

# INVESTMENT UPDATE

## THE MUNCY BANK & TRUST COMPANY

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### Points of interest:

- The average 401k account balance is just \$74,900.
- Those over 55 who save regularly have average balances of \$233,800.
- The average 401k contribution rate has remained stagnant at 8.2 percent of pay.
- Workers can save up to \$16,500 annually and for those 50 and older, most plans allow a catch-up provision of an extra \$5,500 per year.

## AMERICANS ARE STRUGGLING TO ACCUMULATE RETIREMENT SAVINGS

The latest statistics on 401k plan balances, savings rates, and employees' confidence in their ability to retire are troubling, to say the least.

Annual surveys by several major financial organizations found that the average employee has an inadequate account balance, that employees are guessing at how much they need in retirement, and that savings rates—while up a bit in the last year—are still probably too low.

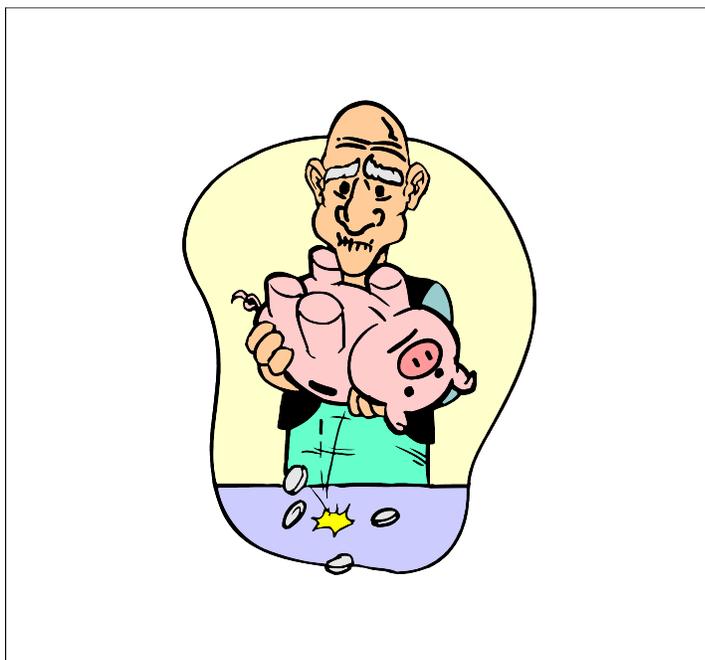
Fidelity Investments, a major investment and mutual fund company in Boston, said its annual survey showed that the average 401k balance has increased to an all-time high of \$74,900, up 12 percent from a year ago.

Although the increase is encouraging, the average balance is pitiful. Using the 5 percent rule for retirement withdrawals, such an account would generate just \$3,745 in before-tax income.

#### Some do better

The average balance for workers age 55 and older who have contributed continuously for 10 years or more was \$233,800, Fidelity said. Even at that level, a conservative retiree would only be able to spend about \$11,700 in the first year of retirement.

One positive finding was an increased willingness by employees to increase their 401k contributions. Fidelity said 10 percent of workers



More workers than even before are worried that their savings will run out when they are retired.

who were surveyed planned to increase their contributions, the highest level since Fidelity began tracking the rate in 2006. The average contribution rate remained at 8.2 percent of pay, unchanged over two years.

The law allows employees to save up to a maximum of \$16,500 per year, with extra contributions of up to \$5,500 allowed for those over age 50.

#### Loans on the rise

Another survey by the Investment Company Institute found that more employees are taking 401k loans. In 2010 some 18.2 percent of

those surveyed took a loan, compared to 16.5 percent the year before.

Such loans not only reduce the balance available for retirement but require employees who lose or change jobs to immediately pay them back or face income taxes and penalties for early withdrawals.

The average worker has become more pessimistic about his chances for a comfortable retirement, found an annual survey by the Employee Benefit Research Institute, a nonprofit research organization in Washington, D.C.

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## USE THE FIVE PERCENT RULE TO FIGURE OUT HOW MUCH TO SAVE

(Continued from page 1)

Twenty-seven percent of workers say they are not at all confident in their ability to retire, the highest negative level in 21 years of the organization's Retirement Confidence Survey (RCS).

The EBRI survey also found that a third of workers had to dip into their savings in 2010 to pay for basic expenses.

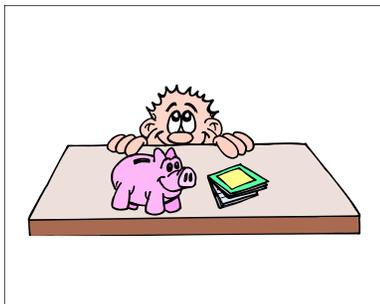
### What is enough?

The most disturbing finding of all might be that 42

percent of those in the EBRI survey said they determined their retirement needs by guessing at how much to accumulate.

Although there is no substitute to a well thought-out retirement plan, one quick way to estimate how much to save involves looking at your current income, subtracting your potential Social Security benefit, and then aiming to save enough money to make up the gap.

You should aim to save enough money so that a 5



Workers guess at how much to save.

percent withdrawal from savings will be enough to fill the gap between your Social Security benefit and your desired retirement income.

## HOW TO AVOID FREQUENT TRADING MISTAKES

The wealthy are human too—they make the common mistake of trading in the financial markets too much, even as many realize they are trading excessively, says Barclays Wealth, a division of Barclays bank.

It surveyed 2,000 wealthy investors (those with a net worth over \$1 million) of all ages and found that 40 percent believe they must trade frequently to do well in the markets.

But in a surprising finding, half of those who trade frequently said they believed they traded too much.

"There is a substantial proportion who are troubled by their behavior. This is a novel finding for me," Greg B. Davies, head of behavioral and quantitative finance at Barclays, told *The New York Times*.

