4205 Springhurst Blvd.
Suite 102
Louisville, KY 40241
502-690-3434 • Fax: 502-690-3437
855-741-8747 (Toll Free)
www.InvestmentAnswers.net

R. Travis Terlau, CFP®
Investment Advisor
Representative

financial $UCCESS

WINTER 2013

Defensive Investing

With the U.S. stock markets fluctuating and the near-term outlook for the global economy shaky, it may be time for investors to start thinking about playing defense.

If you're concerned that the risks of a correction (an index decline of 10% to 20%) or a bear market (a decline of 20% or more) are higher now than even a few months ago, you might want to consider the following defensive tactics:

Harvest your profits. If you have a few stocks that have made handsome gains over the past few years, it may be time to trim back on those positions and lock in some of the gains. The idea here is that you don't abandon the stocks, but reduce your position.

Move out of riskier stocks. Small-cap and aggressive growth stocks are often the leaders in bull markets but tend to lose more in bear markets. You could realize some capital losses to shelter you from taxes on your gains.

Reduce your allocation to stocks. The idea is to avoid any big hit from a market downturn by temporarily reducing your stock exposure. The downside to this, however, is the risk that either the market won't go down, or if it does, you'll miss a large portion of the next recovery. On the other hand, if you're closer to retirement and want to reduce the risk of your portfolio for the long term, the move might coincide with a portfolio restructuring.

Rotate into defensive stocks. For some investors, the way to

Continued on page 2

What Mortgage Term Should You Select?

How do you go about deciding which is the best term for you? There are three basic factors you should consider:

- Since each term will have a different interest rate, you should review the rates for different mortgage terms. In general, shorter mortgage terms will have lower interest rates.
- Also consider the monthly mortgage payment, which will depend on your down payment, mortgage term, and interest rate. Longer mortgage terms have lower mortgage payments. Keep in mind, however, that your equity will build slower with longer-term mortgages.
- Your final consideration should be your financial plans. You want to select a mortgage term with a comfortable mortgage payment that will ensure you have money left over to save for other financial goals.

One option that gives you flexibility is to select a longer mortgage term, such as 30 years, and send additional principal in with your regular mortgage payment when you have the funds. Doing so can significantly decrease the term and amount of interest paid. Please call if you'd like to discuss your options in more detail. ❍❍❍

FR2012-0717-0002

Defensive Investing

Continued from page 1

become more immune to stock market downturns isn't to reduce the amount of money they have invested in stocks, but to change to different kinds of stocks. That means considering "defensive" stocks — those whose prices tend to hold up better than the average stock when the market turns down.

Two of the nine economic sectors defined by Standard & Poor's are "defensive," which is to say their prices tend not to move in lock-step with cyclical business and stock market trends. They are consumer staples and utilities.

Consumer staples include food and beverages, tobacco, and household and personal care goods. Utilities include companies that sell electricity, gas, and water. But take note: these stocks aren't immune to downturns — rather, as a group, they tend not to go down as much as the average stock. But these stocks also tend to be laggards in bull markets.

Making changes in your stock portfolio isn't something you should do on impulse. You have a greater chance of getting optimal results by carefully designing a portfolio strategy and then sticking with it, unless and until your circumstances change.

But if you feel your stock portfolio isn't properly positioned for your risk profile and goals, a shift toward a defensive posture may make sense. Please call for a thorough portfolio review. ❍❍❍

The Case for Dividend-Paying Stocks

The lure of stocks — the potential for higher returns than from bonds — comes with a downside: the potential for large losses. But what if you're risk averse and still want the kind of long-term growth that stocks can deliver? You might want to consider dividend-paying stocks.

However, you need to realize that dividend-paying stocks are no guarantee against losses. Acknowledging that past performance is no guarantee of future performance, let's review the case for dividend-paying stocks.

Dividend-paying stocks outperform other stocks. A study published by Ned Davis Research last year found that dividend-paying stocks outperform nondividend-paying stocks in both bull and bear markets. The study focused on stocks in the S&P 500 index of large-cap stocks from 1972 through 2010. In bull markets, the dividend-paying stocks returned an average of 20.6% a year, compared to 17.2% for stocks that don't pay dividends, an advantage of more than 3%. The advantage widened in bear markets, with dividend-paying stocks losing an average 13.5% per year, while stocks that don't pay dividends lost 26.0%. (*Returns are presented for illustrative purposes only and are not intended to project the performance of a specific investment vehicle.)*

Dividends are a sign of financial health. A company's ability to

pay steady and increasing dividends over time provides strong evidence of its financial stability and well-being. It's why companies hate cutting their dividends.

