

INVESTMENT UPDATE

THE MUNCY BANK & TRUST COMPANY

INSIDE THIS ISSUE:

A prediction for massive municipal bond defaults has not borne any fruit. 2

Another study shows ho-hum value stocks outperform growth. 3

The world's wealthy add to their nest eggs, rich kids may not have it easy, and more. 3

Retirees can't afford to put all of their money into the bank. 4

Points of interest:

- Dollars spent on credit cards are up 10.7 percent over the last year.
- Gasoline purchases via credit card are up 39 percent.
- The average balance for households that don't pay off their cards each month is \$14,687.
- The average rate on cards carrying balances is 13.1 percent.

CREDIT CARD DEBT GETTING YOU DOWN? IT'S TIME TO GET FREE

Americans live on plastic, and as the economy worsens their dependence is growing. A new survey by First Data Corp. found that dollars spent on credit cards increased in June by 10.7 percent over June of 2010, while transaction numbers grew by 6.8 percent.

The Atlanta-based credit payment processor said that consumers were using credit to buy more basics like gasoline and food.

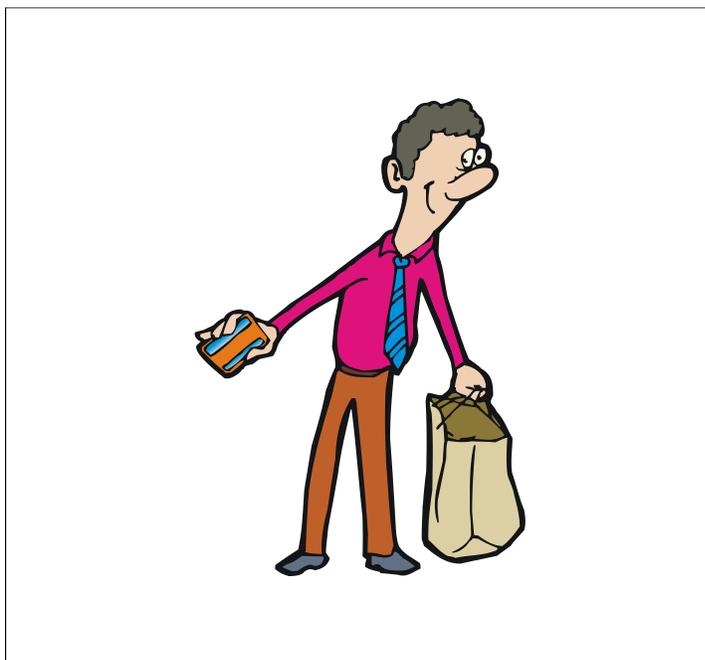
"Consumers are increasingly turning to credit cards to fund non-discretionary purchases," said Silvio Tavares of First Data. "That's because there's been no other positive catalyst, like an increase in wages, to offset higher prices. It's a cash-flow problem."

He said the increase in gasoline purchases was "dramatic," up 39 percent from a year ago.

A growing debt load
Such spending is undoubtedly contributing to the growth in outstanding credit card debt.

About two-thirds of credit card owners do not pay off their balances on a month to month basis. It is even more disturbing that the average balance for households that do not pay off their cards has hit \$14,687, according to CreditCards.com, which tracks industry statistics.

The average interest rate on cards with balances was 13.1 percent as of May, ac-



Consumers are building up their debt loads by increasing their use of credit cards for everyday spending for food and gasoline.

ording to the Federal Reserve Board's most recent report on consumer credit.

Credit card debt is one of the worst forms of consumer debt: interest rates are high, interest payments are not tax-deductible, and the card companies offer minimum payment plans that enslave unwary users for many years.

Getting out of debt
There is good news for anyone carrying such debt: it is easier to eliminate than you may think. All it takes is a little conscious effort and planning.

The most obvious, yet often overlooked, first step is

to stop using the card or cards on which balances are kept. It would be better to swear to do all future purchases by cash, check, or debit card so that you don't add to the debt load.

