



YOUR FINANCIAL FUTURE

A Monthly Update on Money and Markets

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Steady As You Grow Your Financial Partners

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February 2010 Market Recap

(For the month ended February 28, 2010.)

Trading on Wall Street was volatile in February, as investors vacillated between the positive outlook fueled by encouraging earnings reports and anxiety related to growing economic uneasiness. Concerns that China's tightening will slow growth in the world's fastest growing major economy fueled growth fears, while Europe's sovereign credit woes increased risk aversion. Yet major U.S. stock indexes managed to rise during the month, with the NASDAQ's 4.23% gain leading the pack. Most (119) of the 145 sub-industries in the S&P Composite 1500 advanced in February. The top five performers were Consumer Electronics (+18.5%), Catalog Retail (+14.6%), Gold (+14.4%), Leisure Products (+12.3%), and Steel (+12.1%), while the worst five performers were Specialized Consumer Services (-5.6%), Photographic Products (-4.6%), Tires & Rubber (-4.5%), Research & Consulting Services (-3.9%), and Publishing & Printing (-3.8%).

| Through 2/28/10* | February | Year to Date | 1-Year | 5-Year | 5-Year | Closing Value |
|-----------------------|----------|--------------|--------|--------|--------|---------------|
| S&P 500 | 2.85% | -0.95% | 50.25% | -7.75% | -1.70% | 1,104.49 |
| Dow Jones Industrials | 2.56% | -0.99% | 46.19% | -5.59% | -0.83% | 10,325.26 |
| NASDAQ Composite | 4.23% | -1.36% | 62.45% | -2.52% | -1.76% | 2,238.26 |

Source: Standard & Poor's. Past performance is no guarantee of future results.

*Price only. Does not include dividends.

Fed focuses The Fed's February 18 discount rate increase was a reminder that domestic government stimulus has peaked. Given that this occurred amidst ongoing tightening in China and India, whose economies have led the global recovery, fears of private sector sustainability in the face of government stimulus removal are alive and well. The Federal Reserve has now exited from purchases of securities under the various Term Asset-Backed Securities Loan Facilities (TALF) but continues to hold the federal funds rate in its recent 0%-0.25% range. The Fed is likely to exit the TALF gradually by selling off securities, thus implicitly tightening financial conditions.

Consumers and bears Weaker-than-expected February U.S. consumer confidence has reinvigorated bearish worries about the ripple effect of stubbornly high unemployment. While consumers are gradually recovering, they remain cautious about borrowing. Household debt has dropped for five consecutive quarters, falling to 126% of disposable income from the record 136% at the start of 2008. The saving rate is holding at 4.6% -- still only half the pre-1990 average, but well up from the record low 1.7% of 2007. In addition, lingering uncertainty regarding European sovereign credit risk continues to fuel bearish sentiment.

Treasury trends The 10-year Treasury yield seesawed throughout February, but ultimately posted a modest rise -- from 3.60 at the beginning of the month to 3.69 on the final trading day. The yield curve has steepened from a year ago as long-term yields have recovered from their panic lows. The 10-year Treasury spread above inflation-protected bonds (TIPS), a measure of inflation expectations, indicates little fear of inflation.

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Weathering Volatility in Stocks

The stock market volatility of the past few years has been hard to miss. Between October 9, 2007, and March 9, 2009, U.S. stocks, as measured by the S&P 500, lost more than half of their value.¹ Between March 9, 2009, and December 31, 2009, stocks reversed course and soared 64%.

While volatility of this magnitude can be unsettling, it's important to recognize that stock market returns historically have been cyclical, with declines frequently followed by gains that potentially rewarded those who stayed invested. A period of volatility can present an opportunity to determine whether your investment strategy reflects your risk tolerance and time horizon.

Looking at Short-Term Swings

When compared with bonds or cash investments, stocks historically have experienced more short-term ups and downs.² If the stock market's recent volatility has you unnerved, consider whether a portion of your investments should be allocated to more conservative choices. Because bonds and cash investments have experienced less in the way of short-term swings, they could potentially help to balance the ups and downs experienced by a stock portfolio. Your mix of stocks, bonds, and cash is known as your asset allocation. Asset allocation does not assure a profit or protect against a loss in a declining market.

Longer Holding Periods

If you do invest in stocks, your time period may influence your return. According to an analysis by Standard & Poor's, investors who held assets for any five- or ten-year period between January 1, 1926, and December 31, 2009, were much less likely to experience wide swings in returns when compared with investors who held assets for less than a one-year period.³

An asset allocation that is suitable given your risk tolerance and time horizon may help reduce short-term swings in your portfolio. If short-term investment performance throws your desired mix off track, your financial advisor can help you rebalance to your target.

