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THE FINANCIAL FORMULA - OCT. '12 EDITION

Giving You The Financial Information You Need

November 2012

Hello everyone! Our hearts go out to all of those affected along the East Coast by Superstorm Sandy. Please let me know if you have any questions - enjoy the newsletter!

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Ten Investment Mistakes to Avoid

There are many ways to lose money. Here's a look at 10 proven ways to manage your stock portfolio into the ground in no time.

Four Common Mistakes of Asset Allocation

Allocating and managing portfolios successfully in today's marketplace is difficult. There are many pitfalls along the way to complicate matters. As a result, investors and financial professionals need to be aware of the common mistakes that can be made when employing asset allocation so that they can avoid them.

Should You Switch to a Shorter-Term Mortgage?

A growing number of homeowners are switching to shorter-term mortgages. Rates on 15-year mortgages are at all-time lows, and the differential between 15-year rates and 30-year rates is greater than ever.

Ten Investment Mistakes to Avoid

Who needs a pyramid scheme or a crooked money manager when you can lose money in the stock market all by yourself. If you want to help curb your loss potential, avoid these 10 strategies.

The temptation to sell is always highest when the market drops the furthest.

1. **Go with the herd.** If everyone else is buying it, it must be good, right? Wrong. Investors tend to do what everyone else is doing and are overly optimistic when the market goes up and overly pessimistic when the market goes down. For instance, in 2008, the largest monthly outflow of U.S. domestic equity funds occurred after the market had fallen over 25% from its peak. And in 2011, the only time net inflows were recorded was before the market slid over 10%.[1]

2. **Put all of your bets on one high-flying stock.** If only you had invested all your money in Apple 10 years ago, you'd be a millionaire today. Perhaps, but what if, instead, you had invested in Enron, Conseco, CIT, WorldCom, Washington Mutual, or Lehman Brothers? All were high flyers at one point, yet all have since filed for bankruptcy, making them perfect candidates for the downwardly mobile investor.

3. **Buy when the market is up.** If the market is on a tear, how can you lose? Just ask the hordes of investors who flocked to stocks in 1999 and early 2000 -- and then lost their shirts in the ensuing bear market.

4. **Sell when the market is down.** The temptation to sell is always highest when the market drops the furthest. And it's what many inexperienced investors tend to do, locking in losses and precluding future recoveries.

5. **Stay on the sidelines until markets calm down.** Since markets almost never "calm down," this is the perfect rationale to never get in. In today's world, that means settling for a miniscule return that may not even keep pace with inflation.

6. **Buy on tips from friends.** Who needs professional advice when your new buddy from the gym can give you some great tips? If his stock suggestions are as good as his abs workout tips, you can't go wrong.

7. **Rely on the pundits for advice.** With all the experts out there crowding the airwaves with their recommendations, why not take their advice? But which advice should you follow? Cramer may say buy, while Buffett says sell. And remember that what pundits sell best is themselves.

8. **Go with your gut.** Fundamental research may be OK for the pros, but it's much easier to buy or sell based on what your gut tells you. Had problems with your laptop lately? Maybe you should sell that IBM stock. When it comes to hunches, irrationality rules.

9. **React frequently to market volatility.** Responding to the market's daily ups and downs is a surefire way to lock in losses. Even professional traders have a poor track record of guessing the market's bigger shifts, let alone daily fluctuations.

10. **Set it and forget it.** Ignoring your portfolio until you're ready to cash it in gives it the perfect opportunity to go completely out of balance, with past winners dominating. It also makes for a major misalignment of original investing goals and shifting life-stage priorities.

[1]*Sources: ICI; Standard & Poor's. The stock market is represented by the S&P 500, an unmanaged index considered representative of large-cap U.S. stocks. These hypothetical examples are for illustrative purposes only, and are not intended as investment advice.*

Four Common Mistakes of Asset Allocation

Regardless of your risk tolerance, you should want to earn a return that outpaces inflation and taxes over time.

Smart people make dumb mistakes all the time. Allocating and managing portfolios successfully in today's marketplace is difficult. There are many pitfalls along the way to complicate matters. When investors and portfolio managers fail to avoid mistakes, they place portfolios at risk. At stake are not only the growth and safety of investors' portfolios but also their future financial independence, control, and security. As a result, investors and financial professionals need to be aware of the common mistakes that can be made when employing asset allocation so that they can avoid them.[1]

Mistake 1: Excluding Desirable Asset Classes

Research studies have concluded that *how* you allocate a portfolio, rather than *which* investments you select or *when* you buy or sell them, is the leading determinant of investment performance over time. As a result, make every effort to allocate a portfolio among all appropriate asset classes. Each asset class and asset subclass provides return-enhancing and risk-reducing benefits. By not incorporating appropriate classes, a portfolio may not exhibit the desired risk-and-return trade-off profile.

