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Focus on the NEXT GENERATION
DECEMBER 2011

Stock Market - Roller Coaster or Train?

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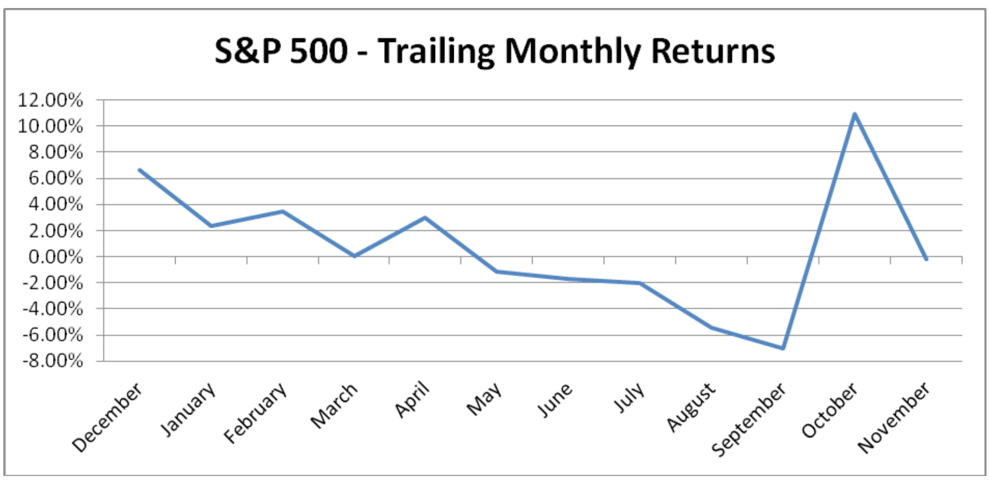
The holidays are a wonderful time of year. Though exciting, there can be many ups and downs. For instance:

- Finding the perfect gift for a loved one, then realizing the only one in the store is the wrong size or color.
- Being excited about hosting a holiday meal for your entire family but being overcome with the stress at the thought of all of the cleaning and cooking that has to be done beforehand.

Maybe you have similar feelings of euphoria and despair when you look at your investment or 401k statements each month. That wouldn't be surprising, based on the stock market returns over the last year:



These kinds of returns are reminiscent of 2008, when the bottom fell out of the market in the 3rd quarter on the way to a 37% drop for the year. Stock market ups and downs can be fast and scary, much like a roller coaster.

While a roller coaster can be scary, it can also be fun. Look at 2009 or 2010, when the market was up 26.5% and 15.1% respectively. In fact, from the lows in March 2009 to recent highs, the S&P 500 was up over 90% in just over 2 years (666.79 to 1,267.06), with many individual stocks doing even better over that time period.

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Then again, there is a big difference between heading over to Six Flags for a weekend of enjoyment and watching your retirement nest egg rise and fall tens of thousands of dollars in mere weeks or months. Most people would prefer a little more stability with something as important as their retirement savings.

A better analogy for something people want for their retirement savings might be a train. Big; strong; dependable. A train moves more or less a straight line and it takes a lot to slow it down. Also, if you listen to the advertisements, you know they are very efficient – able to move goods over land less expensively and with fewer emissions.

This is the picture many financial magazines or advertisements paint. "If you earned 7% per year for 40 years, $100,000 would grow to $1,500,000." They show even, consistent returns (always positive). Everything is a straight line; always up.

Unfortunately, there are very few things in real life that act this way. The closest thing might be the bond market. Here are the returns for the iShares Barclays Aggregate Bond index over the last few years:

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 (YTD)
10.3%	4.1%	4.3%	2.4%	4.3%	7.0%	5.2%	5.9%	6.5%	6.3%

Average returns over the last 3, 5 and 10 years have been 8.3%, 6.5% and 5.4% respectively, and no losses in any full year. Who wouldn't take that? Why shouldn't we just get off the "stock market roller coaster" and put all of our money in the "bond market train?"

Consider the downsides of a train – it can be slow, inflexible and inconvenient. The train might go to the mall, but how will you get to your doctor's appointment? What if you have to work until 5:00 but the last pickup is 4:30? No matter how nice, clean and efficient the train is it doesn't work for your particular needs. Simply put, the train will not get you to where you want to go.

Look at the long term return for the bond market – just 5.4% over the last 10 years. If you are trying to have a 7% rate of return on your portfolio, the dependable but slow train will only get you there about once every 5 years. Even if you are willing to give up some return potential and would be happy with 6%, the bond market will only reach your destination about half the time.

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In addition, there is an old adage in investments: "past performance does not guarantee future results." What does the future hold for bonds? Interest rates are at historic lows and will eventually increase, pushing bond returns down. Current bond yields are very low – 10 Year Treasuries are paying just 2.0%. The bond market index is yielding only 3.2%. Even if interest rates stay at the same level for the next 10 years, and there are no defaults, returns look like they will be in the low single digits.

This means that you need to have a balance in your portfolio. It is just as important to have some roller coasters in your portfolio as it is to have some trains. A good mixture of both will give you a realistic chance to reach that elusive 7% or 8% portfolio return over time.

It also means that you have to know when to get off the train and jump on the roller coaster, and vice versa. So many times people watch the stock market tumble, sell because they worry it will decline more, and then watch the roller coaster as it comes back up in a month or two. Selling at the bottom of the stock market roller coaster is the absolute worst thing to do.

Instead, focus on selling when the market is up, and keeping some money in the bond market train for safety during that inevitable drop. If you can do that, who knows – you may even enjoy the next roller coaster.

Michael Kalscheur, CFP®, is a Senior Financial Consultant at Castle Wealth Advisors, LLC. Castle specializes in helping wealthy families and closely-held business owners with strategies to protect and transition family assets from one generation to the next. Castle's senior partners also work with clients throughout the country in making logical decisions to help them fulfill their personal and business financial goals. For more information visit www.castle3.com, call 1-888-849-9559 or contact Michael directly at michael@castle3.com.