### Men vs. women

Barclays found that men were more likely to trade too much than were women. This finding replicates that of several other investor studies.

Men participating in the Barclays study reported feeling more composed than women and less subject to stress when making trading decisions. Women reported being more likely to use self control strategies to avoid financial mistakes.

The study also found that age does indeed bring wisdom.

Older investors reported being more calm, satisfied, and accepting than their younger counterparts. Older investors were less likely to endorse frequent trading. They were more likely to practice a buy-and-hold strategy, Barclays said.

Davies said these tendencies benefit older investors. "If one starts from a

naturally higher level of satisfaction, you will be less anxious, less likely to trade emotionally, less likely to harm your performance over time and less likely to need assistance with self-control," he said.

**Try control strategies**  
Barclays offered some tips on strategies to help investors

control themselves.

Investors can deliberately avoid current information about how the market or their portfolios are doing in order to stick to a long-term strategy.

They can use rules to make better decisions,

such as deciding to spend only out of income and not out of capital.

Barclays recommends delegating financial decisions to others and says you can do that by having an investment advisor manage your portfolio.



Frequent stock traders are often unhappy with their results. The use of simple trading rules can help you limit the damage from your decisions.

*"The study also found that age does indeed bring wisdom."*

## EVEN THE BEST INVESTMENT MANAGERS CANNOT OUTPERFORM THE MARKETS

Many investors want to believe that they can find an investment manager who, based on his or her past performance, can continue to beat the markets and offer superior returns.

Studies of the performance of mutual fund managers have found little evidence of the persistence of good performance or of excess skill among mutual fund managers.

Now three finance professors have done a detailed study of institutional investment managers who invest for public and private retirement plans, endowments, foundations, and unions.

Their results indicate that as a group these managers also provide little evidence of skill or performance persistence.

### Less pressure

This is a significant finding because some have argued that mutual fund managers have a marketing handicap—they have to compete with other managers in a pub-

lic marketplace where everyone's returns are open knowledge, and they may have to take extra risks in order to distinguish themselves from the crowd.

Institutional money managers usually answer to sophisticated investment committees who have long-term views of the markets and may tend to pressure the managers less to make sudden moves.

### A big sample

In a paper slated for publication in *The Journal of Finance*, Jeffrey A. Busse and Amit Goyal of Emory University and Sunil Wahal of Arizona State University looked at 4,617 institutional investment funds run by 1,448 management firms. Their study corrected for survivorship bias among the managers over the period from 1991 through 2008.

"Before fees, we find little evidence of superior performance, either in aggre-



Investment managers at institutional funds do not outperform the market on average.

gate or on average," they said in the paper, titled "Performance and Persistence in Institutional Investment Management."

They said that once a manager's style of investing and evidence of stock momentum are factored out, it appears managers offer no extra performance.

"One logical conclusion might be that plan sponsors should engage in entirely passive asset management," the authors wrote.

*"As a group these managers also provide little evidence of skill or performance persistence."*

## CARD SHOPPERS, ETF INDICATOR, & MORE

The best credit card shoppers in the United States live in Rhode Island and Washington, D.C., found a national survey by FINRA, the regulator of stock brokerages and brokers.

About 41 percent of Rhode Island residents who were surveyed said they shopped among credit cards for the best terms and rates, compared to a national average of 32 percent who shopped around.

Missouri and North Carolina had the lowest number of residents who compared cred-



it cards before selecting the best, FINRA said.

### The ETF indicator

Yet another study has found that the actions of average investors are a reverse indicator of future market trends.

TrimTabs Investment Research measured the flows of money into stock-oriented Exchange Traded Funds (ETFs). "We observed that equity prices tend to fall after equity exchange-traded funds rake in large sums of money," TrimTabs reported. It noted that

"ETFs are used primarily by retail investors and day traders—the least informed and most emotional market participants."

### Elder care costs

The financial toll on elder care providers who are 50 or older averages \$303,880 per person in lost wages, pensions and Social Security benefits due to leaving the work force early to care for a parent, show statistics compiled by the University of Michigan.

For women, the cost is higher at \$324,044, the University's study found.

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## AMERICAN TEENS HAVE A LOT TO LEARN ABOUT THEIR FINANCES

American teenagers have a lot of interest in finances and money, but lack basic expertise necessary to succeed in the financial world, a new survey by Charles Schwab & Co. found.

The San-Francisco based financial firm's 2011 Teens & Money survey of kids age 16 to 18 also found that teens were affected both financially and emotionally by the recession.

Some 64 percent said they are now more grateful for what they have while 58 percent said they are less likely to ask for things they want.

It may warm the hearts of some parents to learn that 56 percent have more appreciation for how hard their parents work.

Teens also feel their money issues are different



Teenagers say it is hard to get a job but they expect big salaries.

than those faced by their parents or grandparents. Seventy-nine percent said college is "much more" expensive now, while 68 percent acknowledged the pressure to have computers, cell phones, and clothes.

Fifty-seven percent said it is harder for them to get a job.

Salary expectations for those who intend to work were a little grandiose. The average expected starting salary was

\$73,000, while the average salary they expect when established in their career was \$150,000. While they think their parents' average annual income to be \$70,000, the median household income according to the U.S. Census Bureau is \$50,000.

Schwab's annual survey revealed that general knowledge about financial matters seems to have declined between 2007 and 2011. Back in 2007 some 67 percent knew how to write a check; this year the number dropped to 60 percent.

Fifty-one percent said they knew how to balance a checkbook in 2007 compared to 35 percent today. Forty-three percent knew how credit card interest and fees worked in 2007; the number in 2011 had dropped to just 32 percent.