If you have one card, immediately begin paying more than the minimum payment. A new law requires credit card statements to give you examples of how much interest and time can be saved by paying additional amounts. A box at the top of every credit card bill shows you the consequences—in time and total interest pay-

(Continued on page 2)

PAYING A LITTLE MORE THAN THE MINIMUM SAVES A LOT OF CASH

(Continued from page 1)

ments—of paying just the minimum amount each month. The second line in the box tells you how much you would have to pay monthly in order to eliminate the debt in just three years.

Correction

Last month's story on employer savings plans incorrectly said employees can contribute up to 15 percent of pay. That rule no longer applies. Workers can save up to \$16,500 annually and for those 50 and older, most plans allow a catch-up provision of an additional \$5,500 per year.

What if you can't increase your payment by that much? Just increase it by any amount: \$10 more a month will eliminate time and interest.

Also, you can make a habit of throwing any extra money at the account. If you get \$50 extra from selling a used bicycle one month, then just send it in: the card company will be happy to take it.

Finally, if you have debts on several cards concentrate on paying one off. Then use the amount you were paying



Credit card debt is insidious.

on that card to pay off another card. Pretty soon the payments will snowball in size and you will have all the cards paid down to zero.

THE MUNICIPAL BOND SCARE THAT WASN'T

As we sit in the middle of the European debt crisis and the American debt crisis it is instructive to remember one recent "crisis" that got a lot of attention but never happened: the scare over massive municipal bond defaults by the states.

The call for hundreds of billions of dollars in defaults and a collapse in the muni market came late in 2010 from Meredith Whitney, a former bank stock analyst who had formed her own research firm.

In order to drum up business for her firm she produced a report that claimed to predict gigantic losses ahead as struggling states faced higher costs and lower revenues.

The 60 Minutes effect

She gained a lot of attention in an interview at the end of the year on the TV news show "60 Minutes." She said strapped state budgets would result in a record number of bond defaults over the next 12 to 18 months.

Whitney had some credibility. As a banking analyst for Oppenheimer & Co. before and during the 2008 financial crisis, she was the first to predict that Citibank would cut its dividend. This was one of many drastic measures by financial institutions that caused investors to flee financial stocks.

Her latest prediction was that 50 to 100 counties, cities and towns would default, causing \$100 billion or more in losses, well above the previous record year of about \$8 billion in defaults.

Her comments so unnerved individual investors in the \$8.2 trillion municipal debt market that it fell early in the year as investors re-

deemed individual bonds and shares of bond mutual funds.

Crash has not come

Yet bonds recovered and have been one of the best investments to own as of mid-year. One benchmark, the iShares S&P National AMT-Free Bond Fund, gained 7.2 percent since Whitney was on "60 Minutes."

Meanwhile, defaults on muni bonds are plunging, down 60 percent in the first half of the year compared to last, reported Bloomberg News Service. Last year in the first half there were \$2.3 billion worth of defaults, but this

year only \$746 million.

States have also been slashing costs and payrolls, and getting more aggressive about revenue collection.

In recent interviews Whitney continued to stick by her predictions.



Meredith Whitney's criticism of the municipal bond market scared investors, but her forecast of a wave of defaults has not panned out yet.

"Yet bonds recovered and have been one of the best investments to own as of midyear."

VALUE STOCKS TRUMP GROWTH STOCKS AGAIN: WHEN WILL INVESTORS LEARN?

Growth stocks always seem to be the daily attention getters. Google and Apple, for instance, are today's darling growth stocks and they command large premiums in their prices.

Investors love the growth story because it makes "sense": a rapidly growing, profitable company can only keep getting more valuable, so future increases in stock prices are assured.

Not so fast, say former finance professor Robert A. Haugen of Haugen Custom Financial Systems and his colleague, Nardin L. Baker, chief investment officer for Quantitative Equity Management.

In a new academic paper they say the growth stock model is all wrong. Growth stocks around the world on average have high risks and low returns, they argue in "Case Closed."