Dividends can be a significant source of total return. Dividend-paying securities offer the potential for both growth and income. Over the past 10 years, the average Dow Jones Industrial Average stock has seen its price rise by 42%. Adding in the effect of dividends, the average total return is 83% (Source: dailyfinance.com, 2012).

Dividend yields can be higher than bond yields. It doesn't happen often, but currently the yields on some high-quality dividend-paying stocks are higher than some Treasury bonds. In May of this year, yields on 30-year Treasuries ranged between 2.67% and 3.16% (Source: U.S. Treasury, 2012). That's lower than the dividend yield for 12 of the Dow's 30 stocks, which as of May 30, 2012, ranged from 3.18% for Kraft Foods to 5.26% for AT&T.

Stock dividends provide cash flow without selling. Like bonds, dividend-paying stocks throw off an income stream that doesn't involve a sale. That means you can draw an income in retirement without reducing the number of shares you own.

Stock dividends have grown faster than the rate of inflation. The income stream on a bond generally never increases. But since 1961, stocks listed on the S&P 500 that pay dividends have increased those payouts faster than the rate of inflation.

Dividend-paying stocks aren't all things to all investors, but they can play an important role in a balanced portfolio. Please call if you'd like to discuss this in more detail. ❍❍❍

Paying Off Debt Isn't Saving

Save your money or pay off debt? It probably comes as no surprise to hear that it depends. But one thing is certain: paying off debt is *not* the same as saving. Here's why.

The rational objective for all sound financial planning is to increase your net worth, which is the true measure of your financial health. Calculating your net worth is simple: total up the value of everything you own, and subtract from that all of your debt.

When you pay off debt, it feels good. In fact, it almost always improves one aspect of your financial well-being: it lowers your monthly bills, which means you can either spend or save more. But if you look carefully at the formula for net worth, it's clear that paying off debt doesn't immediately increase your net worth, because it reduces your assets by as much as it reduces your debt. So, by itself, paying off debt doesn't do anything to advance your goal of building your wealth. It only helps if you save the amount you no longer have to send to your creditor.

Paying off debt can also make your financial situation more precarious. For example, if you deplete your savings, you may be in a worse position to cover your expenses in the event of an emergency. In fact, it's one of the principles of good planning to maintain an emergency savings account equal in value to your living expenses for three to six months. So unless you already have enough tucked away in your emergency fund, you should think twice about using any free cash to pay off a debt. And if you have a spouse and dependent children, maintaining a life insurance policy sufficient to meet their needs should also be a higher priority than paying off debt.

But let's say that you have both of these objectives covered. Does it make sense to be aggressive in paying off your debts? It can. It generally (but not always) comes down to comparing the potential return on your investing choices to the *effective* interest rates you're being charged on your loan.

Compare interest rates. If you're paying a higher rate of interest on a debt than you could earn on an investment, it makes sense to pay off that debt as quickly as you can. Such is typically the case with credit cards, where it's rare that they charge less than double digits. Making only the minimum required payment is generally a bad idea, because interest and fees can grow faster than you pay down the principal. At the very least, you should try to pay more than the minimum — even if you're not trying to be aggressive in paying down the balance.

If you have money left over at the end of the month, you should consider both trying to save and paying down your debt at the same time. This is especially true when it comes to tax-advantaged savings plans, like individual retirement accounts (IRAs) and 401(k) plans. Contributions to these are often made on a pretax basis, which adds to the effective total return you receive. If your employer matches your contributions, you should do all you can to contribute up to the maximum match before taking an aggressive stance toward reducing your debt load.

Don't forget the power of compounding. The biggest reason to save *and* pay down debt at the same time is that saving even relatively small amounts puts time on your side by harnessing the power of compounding. When you reinvest your returns — whether it's interest, dividends, or capital gains — your money makes more money, and you can reach your long-term goals faster.

Be careful about paying off mortgages. Owning a home free of mortgage debt remains a fond dream that influences the decisions that many Americans make. It explains why 15-year mortgages seem more appealing to some than 30-year mortgages: not only are the interest rates for 15-year mortgages generally lower, but it takes less time to pay them off, and the accumulated interest you pay is much less.

But it's not necessarily a smart idea to take out a 15-year mortgage because the required monthly payments are generally 20% to 30% higher than the payment on the same principal amount for a 30-year loan. That means that you have less cash flow to devote to saving in a retirement plan; and if you lose your income for an extended period of time, it's harder to keep up with the payments.

