



Investment Advisors

Steady as You Grow

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Politics and Investment Performance

With the Nov. 2 elections come and gone, here's the result of an investigation into the relationship between the composition of the legislative and executive branches of the U.S. government and market performance. The data table displays the average annual returns for the S&P 500® and a 60% stock/40% bond portfolio in three different situations. The "unified" situation refers to years when the Senate, the House of Representatives, and the White House were all controlled by the same party. The "partially divided" situation represents years when the House and Senate were controlled by the same party, but the White House was held by a different party. The "completely divided" situation uses data from years in which the two houses of Congress were divided. Both the S&P 500 and the diversified portfolio averaged the highest returns during unified years, lower returns during partially divided years, and the lowest under completely divided years.

Average Annual Returns
1926–2010

	S&P 500	Diversified portfolio	Number of years
"Unified" years	14.8%	9.9%	45
"Partially divided" years	11.1%	9.5%	30
"Completely divided" years	1.0%	6.8%	10

Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. Diversification does not eliminate the risk of experiencing investment losses. Government bonds are guaranteed by the full faith and credit of the United States government as to the timely payment of principal and interest, while stocks are not guaranteed and have been more volatile than bonds. The time period examined is 1926–2010, and the returns are average annual returns.

Stocks—Standard & Poor's 500 index, which is an unmanaged group of securities and considered to be representative of the stock market in general. Bonds—20-year U.S. government bond.



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History of CPS Investment Advisors

Founded by Chas P. Smith over 35 years ago in Lakeland, FL, Chas P. Smith & Associates, P.A. first began providing traditional tax and accounting services. The firm's emphasis on personal financial planning and concerns for its clients well being eventually brought the firm into the money management business in 1989.

The firm specializes in personalized money management for individuals, corporations and retirement plan investors; and is a Registered Investment Advisor with the U.S. Securities & Exchange Commission.

The owners of CPS are Chas P. Smith, James M. Luffman, and Peter C. Golotko. They are all Certified Public Accountants,

Personal Financial Specialists designated by the American Institute of Certified Public Accountants (AICPA), and have earned the Certificate of Educational Achievement Award in Personal Financial Planning by the AICPA.

Dividends and Total Return

Income is important to consider when choosing an investment. Especially important for investors approaching retirement, income can add meaningfully to one's total return, which comprises income and price return (capital appreciation). Investors can pursue income returns in many ways including bonds, real estate investment trusts, and stocks.

Stock income is typically paid in the form of a monthly, quarterly, annual, or special cash dividend, which can be used to finance current consumption or to reinvest. Dividends are typically expressed in terms of yield. Like an interest rate, yield is represented as a percentage rate and is calculated by taking the annual cash dividend divided by a stock's current price. For example, a stock trading at \$20 with a future annual cash dividend of \$1 would have a dividend yield of 5%.

Keep in mind, though, that there is no guarantee a dividend will be paid, even if a certain company has a consistent dividend-paying track record. A company can increase, decrease, and even eliminate dividends altogether, depending on its financial situation. Furthermore, if a dividend is declared, the company has to pay dividends for preferred shares first, before any common share dividends can be paid.

Although stocks can be a source of income return, not all stocks are created equal in this regard. Some companies distribute significantly more of their profits in the form of dividends than others, and some don't distribute dividends at all. The following image demonstrates this point. Historically, dividend-earning stocks—represented by Morningstar's Dividend Composite Index—have had compound annual returns of 6.9%, while large stocks have had compound annual returns of 5.0%. Additionally, higher-yielding companies—represented by Morningstar's Dividend Leaders Index—have outperformed large stocks: Dividend Leaders Index components had a compound annual return of 9.0% compared with 5.0% for large stocks during the period studied. For investors looking

both for income and total returns, dividend-paying stocks can be a reasonable place to invest.

Although higher-yielding stocks have demonstrated an ability to outperform large stocks, all that glitters is not gold. Dividends are paid at a company's discretion, and exceptionally high yields can indicate a potential dividend cut. For example, had investors been lured to many high-yielding bank stocks in late 2008, they would have been sorely disappointed when many banks subsequently cut their dividends as profitability declined during the credit crisis. When looking at dividend-paying stocks, investors should focus on reasonable dividend yields with companies that have the earnings power to increase their dividend distributions over time. Many large companies with recognizable brand names have demonstrated an ability to offer this slow and steady income distribution to shareholders.

Dividend-Paying Stocks May Provide Better Returns



This is for illustrative purposes only and not indicative of any investment. Assumes reinvestment of all income and no transaction costs or taxes. An investment cannot be made directly in an index. Past performance is no guarantee of future results. Returns and principal invested in stocks are not guaranteed. Dividends are not guaranteed and are paid solely at a company's discretion.

