

INVESTMENT UPDATE

THE MUNCY BANK & TRUST COMPANY

INSIDE THIS ISSUE:

Forget the "Lost Decade" talk. The last 10 years haven't been a wash. 2

Bonds may be riskier than stocks these days. 3

Gender gap narrows for the young, investment pros help, and more. 3

Sophisticated thieves steal information from ATMs. 4

Points of interest:

- The "January Effect" incorrectly predicted a decline in the stock market for 2010.
- All of the predictions early in 2010 for a double-dip recession came to naught.
- Forecasts of the Dow Jones Industrial Average hitting new lows in 2010, or of big declines in gold and silver, proved wrong.

BEWARE OF MARKET ANALYSTS BEARING ANNUAL PREDICTIONS

A new investment year is starting and the annual prediction game is already heating up. The word "game" is apropos: as long as you treat the barrage of predictions as a fun diversion, rather than a guide to your investment strategy, you will be safe.

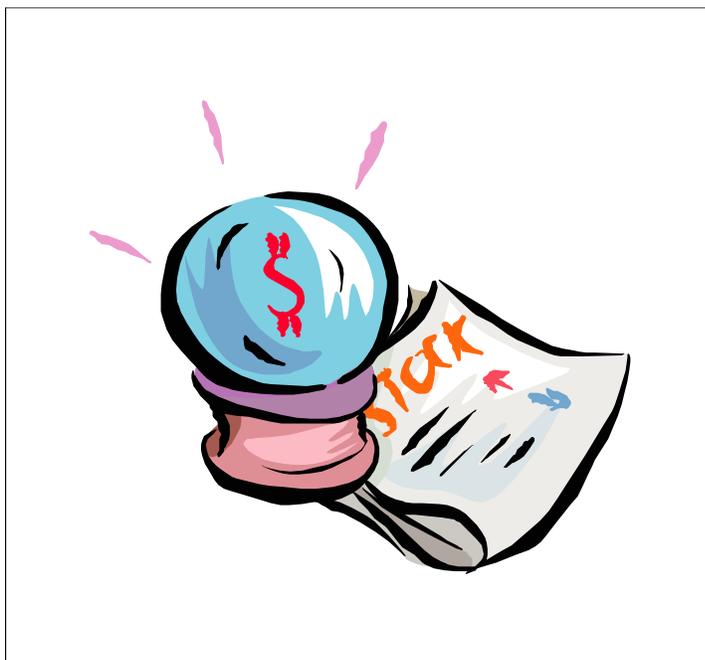
It is hard to resist those weighty pronouncements from serious looking men and women in blue-striped suits. Their reasoning seems so compelling, their statistics so impressive, that it becomes a struggle to avoid giving in.

Here's a little mantra to hold onto at times like this: No one can predict the future. Out of the cacophony of voices one or two may get lucky for a short time, but no one in the history of mankind has been able to accurately and consistently predict the financial markets, the weather, or politics.

Last year's howlers

You don't have to look far to find support for that statement. Just look at some of the major predictions for 2010; with hindsight, they are laughable.

Remember the double-dip recession? Market commentators couldn't open their mouths earlier this year without this forecast tumbling from their lips. Instead, the economy never came close: throughout the year, in an uneven fashion, economic statistics slowly but surely improved.



Many stock market predictions sound impressive, but none of them will give you accurate investment guidance.

Then there is the so-called "January effect." *The Wall Street Journal* ran a big story back on Jan. 4, 2010 that said the progress of the stock markets in January were a strong indicator of how the rest of the year would go.

"Strong years for equities normally show investment-buying early... most bad years start with down Januarys," the chief technical analyst of Miller Tabak, a New York investment firm, proclaimed.

In fact, the *Journal* broke the effect into its traditional two parts: the action of Dow Jones Industrial Average for the full month of January

would predict the rest of the year, while the Dow's activity in the first five days of January were a good indicator of how the month would turn out.

January was irrelevant

Those bits of advice were wrong on both counts. The Dow gained 190 points in the first five trading days of last January, indicating an up month. Instead, the Dow lost 421 points for the month, indicating 2010 would be a bad year for investors.