On top of that, mortgage interest is generally tax deductible. Finally, the interest rates on mortgages are among the lowest consumers face. All of this means that paying off a mortgage more aggressively is one of the last things you should consider.

In summary, paying off debt has its advantages, but whether it's the right thing for you depends on your broader financial picture, what kinds of debts you have, what interest rates they carry, and what your saving opportunities are. Please call if you'd like to discuss this in more detail. ❍❍❍

Sweet Potato Polenta

(Serves 8-12)

This recipe is dear to my heart because we love to support local businesses and Edward Lee, of 610 Magnolia, is a local celebrity chef. Our office went to 610 for our Christmas party in December. Hands down our best meal of 2012.

I found this recipe in the *Courier Journal* in 2008 and have made it one of my own. It incorporates one of my favorite games of food — how to sneak in vitamins, nutrients, and fiber — without noticing. I recommend it with a grilled pork or salmon. If you're going for a vegetarian side, I recommend vegetable shish kabobs. A twist on corn grits.

2½ cups Water

2½ cups Chicken Stock (I recommend low-sodium Swanson broth)

1½ cups Polenta (Lee recommends Anson Mill, Tenn.)

2 tsp. Salt (optional)

3 lg. roasted, peeled, and pureed Sweet Potato

¼ cup Honey

3 Tbs. unsalted butter

1 tsp. Sage

1 tsp. Thyme

Salt and Pepper to taste

Puree: Wash sweet potatoes and wrap in foil. Preheat your oven to 350 and roast until tender enough to easily poke through with a knife — approximately 1 hour. Remove from foil and put the sweet potato into either a hand blender or food processor. The skin should be falling off. As needed, add 1 tsp. water at a time to improve consistency as you blend or puree. I usually pre-roast and puree multiple sweet potatoes and freeze portions in ¼ cup increments in snack-sized Ziplock bags.

Polenta: Boil the liquids together. Add polenta and the 2 tsp. salt — then cover and simmer for 20 min. Stir constantly to avoid lumps. After 20 minutes, uncover and continue to cook for an additional 20 min. until all of the liquid is absorbed and the polenta is creamy. Add all of the seasonings to the sweet potato mash, then add the mash into the polenta. Season to taste. Drizzle honey on top before serving.

I have made this recipe with instant polenta and followed the directions on the package — only adding sweet potato and seasonings at the end. It has turned out fantastic. This can also be done to grits and baby food. An additional way to add antioxidants is to swap decaffeinated green tea for the water that you mix with the broth. Enjoy! There is a lot of room for improvisation with the recipe! Let us know on our FaceBook page "Investment Answers LLC" if you've tried the recipe — and what you think!

Investment Answers News

Our office has finally moved! Our new address and contact information will be coming out to you in our 2013 Contact Card. Keep an eye out for it in your mailbox. But for your convenience, here it is! We recommend updating your phone directory with our most up-to-date information.

Our New Contact Information is:

4205 Springhurst Blvd., Suite 102
Louisville, KY 40241
502-690-3434 (Office)
502-690-3437 (Fax)
502-741-1817 (Client Relations Desk; For All Client Needs)
502-741-8747
(Your Advisor, Travis Terlau)

We are excited to finally be settled in! The transition went very smoothly and the new office is an incredible blessing- one we worked long and hard for. We'll be posting stories about the contractors we worked with and pictures of the end results on our website:

www.InvestmentAnswers.net

Click on "Blog" to read about this and more. We'll also have posts on our FaceBook page "Investment Answers LLC." Like us there to learn more!

Financial Thoughts

The Congressional Budget Office projects that unemployment will not fall below 6% until 2017 (Source: *Money*, June 2012).

According to a recent survey, only 36% of American adults felt financially prepared to afford retirement until age 95, while 56% felt they could afford retirement until age 75 (Source: Northwestern Mutual Life Insurance Co., 2012).

Another recent survey found that approximately one-third of adults feel inundated by investment choices, and 40% think financial products are too complicated (Source: MFS Investment Management, 2012).

Approximately 31% of ultra-high-net-worth investors age 40 or younger feel that they aren't saving enough for retirement and other financial goals (Source: Spectrem Group, 2012).

Approximately 56% of individuals between the ages of 29 and 44 and 39% of those between the ages of 45 and 66 spend at least one-fifth of their income on mortgage and nonmortgage debt. However, nearly 70% of those surveyed planned to spend less this year than last year, and 37% plan to save more (Source: *Scottrade American Retirement Survey*, 2012). ❍❍❍