¹Source: Standard & Poor's. Stocks are represented by the S&P 500. You cannot invest directly in any index. Past performance does not guarantee future results.

²Sources: Barclays Capital, Standard & Poor's. Stocks are represented by the S&P 500, bonds by the Barclays Aggregate Bond Index, cash by the Barclays 3-Month Treasury Bill Index. Government bonds and Treasury bills are guaranteed by the U.S. government as to the timely payment of principal and interest, and, if held to maturity, offer a fixed rate of return and fixed principal value. Investing in stocks involves risks, including loss of principal.

³Sources: The Federal Reserve; Barclays; Standard & Poor's. Stocks are represented by the S&P 500, bonds by the total return of a composite of long-term U.S. government bonds (10+ years) constructed from yields published by the Federal Reserve and the Barclays Long-Term Government Bond Index, cash by a composite of the yields on 3-Month Treasury bills and the Barclays 3-Month Treasury Bill Index.

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Standard & Poor's Economic Report: Heating Up

By David Wyss, Chief Economist

MARCH 2010 -- We found signs that the economy is taking a turn for the better. Household debt has now dropped for five consecutive quarters -- to 126% of disposable income from the record 136% at the start of 2008. The saving rate is holding at 4.6%, still only half the pre-1990 average but well up from the record low of 1.7% in 2007.

Construction remains a problem for the economy, but it's more a problem now for commercial construction than residential. Home sales dropped off in December but still seem to be holding well above their early-2009 lows. Prices remained off their lows, though we continue to expect a drop over the winter.

Government spending should continue to boost the economy. The Obama Administration's new budget calls for a \$1.6 trillion deficit for fiscal 2010, up from last year's record \$1.4 trillion. The government hopes to reduce the deficit to \$727 billion by fiscal 2013, but that depends on a sharply divided Congress.

The Federal Reserve has terminated its new purchases under the various quantitative easing plans. So far, the markets have taken this move well, and we expect spreads to remain stable over the coming months. No tightening is likely until the unemployment rate comes down for a few months in a row, and we don't expect that to happen until the summer at the earliest.

Housing Slips

As expected, home sales dropped in December. This decline followed a surge in November that stemmed from buyers cashing in on the \$8,000 first-time homebuyer tax credit. The government extended the credit through June (with contracts signed by April), but buyers didn't know this in November. We expect sales to rise again in the spring as buyers try to purchase ahead of the next cut-off date.

We expect the tax credit to be renewed in some form through the end of 2010. The credit seems popular with voters, especially now that it is available to trade-up buyers as well as new homeowners. With Congressional control hinging on the November election, we doubt Congress will allow the credit to expire, though it could be altered. The problem, however, is that the buyers who were most susceptible to the lure of the tax credit have already been caught, so the effectiveness of the credit will likely diminish.

Consumers Hit the Brakes

Consumer spending is expected to slow in the first quarter after a better-than-expected holiday season. Although consumer confidence is continuing to improve and the labor market is getting better, car sales dropped to 10.8 million units from 11.2 million in December. However, we believe the car sales drop was temporary, due to the brake problems at Toyota. Once Toyota restarts full production, we expect sales to rise to 11.7 million in 2010.

Non-auto retail spending will depend on employment. Though the household measure of employment rose 541,000 in January, payrolls dropped another 20,000. Although some of this might stem from seasonal adjustment problems, we saw this same pattern at the beginning of the last recovery. When companies begin to see more sales, they are reluctant to add permanent staff, instead hiring temporary and contract employees. Employment of temp workers rose 52,000 in January, more than accounting for the rise in private services.

We still expect the unemployment rate to climb during the spring, probably reaching a peak above 10% in June, but the October 10.2% rate might be the peak for this recession, remaining well short of the 10.8% peak reached in 1982, which will remain the postwar record.

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No tightening by the Fed is likely until the unemployment rate comes down for a few months in a row, and we don't expect that to happen until the summer at the earliest.



Retirement Planning Tips for Late Savers

In an ideal world, we'd all start setting aside money for retirement at an early age. But given the reality of mortgages and other ongoing expenses, it's understandable to fall behind when planning for one's later years. Getting a late start on retirement investing doesn't have to interfere with your dreams, but it may help if you take charge of the situation sometime soon.

