INVESTMENT UPDATE

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THE MUNCY BANK & TRUST COMPANY

INSIDE THIS ISSUE:

Mattress investors did not do as well as those who stuck with stocks through 2008.

Leveraged and inverse ETFs can get you into trouble fast.

Americans are retiring later, states with highest and lowest taxes, and more.

Should you sell in May and go away or stick with stocks?

Points of interest:

- Investors in America's oldest mutual funds made millions from the 1920s until now.
- Top mutual funds often go through extended periods of underperformance.
- One study shows investors abandon top funds after they have underperformed and buy them after they have had outstanding performance.

BUYING AND HOLDING MUTUAL FUNDS IS VERY MUCH IN STYLE

In this go-go financial era when investors buy and sell exchange traded funds by the hour, the notion of holding a mutual fund for the long term seems quaint.

Yet the best academic research, combined with compelling anecdotal evidence, indicates that buying and holding a portfolio of mutual funds for a long time is probably the best and easiest avenue to investment success.

For a super long-term example, look at the fortunes of some of the oldest mutual funds in America—the Pioneer Fund and Massachusetts Investment Trust.

Investors who purchased those funds back in 1924 (MIT fund) and 1928 (Pioneer) were amply rewarded for hanging onto the funds through thick and thin, depression, recession, panics, world war, and revolution.

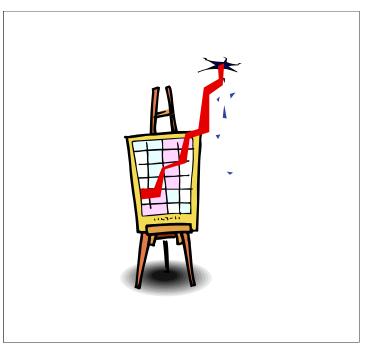
The power of patience Pioneer is the thirdoldest U.S. mutual fund. From its founding through 2010, it has grown an astonishing 938,000 percent.

A \$1,000 investment in 1928 would have grown to almost \$10 million by the end of 2010.

Its average annual return was 11.8 percent after expenses.

MIT fund did almost as well, returning 8.9% annually since 1924.

Of course, not every mu-



Investors who buy and hold well-run mutual funds for the very long term can achieve astonishing growth.

tual fund has this experience. Many funds that were in existence years ago have gone out of business and been folded into other funds due to poor performance.

Pioneer and MIT share consistent value-oriented investment philosophies with an emphasis on low stock turnover.

That shows investors must pay attention to simple factors such as consistency, cost, and investment turnover when selecting funds.

Learning not to fold Meanwhile, investors who are convinced they are in the right funds must learn not to give up during inevitable periods of market underperformance.

A new study by Robert W. Baird & Co. looked at 370 mutual funds that had beaten their benchmarks over the last 10 years with lower volatility than the benchmarks.

It found that one-quarter of the funds suffered one-year periods when they lagged behind their benchmarks by as much as 15 percent or more. More than half of the funds lagged behind their benchmarks by at least 10 percent for a year.

"There are always going

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AVOID BUYING HIGH AND SELLING LOW; STICK WITH A GOOD PORTFOLIO

(Continued from page 1)

to be short periods when portfolio managers can look foolish, but the value is added over longer periods of time," said Aaron Reynolds, senior portfolio analyst for Baird.

Baird's study showed that when one of the funds underperformed the market money flowed out, and then when it had good performance again money flowed in. Investors who bailed on the funds and later returned bought high and sold low.

Investors who own a portfolio of mutual funds, rather than holding just one fund, may find it easier to stick with each fund even though its current performance may be below

If the funds invest in different types of assets such as large and small stocks, foreign and domes- It is better to have a portfolio of funds. tic stocks, government and corporate bonds-then it is likely that during most periods some funds will do well and offset the performance of those doing poorly.



This would encourage them to hold the portfolio for the long term and make it easier to ride out rough periods in the markets.

A MATTRESS IS A BAD PLACE FOR YOUR MONEY

The market crash of 2008 certainly scared some investors out of the market.

It was not uncommon for nervous investors to shift their money from stocks to bonds, or to stop contributing to their retirement plans.

Those strategies backfired however, and investors who stuck with their stock investments, or who continued to add new money to them, did far better than those who sought the safety of the proverbial "mattress strategy," says the National Center for Policy Analysis.

Stocks beat all Last year the Center studied how various portfolios performed from 2008 through 2009.

"Even during a tumultuous year for the market, a stock index outperformed a bond index fund, a money market account or simply hiding the money in the mattress," wrote policy analyst Pamela Villarreal.

A follow-up to that study, using 2010 investment results, further validated those investors who hung in during the downturn and subsequent recovery.

The Dow Jones Industrial Average gained 77 percent from March 2009 through December 2010, she wrote. In March 2009 alone, the Standard & Poor's 500 Stock

index posted its biggest 10day gain since 1938.

Those who stopped contributing to their 401k plans in 2008 missed out

Investors may have slept better with their money hidden in a mattress after the 2008 bear market, but their investment returns suffered.

on a big opportunity.

A \$100 monthly taxdeferred contribution to an S&P 500 index fund from Dec. 1, 2008 through Dec. 31, 2010 would have earned \$783, for a gain of almost 26 percent. But an investor who

instead decided to have their money go into a money market fund would have earned just \$21, while a bond fund would have earned only \$140.

