

# INVESTMENT UPDATE

## THE MUNCY BANK & TRUST COMPANY

---

### INSIDE THIS ISSUE:

---

*Yes, the stock market faces headwinds, but those who hold on will be rewarded.* **2**

*Legendary investor Bill Miller steps down at Legg Mason.* **3**

*Boomers went broke in the recession, ignoring long term care possibilities, and more.* **3**

*The secret to retirement success is a high savings rate.* **4**

---

### Points of interest:

- Big U.S. stocks gained an average of 11 percent per year over the last 61 years.
- During that period we suffered through 10 recessions and 10 bear markets.
- We also suffered through financial crises in Japan, Russia, Latin America, and Asia.
- Unemployment has been over 8 percent in seven previous years, and over 9 percent in three.

## WHY YOU SHOULD KEEP INVESTING IN 2012 (AND EVEN UP YOUR ANTE)

Any investor should be willing to admit 2011 was a pretty crazy year for the markets.

They were churned through the year by a weather and nuclear disaster in Japan, a deadlock over finances in Congress that led to a downgrade of U.S. debt, and a major crisis in Europe that threatened to blow apart the European Union and end the Euro as a currency.

The third quarter saw world markets swoon to bear market levels, only to recover swiftly in October, which turned out to be the best month for investors in 20 years.

Withdrawals from mutual funds indicated that many investors fled the market altogether during the year after being pounded with headlines predicting economic disaster and even another Great Depression.

**It's never different**  
Even though the Chicken Littles will tell you it's different this time, a look back at market history suggests it never is different. Consider some history:

Over the last 61 years, the Standard & Poor's 500 Stocks Index has increased by 11 percent compounded annually. Those gains came despite 10 bear markets and 10 recessions.

Think the 2008 financial and auto bailouts were unprecedented? You are forget-



The events of 2011 were enough to scare any investor, but a look back at history shows similar or worse market events in the past.

ting the \$293 billion bailout of the savings and loan industry in 1989, the \$10 billion bailout of New York City in 1975, the first bailout of Chrysler in 1980, the bailout of Lockheed in 1971, and numerous others.

Unemployment topped 8 percent in 7 calendar years, 9 percent (not counting 2011) in five calendar years, and 10 percent in three calendar years.

European debt crisis got you down? How about the Latin American debt crisis of the 1980s, the Japanese asset bubble burst in the 1990s, the Asian debt crisis

in 1997, and the Russian debt crisis of 1998?

Over this period one president was assassinated and unsuccessful attempts were made on three others. We had terrorist attacks in New York, Washington D.C., and Oklahoma City.

### Wars and conflict

The United States fought in five wars and numerous military engagements. It faced the Cold War and the Cuban Missile Crisis.

Society was entangled by the Civil Rights, Black Power, Equal Rights, Gay Rights, and the Environmental move-

*(Continued on page 2)*

## WANT MARKET'S REWARDS? THEN BE PATIENT AND CONTROL YOUR EMOTIONS

(Continued from page 1)

ments.

All of these events and trends roiled the markets. At the end of the day, \$1 invested in big U.S. stocks in 1950 is worth about \$600 today. Think times are tough today? Yes, they are, but they've been tough—or even tougher—in recent history.

### What's your job?

Your job as an investor is to control your emotions, don't do anything rash, remain diversified, and stay the course. That's how you reap a decent long-term return.

Yes, it is true that many investors have made next to nothing for five years running—mainly due to the 2008 bear market. But that trend is unlikely to continue. Long periods of high volatility and underperformance by the stock market have always been followed by extended periods of outperformance and lower volatility.

Will this time be different? Perhaps—anything is possible. But a look back at history suggests that the odds are on the side of long-term



Stocks have risen over the long term.

investors who vow to weather the short-term storms.

## OPTIMISM FROM A TOP MARKET OBSERVER

As the world's stock markets took a vicious tumble in late summer and early fall, one of the market's most prescient observers issued a warning: don't sell now.

Burton Malkiel, economics professor at Princeton and author of "A Random Walk Down Wall Street," wrote an editorial in the *Wall Street Journal* urging investors to ignore the market's recent trends and to focus on the long-term.

### Problems abound

Malkiel acknowledged the long list of negatives that were driving prices down in the third quarter: economic growth had slowed, consumer spending was down, the U.S. credit rating had been cut, and Europe had not fixed its economic problems.

Despite the gloom, "it would be a serious mistake for investors to panic and sell out," he wrote in early August. "There are several reasons for optimism that in the long run we will see higher, not lower, market valuations."

First off, stocks are cheap, he argued. Stock price to earnings ratios were very low by historical standards, while stock dividends were averaging 2.5 percent, comparable to current 10-year U.S. Treasury Note yields.

Meanwhile, even though economic growth in the United States had slowed, U.S. corporations are earning huge profits abroad.

"For large U.S. multinational corporations, the continued growth in emerging markets will be the most important determinant of the future growth of corporate earnings," he wrote.

Consumers are gradually working off the excess of debt they accumulated in the last decade, and their payments to service debt have fallen

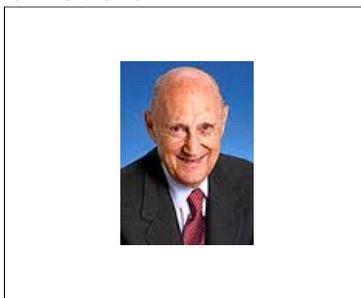
sharply to levels last seen in the 1980s, he added.

### No forecast is perfect

He acknowledged that neither his nor anyone else's forecast is perfect, but he said long experience in the markets has taught some basic lessons.

"Investors who have sold out their stock at times when there have been very large declines in the market have invariably been wrong," he wrote. "We have abundant evidence that the average investor tends to put money into the market at or near the top and tends to sell out during periods of extreme decline and volatility."