Source: Large Stocks—Standard & Poor's 500®, which is an unmanaged group of securities and considered to be representative of the stock market in general; Dividend-Paying Stocks—Morningstar Dividend Composite Index; High-Yield Dividend-Paying Stocks—Morningstar Dividend Leaders Index. Stocks in both indexes have a consistent record of dividend payment, have the ability to sustain their dividend payments and are weighted in proportion to the total pool of dividends available to investors. The Morningstar Dividend Composite Index captures the performance of all stocks in the U.S. Market Index. The Morningstar Dividend Leaders Index captures the performance of the 100 highest-yielding stocks.

Prepare Your Spouse for Financial Independence

In households throughout the world, it is often common that one spouse is more “financially attuned” than the other. Rather than both taking the lead on financial matters, one spouse usually drives that ship for the most part. This can lead to a sticky situation if the aforementioned “captain” were to pass away (or if both were to pass away). The reality is that you need to prepare your partner to manage his or her own financial affairs. Let’s go over some guidelines to get you started.

How to Locate Financial Documents. Needless to say, someone should know where things are located. Always keep an updated list outlining where you keep financial documents and other matters. This should be left with a trusted individual, such as your attorney or financial advisor.

Your list should include all financial accounts, account numbers, passwords, institutions and contact information. Include the location of your safe deposit box and its key and the combination to your home safe. Include the locations of important papers for annuities, appraisals, birth certificates, cemetery deeds, credit cards, property deeds, marriage certificates, divorce decrees, insurance policies, mortgages, income tax returns, retirement accounts, prenuptial agreements, titles for cars and estate documents. You should also include any hiding places of other items.

What to Keep and Where. If you have yet to properly store important documents, it is recommended that you do so, following these guidelines.

Bank Safe or Deposit Box. This is where you will want to put car titles, property deeds, business agreements and partnerships and a detailed home inventory of all valuables—including pictures, videos and appraisals.

Fire-Resistant Home Safe. In a fire-resistant home safe, keep a copy of your will and trusts, insurance policies, investment account numbers,

passwords, original powers of attorney for health care and property (copies should be given to those people who are named as your agents) and a letter of instruction explaining your final wishes.

Home Filing System. In your home filing system keep three years of statements for insurance payments, bank accounts, investment and retirement accounts. Also be sure to maintain credit card and mortgage statements for the past year. In addition, it is highly recommended to maintain at least three years of tax returns (if not more).

Attorney’s Office. At your attorney’s office, you’ll want signed and witnessed will and trust documents and copies of powers of attorney.

Who to Call, Who to Trust. Make sure your loved ones know where to find detailed contact information for your accountant, attorney, banker, financial advisor, life insurance and other agents, doctors (if you have children) and veterinarian (if pets need temporary care).

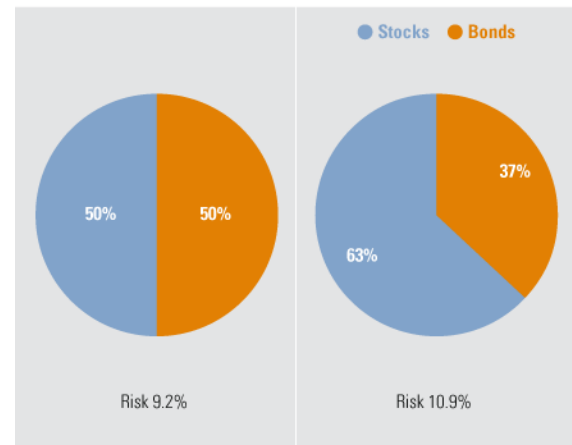
Share Financial Responsibility Now. You can help ensure a smooth transition by introducing your spouse to trusted advisors during your lifetime. You can also get your spouse slowly involved in the family’s finances in general, eventually bringing him or her completely up to speed. This should bring comfort and reassurance for everyone involved.

The Importance of Rebalancing

Over time, your asset-allocation policy can veer off track because of market ups and downs. This is illustrated quite clearly in the attached image; a strong stock performance can cause a simple 50/50 portfolio mix to become unbalanced over time. After 30 years, what was once a 50% allocation to stocks now sits at 63%—quite a jump. Moreover, not only does the portfolio's allocation change, but the portfolio's risk also changes, rising sharply from 9.2% to 10.9%. If your needs and/or risk tolerance have not changed, your allocation shouldn't either.

But why would anyone want to sell investments that have done great in order to purchase laggards? While rebalancing might seem odd at first, it is all about risk control. If more and more of your total portfolio winds up in one investment, you risk losing a lot should that investment stumble.

Change of Portfolio Allocation:
January 1981–December 2010



Keep in mind that an investment cannot be made directly in an index, and past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. The sale of an investment for the purposes of rebalancing may be subject to taxes. Risk is measured by standard deviation. Standard deviation is a statistical measure of the extent to which returns vary from the expected returns. Government bonds are guaranteed by the full faith and credit of the United States government as to the timely payment of principal and interest. Stocks are not guaranteed and have been more volatile than bonds.

Source: Stocks—Standard & Poor's 500®, which is an unmanaged group of securities and is considered to be representative of the stock market in general; Bonds—five-year U.S. Government bond.

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