Bad timing Is it better to hold onto your stocks through a market downturn or to sell out and attempt to buy back in when

> prices are rising? Villarreal noted that "most experts agree that those who invest this way rarely purchase stocks at the optimal time."

Even an investor with perfect timing, who got out of stocks at the end of 2008 and bought back

in March 2009 would have made less money than the investor who stuck with their stock portfolio, Villarreal found.

"Selling and shifting money out of an asset when it is priced low is a sure way to lock in a loss," she concluded.

'Even during a tumultuous period, a stock index outperformed a bond index."

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EXOTIC ETFS CAN LAND UNWARY INVESTORS IN PLENTY OF HOT WATER

A relatively new type of investment vehicle carries very high risks for the unsophisticated, federal and industry regulators are warning.

So-called leveraged and inverse ETFs can put unwary investors in a bad place in no time flat, warns the Securities & Exchange Commission and FINRA, the self-regulator for the brokerage industry.

ETFs, or exchange traded funds, are similar to mutual funds—they are pooled investments in a portfolio of securities. However, unlike traditional mutual funds, they trade actively on a stock exchange.

Exotic bets

Leveraged and inverse ETFs use a host of exotic investment vehicles—including swaps, futures contracts, and other derivatives.

Leveraged ETFs try to achieve double or triple the performance of the underlying indexes they invest in, while inverse ETFs try to double or triple in inverse relationship to the index—in other words, to go up when the index falls.

These ETFs are designed to deliver that performance on a daily basis only. Their performance over weeks or months can differ significantly from the index, even to the point where an investor in the index would have made money but the investor in the ETF would have lost.

Real life losers
FINRA noted that
one ETF index returned
2 percent from Dec.
2008 through April 2009. Yet
the leveraged ETF seeking to
return twice the index's return
actually fell by 6 percent,
while the inverse ETF seeking
to profit when the index fell
plummeted by 26 percent.

Some investment firms have criticized these types of ETFs, calling them booby traps for average investors.

BlackRock Inc. and Invesco PowerShares Capital Management have asked the SEC to consider restricting the sale of such funds to sophisticated, high-net-worth inves-



Investors who make mistakes with leveraged and inverse ETFs stand to lose big money.

tors.

BlackRock will not sell these investments to individuals; instead, it only deals with institutional investors. "These products are difficult to explain," Noel Archard, head of U.S. products at BlackRock's IShares unit, recently told Investment News.

Bloomberg News recently called commodity ETFs the "worst investment in America."

"Some investment firms have criticized these types of ETFs, calling them booby traps for average investors."

RETIRE LATER, TAXATION WOES, & MORE

Americans are less confident about their ability to retire than they have been at any time in the last 20 years, a survey by the Employee Benefit Research Institute found.

The percentage who say they are "not at all confident" rose to 27 percent this year.

More workers say they plan to work past age 65. In 1991 only 11 percent of workers gave this answer; this year, 36 percent said they planned to work past 65. More than half of workers surveyed said they had less than \$25,000 in retirement savings.

Taxation blues
Taxpayers in Connecticut
have to work until April
27 to earn enough to
pay their federal, state,
and local taxes. In Alaska, by contrast, tax freedom day comes on
March 26.

The national average is April 9, says the Tax Foundation.

The national average state and local tax burden is

\$4,160, while Connecticut takes the lead at \$7,256 and Mississippi is the lowest at \$2,678.

Billionaire's list
The latest Forbes list of
billionaires is bigger than ever,
with 1,210 people around the
world making the list. Together
they control \$4.5 trillion in
wealth.

Carlos Slim Helu of Mexico tops the list with \$74 billion, followed by Bill Gates of Microsoft at \$56 billion, and investor Warren Buffett at \$50 billion. Brazil, Russia, China, and India added 108 new billionaires.

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LONG-TIME SEASONAL TIMING STRATEGY IS NOT A BIG WINNER

"Sell in May and go away" is one of the oldest adages on Wall Street.

It refers to the supposedly superior annual investment period of November through April, and the supposedly inferior May through October period.

Proponents claim
that the summer and early
fall months are often accompanied by either drops
or weak periods for
stocks, and that investors
who take a vacation from the
market for six months will
have superior performance.

There are a couple of flaws with this strategy, however.

For one, 75 percent of the six month May through October periods over the last 20 years have been positive for stocks, as measured by the Standard & Poor's 500



companied by either drops Wall Street has long held that investors should take a six month vacation beginning in May.

Stock index.

Even though some were relatively weak, an investor who took the period off missed some gains. Even last year, when stocks took a sickening fall in the spring and summer, an investor who stuck it through made almost one percent for his troubles.

In the best periods, he also missed gains ranging from 8 percent to 20 percent.

Another flaw in this seasonal theory over the last 20 years is that it only worked in bear markets. Four of the five down periods from May through October occurred during the 2000-2002 and the 2008 bears.

There was only one period not falling in a bear market—May through October 1998 – when the market fell, and the decline then was less than one-half of one percent.

Finally, there are the costs of making switches into and out of investments.

Brokerage and trading charges often apply. Even worse, anything sold outside of a tax-deferred retirement account will incur capital gains tax on profits.

On the whole, it doesn't look like investors have much to gain by skipping out in May.

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