Nearly one year later, during the last trading week of December, the Dow sits

(Continued on page 2)

DOOMSAYERS WERE WRONG IN 2010 AS MOST MARKETS MOVED HIGHER

(Continued from page 1)

over 1,100 points higher than it began the year.

Where was the crash?

Plenty of forecasters were looking for a second crash, one potentially even greater than the 2008 debacle.

Permabear Robert Prechter, long-time proponent of the Elliott Wave theory, in March and again in August said we faced more big declines in the stock market. At one point he said an immi-

nent fall of the Dow to 8,000 was possible, but he also said a level of just 1,000 was not out of the question. His last prediction was made when the Dow was at 10,400. The market has climbed 1,100 points since.

Rich Dad, Poor Dad?

Not to be outdone, Robert Kiyosaki, author of the best-seller *Rich Dad, Poor Dad*, chimed in last February with a prediction that the Dow would drop to 5,000 in 2010 and that gold and silver would plunge along



The bears saw their predictions go awry.

with it. Instead, the Dow gained about 11 percent, gold 26 percent and silver roared ahead with a 74 percent gain.

THE 'LOST DECADE' THAT REALLY WASN'T

Here we are heading into a new decade and we keep hearing about how the first 10 years of this century were a "lost decade" for investors.

That claim comes from a typical focus on one headline number (without adequate context, it might be added) and the willful ignoring of a lot of other relevant information.

Here's the claim: The Dow Jones Industrial Average was 11,788 when markets opened on Jan. 1, 2001. At the end of 2010 the Dow hovered in the 11,500 range. Investors who put their money in stocks at the beginning of the decade made no money, the lost decade proponents say.

But it's not true

Yes, it is true the Dow (and the Standard & Poor's 500 Index) did not go up over that 10-year stretch. An investor who bought the Dow 30 stocks, and readjusted his portfolio only for changes in the index over the period, made little money.

But who does that? Most

investors own broader portfolios that include other stocks, they own bonds, have cash investments, maybe even commercial real estate and commodities.

Investors who put some of their money outside the Dow did quite nicely during the decade, thank you.

Small U.S. stocks gained anywhere from 71 percent to almost 200 percent over the decade, depending on which index you look at.



Investors who held diversified portfolios and who kept contributing more money to them had nothing to cry about in the most recent decade.

International developed market stocks gained 36 percent over the decade, while emerging markets stocks gained over 400 percent, according to one index.

Bonds, meanwhile, did quite well as interest rates

dropped. U.S. five-year Treasuries gained 76 percent over the decade, for instance.

Real investors profited

There is evidence that real investors who stuck with their investments and kept adding to them did fine during the period.

Fidelity Investments in

Boston said the average worker age 55 or older who held a Fidelity 401k account doubled her account balance.

The gain came through a combination of regular contributions—which allowed the investors to average their money into volatile markets—and

gains in the funds they used.

Even better, those retirement savers who put away 8 percent or more of their paychecks regularly increased their holdings by an average of 130 percent since the decade began, Fidelity said.

"Investors who put some of their money outside the Dow did quite nicely during the decade."

INVESTORS WHO ARE SHUNNING STOCKS SIT ON A FIXED INCOME POWDER KEG

The trauma from huge stock market declines and financial crisis in 2008 continue to weigh on the portfolios of many individual investors today.

Statistics show that a lot of retirement savers yanked some or all of their money out of stocks and put it into government bonds or bank deposits. Many investors remain fearful of stocks, despite the climb in stock prices that began in March 2009.

However, even though bond investors have been rewarded with capital gains over the last two years as interest rates declined and bond demand held steady, they are now in a potentially bad position, say the principals of Tweedy, Browne & Co., a New York investment firm.

"It is quite ironic that in an effort to flee volatile equity markets, investors in high quality low coupon bonds today sit on a potentially significant risk, should we face inflation and rising interest rates," they write in the company's latest semi-annual

mutual fund report.

An inflation threat

Yes, stock market volatility can threaten a portfolio, but so can inflation, and too many investors may be discounting a return of inflation.

Tweedy, Browne notes that the Federal Reserve has said it wants to see more inflation. As *The Wall Street Journal* notes, "Central bankers who wish for more inflation usually get their wish, and the result is rarely benign."