Value over growth

They tracked stocks over a 45-year period through 2007 and found that "the

market overreacts to past records of success and failure on the part of companies, making relatively expensive (growth) stocks too expensive and relatively cheap (value) stocks too inexpensive," they write.

But after that initial overreaction the market tends to correct itself quickly, "producing low returns to expensive growth stocks and high returns to cheap value stocks," they add.

Value stocks are cheap in relation to their net assets, earnings, cash flows, and dividends, Haugen and Baker write.

The problem for investors is that value stocks are not sexy. They usually don't have the same dramatic story that comes with growth stocks. Other academic studies have also suggested that some value stocks are downright scary—they are cheap because they have experienced



Brokers love to sell the stories behind growth stocks and investors eat them up.

financial distress and scared off many investors.

Whatever the reason, Haugen and Baker say they looked at value and growth stocks in foreign markets and found the same correlation between risk and return as in the American stock market.

James Montier at GMO, for instance, has estimated investors could have made money during Japan's 20 year bear market by simply owning Japanese value stocks and shorting the country's glamorous growth stocks.

"Growth stocks around the world have high risks and low returns."

THE RICH THRIVE, WEALTHY KIDS, & MORE

Don't cry for the wealthy because they had a fine year in 2010, shows the annual World Wealth Report.

At the end of 2010 there were 10.9 million individuals worldwide who each had more than \$1 million in investable assets, said Merrill Lynch Global Wealth Management, which sponsors the study.

Their combined wealth reached \$42.7 trillion, up 9.7 percent during the year. And the ultra-wealthy, those with \$30 million in investable as-



sets, grew by 10.2 percent to 103,000 individuals with \$15.4 trillion in wealth.

Rich kids may cry

The rich may be getting richer but that doesn't mean all of their children will profit, according to a recent survey of wealthy adults by U.S. Trust.

It found that 80 percent felt their children will be unable to handle their inheritances, while 50 percent said leaving an inheritance is not important to them.

A costly book

Sharyn Silverstein, 64, answered an ad from Fisher Investments in 2007 because she wanted a free book offered by Forbes columnist Kenneth Fisher, reported Bloomberg News Service.

Instead, a Fisher salesman helped to liquidate her bond portfolio and invested all of it in stocks, just before the 2008 stock market crash, even though she told the salesman she needed income.

Silverstein recently won a \$376,075 arbitration settlement from Fisher's firm.

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.

FIXED INCOME WILL FAIL AS AN INFLATION HEDGE IN RETIREMENT

What do many investors who are about to retire or are in retirement worry about? They seem to focus on the stability of their principal.

This is a big mistake. Fixing the value of your portfolio at retirement in order to avoid market "losses" probably is a guarantee that you will not succeed financially in retirement.

The biggest financial foe you face over a lengthy retirement is not temporary stock market volatility; it is long-term erosion of your purchasing power.

Consider the cost of a postage stamp 40 years ago. In the summer of 1972 first class mail cost just 8 cents. Today it costs 44 cents, an annualized increase of over 4 percent per year.

Today it's impossible to



Stocks are the key to keeping your nest egg healthy during retirement.

put your money into just about any fixed-income instrument (except for risky high yield bonds) with a rate anywhere near 4 percent.

In fact, a 30-year rally in bond prices has reduced yields on short-term bonds to nearly zero.

Meanwhile, consumer inflation is anything but zero. The current inflation rate, as measured by the Consumer

Price Index, stands at 3.6 percent.

Although bonds kept up with inflation over the last 40 years, at current prices it seems hard to believe they can over the next 40.

The stock market, however, has done a better job of keeping up. Over the last 40 years the Standard & Poor's 500 Index has returned about 10 percent per year, despite dozens of small to large temporary declines in value.

The stock market also allows long-term investors to keep more of what they have earned. Interest on bonds and bank deposits are taxed at a taxpayer's highest current regular rate.

Long-term capital gains on stocks, however, receive favorable tax treatment. The current rate is only 15 percent.