His final advice: stay the course. "No one has ever become rich by being a long-term bear on the fortunes of the United States," he wrote.



Burton Malkiel, a leading proponent of efficient capital markets, says now is not the time to give up on stocks and sell out.

*"U.S. corporations are earning huge profits abroad."*

## FAMED MUTUAL FUND MANAGER QUITS AFTER FUND ENDS ITS STREAK

He was described as “one of the greatest investors of our time” by *Fortune* magazine in 2006.

His record of beating the Standard & Poor’s 500 Index for 15 years from 1991 through 2005 is unmatched.

And yet his mutual fund—Legg Mason Value Trust—suffered poor returns over subsequent years, landing him in the bottom of the pack in 2010 out of 1,187 large capitalization U.S. stock mutual funds.

And so the much talked about Bill Miller has announced he is stepping down as portfolio manager of Legg Mason’s flagship fund.

### Luck or skill?

Miller’s record has often provoked arguments over whether his record demonstrated that he had great skill, or just good luck.

Statisticians say that whenever a large group of people competes, probability theory suggests that some will come out ahead by luck, while some will lag behind and the

majority will be average.

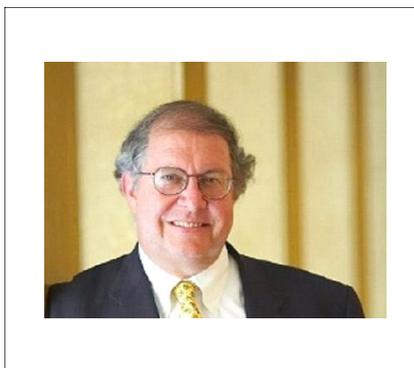
Miller stood out among investment managers because no one had come close to his record of consecutive annual outperformance.

To do him justice, it is well known that he rarely bragged about his performance and that he even noted that when measured by annual periods that did not follow the calendar, his fund lagged behind the S&P 500 Index.

### High expenses

He also had a formidable hurdle to overcome: his mutual fund’s expenses, at 1.75 percent annually, were well above the average of big U.S. stock funds.

He also used a concentrated investment approach, making bold and large purchases of individual stocks. He won big on purchases of Dell, America Online, and Fannie Mae, but later lost on



Legg Mason’s star money manager, Bill Miller, retired after his fund lost its luster.

stocks issued by Eastman Kodak and Bear Stearns.

His post 2005 performance affected his long-term record: MarketWatch.com reported that his fund lagged the S&P 500 Index for the entire 21 years that he ran it, all due to the fund’s results since 2005. In 2008, the fund lost 55 percent.

Investors who can’t stand that type of volatility would do better to give up on looking for a “star” manager and stick to a passive, diversified portfolio.

*“Miller stood out among investment managers because no one had come close to his record of consecutive annual outperformance.”*

## LOST NEST EGGS, LONG TERM CARE, & MORE

Almost 25 percent of baby boomers over age 50 exhausted their savings during the 2008 economic downturn, estimates the Government Accountability Office.

Many older workers lost their jobs and suffered unemployment times that were three times longer than average, the GAO said.

“The Great Recession has had a profound impact on older adults,” said Barbara Bovbjerg of the GAO. “Many have lost employment



and wealth, and they have little time to make up the difference before retirement.”

### Blind to long term care

Only 36 percent of Americans over 50 believe they will ever need long term care, even though the U.S. Dept. of Health and Human Services estimates that 70 percent may need it, a new survey by Sun Life Financial found.

Single people are more cognizant of the possibility of needing care someday, as are wealthier Americans and

those who don’t have children, Sun Life said.

### Good times ahead?

Since the end of World War II the Standard & Poor’s 500 Stocks index has gained an average of 6.8 percent from Oct. 31 to April 30, says Sam Stovall, chief equity strategist at S&P Capital IQ.

Stovall says the Oct. 3 low on the S&P 500—which was 1,099—was probably the lowest point it will hit this cycle. He says the index’s stocks are priced at a 20 percent discount to their median values since 1936, making them a bargain.

Investment Update is published monthly by OBS Financial Services, Inc. © 2012 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.

---

## WANT TO RETIRE BUT CAN'T CONTROL MARKETS? SAVE MORE

The old saying about not worrying about things we can't control and concentrating on those we can applies to retirement planning, says Vanguard, the large mutual fund company.

It conducted a study of market returns, savings rates, and investment horizons as they relate to retirement success. It found that savings rates are very important.

"Our conclusions reinforce that the two levers an investor can directly control—savings time horizon and savings rates, will... provide a higher probability of success, rather than relying on the possibility for higher portfolio returns," Vanguard said.

Starting to save early in a career makes a big difference in retirement wealth, the study found. For instance,



Those suffering from weak investment returns should increase their savings rates.

someone who makes \$64,090 and saves 6 percent of salary beginning at 45 years old, and who puts half of their savings in stocks and half in bonds, ends up with a hypothetical \$128,000 at age 65, Vanguard found.

But someone who starts saving 6 percent of a \$30,000 salary at age 25 ends up with \$359,000 at retirement, nearly three times

the amount saved by the late starter. In order to catch up, the late starter would either have to increase his savings rate, or delay retirement to age 70, Vanguard said.

Vanguard said higher savings rates "can have a substantially more positive impact on wealth accumulation than shifting to a more aggressive portfolio."

A saver who puts away 9 percent of pay starting at age 25 in a moderate allocation ended up with a higher retirement balance than the saver who invested in a more aggressive allocation but put away only 6 percent of income.

The gap in final accumulated amounts between savings rates was even more dramatic in a "worst-case" scenario where markets declined, the study found.