Even at today's 2 percent inflation, money is under attack. A thousand dollars today will be worth just \$817.07 in 10 years. If inflation goes up to 4 percent, that \$1,000 will be reduced to \$664.83. At 6 percent inflation, it will go to \$538.62.

Tweedy, Browne's principals say that low rate bonds will be big losers in an inflationary environment. They note that some investors call



Individual investors have sought "safety" in fixed income investments.

such bonds "certificates of confiscation."

Stockholders, especially those who own dividend-paying stocks, have a much better chance of keeping ahead of inflation.

During the high-inflation 1970s, inflation and bond yields virtually matched each other, ranging from 7 percent in 1975 to 12.4 percent in 1980. Stocks, however, appreciated at an annualized rate of 17.6 percent from 1974 through 1980, about twice the rate of inflation.

"Investors in high quality low coupon bonds today sit on a potentially significant risk."

GENDER GAP SLOWS, PRO ADVICE, & MORE

The gender gap in salaries has reversed in favor of women, at least for younger workers.

An analysis of U.S. Census Bureau data by Reach Advisors found that single, childless women under age 30 make 8 percent more in median full-time salary than young men in big U.S. cities.

The finding was attributed to higher college graduation rates among women. However, the overall gender gap continues: Census

data shows that for the general population, the average female worker is paid 80 cents to each dollar paid to men in the same roles.

Advisors help

A new study says investors who work with professional advisors end up saving two to three times more money for retirement than their peers who go it alone.



The Dutch financial firm ING analyzed data from 14,000 customers. About one-third said they spent at least some time with a finan-

cial professional; they reported having twice the amount of money as those who say they spent no time with an advisor.

Unprepared to retire

About 75 percent of middle income households expect to have to work during retirement, while two-thirds say they have not planned for retirement, found a survey of 1,800 households by Wells Fargo.

Older workers who think their Social Security benefits are secure, and those who expect to receive pensions, were the most confident about their futures.

Investment Update is published monthly by OBS Financial Services, Inc. © 2011 All rights reserved. Information has been obtained from sources believed to be reliable, but its accuracy and completeness, and the opinions based thereon, are not guaranteed and no responsibility is assumed for errors and omissions. Nothing in this publication should be deemed as individual investment advice. Consult your personal financial adviser and investment prospectus before making an investment decision. Any performance data published herein are not predictive of future performance. Investors should always be aware that past performance has not been shown to predict the future. If in doubt about the tax or legal consequences of an investment decision it is best to consult a qualified expert. OBS Financial Services, Inc. is a Registered Investment Advisor.

HERE'S HOW TO KEEP YOUR BANK ACCOUNT SAFE FROM ATM SKIMMERS

Just when you thought you had heard it all, scam artists come up with another way to part honest folk from their hard-earned dollars.

One of the latest methods is ATM skimming, which involves temporary physical alteration of ATMs or their surroundings in order to capture your bank card information.

Bankrate.com estimates that thieves are making some \$1 billion annually by stealing information from the magnetic strips on consumer ATM cards.

Experts say that technologically-adept crooks are placing temporary skimming devices right over the ATM slots that accept your card. The devices capture all of the information on the card. Meanwhile, strategically



Innocent ATM users can find their information stolen by devices attached to ATMs.

placed miniature cameras record finger-strokes as ATM users tap in their personal identification numbers.

"All they need to do is encode the information on another magnetic strip and they've recreated your card," Brian Krebs, an expert who blogs about financial security issues, told Marketwatch.com.

Consumers should exam-

ine ATMs before use, says Malcolm Wiley, a spokesman for the U.S. Secret Service. "If anything on the front of the machine looks crooked, loose or damaged, it could be a sign that someone has attached a skimming device or camera," he warns.

Other experts suggest you use ATMs that are well-lit, publicly visible, and not tucked away where it is easier for someone to tamper with them.

You should cover the keyboard with your other hand when entering your PIN. Also, it may be better to stick to ATMs at bank branches, rather than stand-alone ATMs that may not be inspected frequently. Gasoline pumps can also fall prey: over the summer, police in four states arrested thieves who placed Bluetooth devices inside pump handles.