Regardless of your risk tolerance, you should want to earn a return that outpaces inflation and taxes over time. Some investors shy away from moderately risky assets, such as large-cap equities, fearing the market's ups and downs will hinder long-term performance. By doing so, investors may find it very difficult, if not impossible, to fund the style of living they desire in retirement. Even conservative investors with a long-term time horizon are highly encouraged to consider a small allocation to equities for their portfolio, thus increasing the odds that its performance will outpace that of inflation and taxes.

Mistake 2: Confusing Asset Allocation With Diversification

Many investors confuse asset allocation with diversification. They believe the two are the same thing. For many investors, this confusion is not their mistake. Many money management companies, financial authors, and investment professionals explain it this way because some of them do not fully understand the difference. This confusion is one of the leading misconceptions of asset allocation.

Diversification impacts only the management of risk, specifically the reduction of investment-specific risk. On the other hand, asset allocation not only maximizes risk-adjusted return but also reduces risk by combining asset classes that have less than perfect correlations. Asset allocation addresses both the numerator and denominator of the risk and return trade-off equation, while diversification deals only with the numerator: risk management.

Mistake 3: Overestimating the Level of Diversification

Diversification is the key to reducing risk, namely investment-specific risk. There are two ways to overestimate the level of diversification. First, one may believe that the quantity of securities currently in a portfolio is sufficient to create a diversified portfolio when, in fact, it is not.

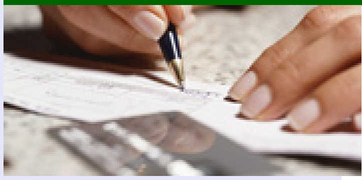
Second, but much less important, although a portfolio may hold an appropriate quantity of securities, the majority of the securities may be too similar to provide significant diversification benefits. For example, the stocks of General Motors and Ford will provide some diversification benefits, but due to their inherent industry similarities, holding both in a portfolio will not provide a significant level of diversification. Diversifying across fundamentally different sectors or industries is therefore recommended.

Mistake 4: Paying Excessive Portfolio Expenses

If you don't keep it, did you really make it? Over time, the compounding effect of portfolio management expenses can be quite large and surprising, thus depriving a portfolio of returns. Even small annual expenses can add up to significant expenses over the long term. Obviously, it is more or less impossible not to pay some sort of portfolio-related expenses. Nevertheless, you should focus on minimizing portfolio management expenses, namely trading costs, both commissions and bid-ask spreads, and investment advisory fees.

[1]*Asset allocation does not ensure a profit or protect against a loss.*

Excerpted from Understanding Asset Allocation by Scott Frush. Copyright © 2007 by The McGraw-Hill Companies.



Perhaps most alluring for consumers is the prospect of paying off their mortgage sooner -- and saving thousands in interest payments in the process.

Should You Switch to a Shorter-Term Mortgage?

It wasn't that long ago that a 15-year mortgage was considered a fringe product, suitable for a relatively small number of buyers and homeowners looking to refinance. But no longer. In fact, according to Freddie Mac, almost one-third of all mortgages refinanced during the first quarter of 2012 replaced their 30-year mortgage with a shorter term loan.[1]

The trend toward shorter mortgage terms stems from several factors.

- **Debt reduction.** Many households are looking for ways to reduce their debt, especially in light of the drop in house prices, which has left nearly one-quarter of American homeowners under water with their mortgages.[2]
- **Low rates.** Rates on 15-year mortgages are at all-time lows, and the differential between 15-year rates and 30-year rates is greater than ever. According to Freddie Mac, the average rate for a 15-year mortgage, as of August 23, 2012, was 2.89%, compared with 3.66% for the average 30-year mortgage. That's a 77-basis-point difference. Historically, this spread has been much smaller, averaging 48 basis points for the 20 years ended December 31, 2011, and as low as 31 basis points as recently as 2007.[3]
- **Earlier payoffs.** Perhaps most alluring for consumers is the prospect of paying off their mortgage sooner -- and saving thousands in interest payments in the process. For example, on a 30-year, $100,000 mortgage at 4%, you would pay $71,870 in interest over the life of the loan, while a 15-year mortgage of the same amount and rate would cost you only $33,144 in interest -- a savings of more than $38,000.

The downside to 15-year mortgages, however, is that your monthly payment can be significantly higher because of the additional principal you are paying each month -- averaging twice what you would pay on a conventional 30-year mortgage. For many, the extra payment is simply not doable. But for those who can afford it, the long-term savings are significant.

Whether you go with a 15- or 30-year mortgage, remember to factor in points and closing costs. Also consider how long you expect to own the property. Your bank or mortgage representative can work with you to weigh different mortgage options and help you decide whether a 15-year mortgage is right for your situation.

[1]*Source: Freddie Mac, July 2012.*

[2]Source: CoreLogic, as of the first quarter of 2012.

[3]Source: Freddie Mac, *Primary Mortgage Market Survey*, August 23, 2012.