



# MARKET OUTLOOK

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## Returns and Security—Myth or Reality?

As investors, we all want the same things: high returns and little or no risk. Unfortunately, that's like wanting to eat only junk food while maintaining a slim physique. It is rare to be able to have both.

What follows is a list of various types of investments that are sometimes promoted as being safe. For questions or information about any of these products and/or their appropriateness for a specific investor, call 800-279-3377 and speak to an adviser.

### Dividend stocks

Some brokers and advisers advocate buying blue chip stocks that pay high dividends. The reasoning and logic is that it is a lower risk investment because it is a high quality stock that pays a dividend.

In reality, the fact that a stock pays a dividend does not minimize its risk. While the dividends are nice when the stock price is rising, they become less important when the price falls.

Dividends are not guaranteed. Companies frequently reduce or

eliminate dividends— especially when they suffer a decline in revenue. In those situations, investors usually get a double dose of bad news: the stock price usually declines sharply and the dividend is reduced.

During the market decline that began in late 2007, many companies eliminated or reduced dividend payments when their stock prices dropped. Investors who counted on those dividends for income learned that blue chip stocks do not always mean low risk.

### Bonds

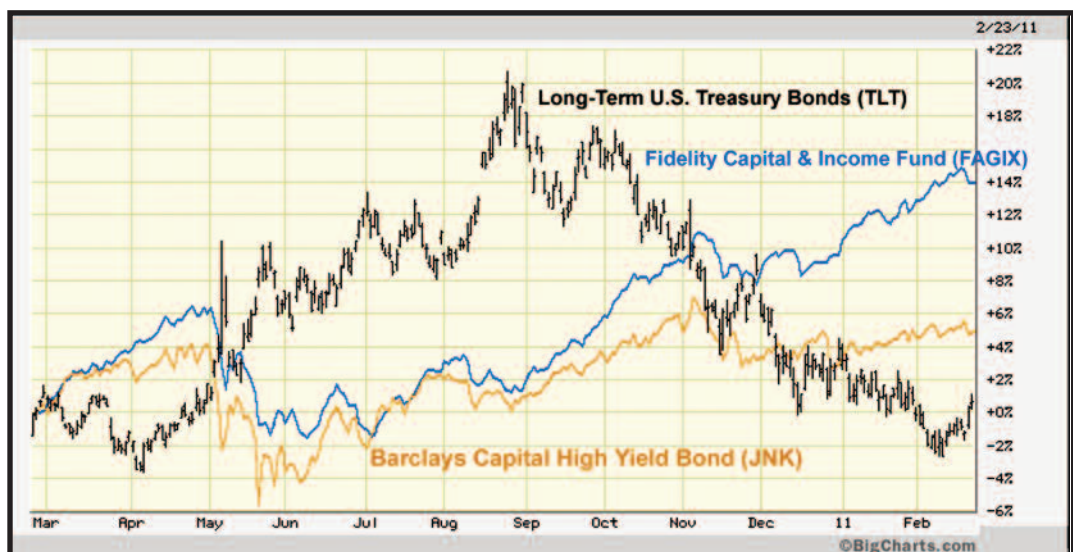
In past issues we've written in depth about the fact that there are many types of bonds and bond

products with varying risk levels. There are no risk-free bonds and some are just as volatile and risky as stocks. In fact, some are riskier than many stocks.

As an example, the chart below shows three different types of bond funds. It is easy to see that their performance and risk are significantly different, even though all are invested in bonds.

United States Treasury Bonds are generally considered to have the lowest risk levels among all types of bonds. Payment is guaranteed by a promise of the U.S. government.

They pay a fixed yield and have a specific maturity. For exam-



ple, if an investor purchases a \$10,000 10-year Treasury Bond paying 4%, he will receive an interest payment of \$400 each year for 10 years. When the bond reaches maturity, his original \$10,000 investment will be returned.

The most likely risk in this situation is that the investor will need his money before the bond reaches its maturity. In that case, the bond will be sold in a secondary market. Instead of \$10,000, he will probably receive a lesser amount depending on the length of time remaining until maturity and the current interest rate.

Theoretically, there are times when the bonds trade at a premium and the investor might actually get more than the original \$10,000 investment. But more often it is likely to be significantly less—perhaps only \$7,000 or \$8,000.

## Certificate of Deposit (CD)

A CD is a financial product commonly offered by banks, thrift institutions, brokerage institutions and credit unions.

CDs are considered virtually risk-free because they are insured by the FDIC for banks and brokerage institutions and by the NCUA for credit unions.