Putting Some Money Away

Qualified retirement accounts present investors with opportunities to save for retirement and earn tax benefits. If you currently are working, you may be able to contribute to an employer-sponsored retirement plan such as a 401(k) or a 403(b) plan. For a traditional 401(k) or 403(b) plan, contributions are deducted from a participant's paycheck before taxes are assessed, which can lower taxable income for the year the contribution is made. As long as participants remain invested, contributions can potentially compound tax free until withdrawals, which are taxed, are made during retirement. With a Roth 401(k) or 403(b) plan, contributions are taxable but qualified withdrawals are tax free.

With either a traditional or Roth account, the maximum annual employee contribution for those under age 50 is \$16,500. Those aged 50 and older may make an additional catch-up contribution of \$5,500. Note that these are federal maximums and employers can impose lower limits. Additionally, note that these limits are typically indexed annually for inflation and are subject to change.

IRAs

If you are not eligible to participate in an employer-sponsored plan, or if you already contribute the maximum, consider funding an IRA. The current maximum contribution is \$5,000 for an investor under age 50 and \$6,000 for those aged 50 and older (note that limits are adjusted annually for inflation). Anyone who is under age 70 and who has earned income can contribute to a traditional IRA. Investors must meet income thresholds, available at www.irs.gov, to qualify for a Roth IRA. Required minimum distributions (RMDs), which are taken annually, are required from traditional IRAs after age 70 1/2. RMDs are not required from a Roth IRA and qualified withdrawals are tax free.¹

Lifestyle Choices

In addition to investing as much as you can while you are still working, consider lifestyle choices that could potentially make a big difference. Delaying retirement, working part time during your later years, or delaying your receipt of Social Security benefits could potentially improve your financial situation.

By capitalizing on the options available, you may find yourself in the passing lane as you proceed toward your later years.²

¹Restrictions, penalties, and taxes may apply. Unless certain criteria are met, Roth IRA owners must be 59 1/2 or older and have held the IRA for five years before tax-free withdrawals are permitted.

²This communication is not intended to be tax advice and should not be treated as such. Each individual's tax situation is different. You should contact your tax professional to discuss your personal situation.

Delaying retirement, working part time during your later years, or delaying your receipt of Social Security benefits could potentially improve your financial situation.



Want to Build Wealth? Try Living Like a Millionaire

Mention the word "millionaire" and many people think of a big house, expensive cars, and perhaps a vacation home or two. But research reveals that a significant number of millionaires amassed their wealth as a result of hard work and frugal living, in many cases living more modestly than people who had significantly less.

In their book *The Millionaire Next Door: The Surprising Secrets of America's Wealthy*, authors Thomas J. Stanley and William D. Danko interviewed millionaires and presented a picture of their backgrounds, attitudes, and lifestyles that may surprise many people. Contrary to the notion of millionaires coming from inherited wealth, Stanley and Danko's research confirmed that most millionaires are self-made individuals. Specifically,

- A large majority (91%) did not inherit an ownership stake in a family business.
- Two-thirds were self-employed, a much larger concentration when compared with the broader population, where 18% are self-employed.
- More than half never received any type of inheritance.

Owning Versus Owning

Stanley and Danko contrasted millionaires who owned assets -- such as a business, real estate, or investments -- with high-income individuals who enjoyed expensive purchases but actually owned very little. Those who owned assets, the authors believed, were in a better position to build wealth over time because they adopted a lower-cost lifestyle that permitted them to save and invest.

The authors described the millionaires as "fastidious investors" who invested, on average, 20% of household income each year. Almost 80% maintained at least one investment account and made their own investment decisions.

In many instances, a frugal lifestyle helped millionaires save money that could be used to invest or purchase assets. More than 90% of the millionaires interviewed never paid the initial asking price for a home, 84% developed a shopping list before buying groceries, and 65% used coupons when making purchases. The upside to this frugality: 57% paid off their mortgage early. Approximately half lived in the same home for more than 20 years, which enabled these millionaires to build home equity.

Adopting a "Millionaire Mind"

Stanley and Danko concluded their study with a list of habits that the millionaires had relied on to become successful:

- Hard work, integrity, and focus on a goal.
- Overcoming an undistinguished academic record. Many millionaires established businesses or trades despite struggling academically in their youth.
- Taking a degree of financial risk and overcoming defeat when necessary.
- Selecting a line of work that was enjoyable and profitable.
- Marrying an intelligent person who shared a belief in budgeting, planning, investing, and other financially-productive activities.
- Doing research and negotiating aggressively when purchasing a home.
- Adopting a balanced lifestyle with room for fun and loved ones.

Although luck may play a role in success, many millionaires believed that hard work, focus on a goal, an emphasis on investing, and frugal living put them in a position to capitalize on luck when it came their way.

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