis, Standard & Poor's believes the fallout would affect U.S. business spending and equity prices.[4]

Domestically, the recent escalation in oil prices has the potential to curtail consumer spending, especially if prices rise further. Standard & Poor's estimated that each $10 increase in the price of a barrel of oil subtracts 20 basis points (.20%) from growth in gross domestic product in each of the subsequent two years following the price hike, assuming the cost remains elevated.[4]

What Investors Can Do

Given questions that remain about the long-term health of the global economy, investors may want to consider the following:

- **Consider overweighting equity holdings to U.S. stocks and emerging markets.**[5] This strategy could potentially avoid problems related to the euro zone. When analyzing potential holdings, review a company's revenue sources to avoid significant exposure to Greece, Portugal, Italy, and other crisis-prone countries. In the United States, recent strong returns may create a scenario where the potential for future short-term gains is likely to be more muted.
- **Keep bond holdings short term.**[6] Federal Reserve Chairman Ben Bernanke has stated that the Fed will continue to keep the federal funds rate low in an attempt to stimulate economic growth. But interest rates are likely to go up sometime, and when they do, bond prices are likely to fall. Consider keeping the majority of your bond holdings short term so that if interest rates increase unexpectedly, you will not be locked into long-term holdings that decline in value.

Investing in both stocks and bonds always involves risks, but avoiding securities associated with the euro zone and keeping bond holdings short term may help you avoid economic problems either in the United States or abroad.

[1]*Source: Standard & Poor's. Investing in stocks involves risks, including loss of principal.*

[2]*Source: Institute for Supply Management (ISM), Manufacturing ISM Report on Business®, March 1, 2012.*

[3]Source: U.S. Bureau of Economic Analysis, February 29, 2012.

[4]Source: Standard & Poor's, *U.S. Economic Forecast Monthly Summary*, March 2012.

[5]Emerging markets are generally more volatile than the markets of more developed foreign nations, and therefore, you should consider this increased market risk carefully before investing. Investors in international securities may be subject to higher taxation and higher currency risk, as well as less liquidity, compared with investors in domestic securities.

[6]Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and are subject to availability and change in price.

Job Concerns Keep Retirement Confidence Low

There appears to be a relationship between level of debt and consumer confidence in being financially prepared for retirement.

Concerns about job security and household debt are keeping the retirement confidence of U.S. workers at the lowest levels seen in more than two decades, according to a new report from the Employee Benefit Research Institute (EBRI).

EBRI's 2012 *Retirement Confidence Survey* (RCS) revealed that most workers remain unprepared for a financially secure retirement, and that half of today's retirees left the workforce earlier than planned. Findings of the twenty-second annual survey, which highlight America's widespread retirement planning predicament, include the following:

Historically Low Confidence

Only 14% of survey respondents expressed confidence in having enough money for a comfortable retirement, compared with 27% that expressed that level of optimism in 2007. While the current number is higher than the 13% recorded in 2009 and 2001, EBRI notes it is statistically equivalent to those record lows. In addition, only 19% of workers are now very confident that they are doing a good job of planning for retirement. The same percentage indicated they are "not at all confident."

A Lack of Goal Setting

Despite the importance of retirement planning for nearly everyone, working Americans generally have no idea how much money they will need to set aside for the future. More than half (56%) indicated that neither they nor their spouse had calculated how much they would need to live comfortably during retirement.

Debt Woes

Workers' assessment of their current level of debt is essentially unchanged from last year, but the RCS makes clear that debt remains a major obstacle to retirement security. There is a clear correlation between level of debt and retirement confidence:

- Only 4% of workers with a major debt problem are very confident of their retirement outlook, versus 23% with no debt problem.
- Those with a major debt problem were three times more likely than those without one to say they are not all confident about retirement (45% versus 14%).

Unexpected Early Retirements

Americans who expect to bridge a retirement savings gap by staying in the workforce longer may not be able to do so. According to the *RCS*, 50% of current retirees stopped working earlier than they had anticipated due to circumstances beyond their control, such as health problems, downsizing, and the need to provide care to another person.

What are the takeaways from this annual measurement of where Americans stand on the road to retirement? Calculating a retirement savings goal, paying off debt, and creating a "Plan B" in the event of a forced early retirement may be strategies worth pursuing.