They have a specific, fixed term (often three months, six months, or one to five years), and usually offer a fixed interest rate. When a CD is held until maturity the money is returned to the investor along with the accrued interest.

A wide range of features are available on specific CDs to meet the needs of individual investors. Below are some listed by Wikipedia:

- A bump up CD allows the account holder the option to increase the interest rate once during the term of the CD. Upon request, the bank will bump up the interest rate on the certificate of deposit to a higher rate being offered by the issuing bank on that CD (or a comparable term CD). The rate change does not change the original maturity date of the CD.

- Liquid CDs generally have a fixed rate, but allow an investor to withdraw a portion of the original deposit during the term without paying a penalty. There are limits on when the money can be taken out, the amount that can be withdrawn and how many separate withdrawals can be made.

- Step-up CDs or step-down are also be called flex CDs and can be confused with a Bump Up CD. Certificates of deposit with a step up or down feature have a fixed in-

terest rate for a period of time, usually one year and then the interest rate automatically rises up to a predetermined rate or is lowered to a predetermined rate.

- Variable-rate CDs offer a rate of return tied to the outcome of a market index. The interest earned at maturity is based on the percentage gain (or loss) from the Initial Index to the final Index value. These CDs can be tied to a bond or stock index or a reference rate like the Treasury bills, prime rate or the Consumer Price Index.

- Add-on CDs are fixed or variable rate CDs to which the owner can make additional deposits. There can be restrictions, such as a minimum deposit that can be made to the account.

- Zero-coupon CDs are issued at a substantial discount from the face amount of the CD. Typically the maturity terms are much longer, 15 to 20 years, which results in the discounted price. Zero coupon CDs do not pay interest until the maturity date.

CDs frequently carry hefty penalties for early withdrawals or redemptions.

## Money markets

Money market funds are open-end mutual funds that invest in short-term securities and are different than money market deposit accounts offered by banks. Money market deposit accounts are federally insured.

Both generally offer liquidity and low interest rates.

According to the U.S. Securities and Exchange Commission,

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*“These funds have relatively low risks compared to other mutual funds and pay dividends that generally reflect short-term interest rates.*

*“Money market funds typically invest in government securities, certificates of deposit, commercial paper of companies, or other highly liquid and low-risk securities. They attempt to keep their net asset value (NAV) at a constant \$1 per share—only the yield goes up and down. But a money market’s per share NAV may fall below \$1 if the investments perform poorly. While investor losses in money markets have been rare, they are possible.”*

## Real estate

Thanks to the sub-prime real estate crisis, today most people know that buying real estate is not risk free. That wasn’t the case just a few years ago.

Many people mistakenly believed that any investment involving real estate was secure, whether it was buying a personal home or investing in a hedge fund that purchased derivatives of notes from bundled mortgages.

Investors have since learned that a speculative real estate investment carries the same risks as

### Investment Company Act, Rule 3a-4

As your investment advisor, we are required by the Investment Company Act, Rule 3a-4, to make recommendations in accordance with your individual needs and financial circumstances. We must also periodically check to ensure that these needs and circumstances have not changed. So if there have been changes in your financial circumstances, please contact your advisor at 1-800-279-3377. We will be happy to make any necessary adjustments in your portfolio selection.

any other speculative investment. Any investment opportunity must be carefully researched and viewed with a dose of skepticism.

## Insurance products

Insurance companies offer a dizzying array of investment products that have varying degrees of security and returns. The insurance business is quite competitive so insurance products often offer higher investment returns in order to attract customers.

In addition to the multiple products, many also have riders that can be added to the policy for an additional fee. These include things like double death benefits, spousal continuation, long-term care, lifetime income guarantees and many more.

While some of these products and riders use the word guarantee, all are subject to the claims paying ability of the insurance company. In other words, if the insurance company goes out of business, there is a high likelihood that policy owners will not get all they were promised.

Some of these companies are among the largest and oldest in the world. But as some investors learned in 2008, even the biggest financial institutions can fail if they do not follow sound business practices.

Investors need to do careful research before making any major investment decision.

### Indexed annuities

These are annuities with interest payments linked to an equity index — typically the S&P 500.

Depending on the specific product and offering insurance company, an indexed annuity may guarantee an annual return of zero to 3% even if the underlying index

has negative returns in a given year. During years with positive returns for the index, the amount of gain for the investor is usually capped. For example, if the S&P 500 rises 25% in a given year, the maximum return to the annuity owner might be 8% or some other amount specified in the contract.

### Fixed annuities

Fixed annuities are insurance contracts in which the insurance company makes fixed payments to the annuitant for the term of the contract. The insurance company guarantees both earnings and principal.

Annual return rates for fixed annuities can vary from 2% to 8% depending on factors like age of the insured and term length of the contract.

### Variable annuities

According to the U.S. Securities and Exchange Commission: *“A variable annuity is a contract between you and an insurance company, under which the insurer agrees to make periodic payments to you, beginning either immediately or at some future date. You purchase a variable annuity contract by making either a single purchase payment or a series of purchase payments.”*

*“A variable annuity offers a range of investment options. The value of your investment as a variable annuity owner will vary depending on the performance of the investment options you choose. The investment options for a variable annuity are typically mutual funds that invest in stocks, bonds, money market instruments, or some combination of the three.”*

*“Although variable annuities are typically invested in mutual funds, variable annuities differ from mutual funds in several important ways:*

*“First, variable annuities let you receive periodic payments for the*

rest of your life (or the life of your spouse or any other person you designate). This feature offers protection against the possibility that, after you retire, you will outlive your assets.

“Second, variable annuities have a death benefit. If you die before the insurer has started making payments to you, your beneficiary is guaranteed to receive a specified amount – typically at least the amount of your purchase payments. Your beneficiary will get a benefit from this feature if, at the time of your death, your account value is less than the guaranteed amount.

“Third, variable annuities are tax-deferred. That means you pay no taxes on the income and investment gains from your annuity until you withdraw your money. You may also transfer your money from one investment option to another within a variable annuity without paying tax at the time of the transfer. When you take your money out of a variable annuity, however, you will be taxed on the earnings at ordinary income tax rates rather than lower capital gains rates. In general, the benefits of tax deferral will outweigh the costs of a variable annuity only if you hold it as a long-term investment to meet retirement and other long-range goals.

Variable annuities often receive negative reviews from members of the financial media primarily because of their costs when compared to more traditional investments like buying index funds. But it is important to remember that they offer features and protections not available in non-insurance products.

For many investors at or near retirement age, variable annuities make sense for a portion of retirement assets. Please consult a financial professional if you have questions.

## Other insurance options

In addition to those already listed, there are other types of insurance products that offer guaranteed returns or the possibility of participating in market gains. These include Variable Universal Life Insurance (VUL) and Equity Indexed Universal Life Insurance.

As with all insurance products, promised guarantees are based on the stability and claims-paying ability of the insurance company.

—Flint Stephens

*Mr. Stephens is marketing director and a financial advisor for Strategis Financial Group. He has been a writer and editor for numerous investment publications. He has a masters degree in communications from Brigham Young University.*

## Introducing Dr. Ralph Olsen and the Prime Time Opportunities Strategy

Strategis Financial Group is currently offering a new investment strategy called Prime Time Opportunities.

The strategy was created by Dr. Ralph B. Olsen who has been watching investment markets since he was a young farm boy in the Snake River Valley of southeastern Idaho.

Available in aggressive, moderate and conservative models, the strategy focuses on finding fundamental value, but also employs a unique timing strategy: Timing Information for Purchase and Sale (TIPS), to enhance/maximize the performance of the fund.

Strategy holdings are selected

from:

- 1) well known U.S. stocks including those that have a strong or growing international presence;
- 2) lesser-known U.S.- and Canadian-listed stocks and income trusts operating around the world; and
- 3) ETFs.

The strategy generally seeks positions with daily trading volumes in excess of 500,000 shares.

A portion or all of the assets may be moved to a money market fund when market conditions warrant such a position. A portion of assets can also be moved to short positions to attempt to take advantage of periods of market weakness or to hedge long positions.

Dr. Olsen said that as a boy he listened as the farmers discussed factors that made prices move up or down in the agricultural markets: grains, cattle and hogs.

He began tracking gold and silver prices when he was 14 and the government recalled all silver coins out of circulation.

The experiences of his youth laid the foundation for investment interests that expanded into many other markets.

Since 2004 he has published a weekly financial newsletter. His investment philosophy emphasizes finding potentially profitable market sectors while trying to minimize risk exposure.

He has a PhD from Brigham Young University and worked since 1985 as a marriage and family counselor. In this capacity, he learned that the mismanagement of money is the source of much marital discord.

Dr. Olsen is currently working on applying his strategy to variable annuities and 401K plans.

For more information about this strategy call 800-279-2277 and speak to an adviser.