

INVESTMENT UPDATE

THE MUNCY BANK & TRUST COMPANY

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Points of interest:

- For the first time ever the Federal Reserve Board has pledged to keep rates stable for a specific time period—two years.
- Mortgage and home equity loan rates will continue at historic lows.
- Savers will be stuck with anemic interest rates through mid-2013.
- Stock and bond holders may benefit.

THE FEDERAL RESERVE'S RATE PLEDGE HELPS BORROWERS BUT HURTS SAVERS

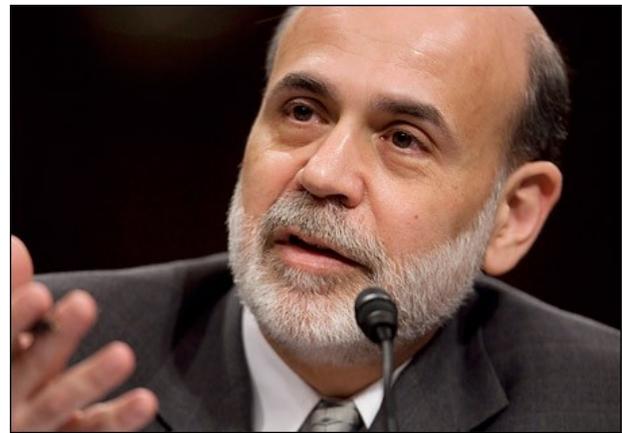
The Federal Reserve Board, acting in the midst of a U.S. debt downgrade by Standard & Poor's and a stock market panic, last week delivered a first-ever pledge to keep interest rates at current low levels for a specific period, namely the next two years. The decision will help homebuyers and borrowers, but will keep interest rates for depositors in check.

The pledge was historic and, for the Fed, even radical. Indeed, three members voted against it. Usually the Fed indicates where it currently wants to see short-term rates and little else. Since the 2008 recession, it has said it would keep rates low for "an extended period." The Fed doesn't usually like to telegraph its moves, and would rather let the market speculate on its future actions.

Taking the pledge

This time, faced with a sharp slowdown in the world economy, European government debt problems, and the U.S. debt downgrade, the Fed said economic conditions "warranted exceptionally low levels for the federal funds rate at least through mid-2013."

For consumers planning their future, this commitment is somewhat of a gift. For instance, those who have variable rate home equity loans and who previously worried that interest rates were on the way up can rest easier: their rates probably



Federal Reserve Board Chairman Ben Bernanke told borrowers last week that the low-rate ride will continue for two years.

will remain stable for the next two years.

Anyone planning on buying a home also has more assurance that they can get a mortgage at historically low rates. As of mid-August the national average interest rate on a conventional 30-year fixed mortgage was just 4.2 percent, according to BankRate.com, which surveys banks regularly.

Homeowners who have mortgages with interest rates above 6.2 percent and with 15 or more years of payments remaining may benefit by refinancing their loans. Because there are fees associat-

ed with refinancing, they should make sure the interest savings will make up for the fees. Also, they may want to pick a term similar to the remaining term on their loans. It won't be helpful to refinance out to 30 years if the current mortgage has just 20 years to go.

Savers left with little

Those who keep money in the bank or in a money market fund won't like the Fed's pledge. Interest rates on short-term deposits have been very low over the past several years and now are likely to remain that way for

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BOTH BOND AND STOCK OWNERS MAY BENEFIT FROM FED'S PLEDGE

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another two years.

The national average one-year certificate of deposit rate was less than 0.9% in mid-August, according to BankRate.com. At that rate it would take over 77 years to double the size of a CD!

Certainty for bonds

On the other hand, those seeking a higher rate now have more assurance that short-term, high quality bonds, which are yielding more than bank deposits, will

retain their values over the next few years. That will make them more attractive to savers who want extra yield without much more risk.

A gift for stocks?

Stock market investors may also benefit: without rising interest rates, there won't be anywhere else to go for investors looking for higher returns.

If the stock market calms down in the coming months and it appears the economy is growing again, it is possible that investors stuck in low-



Lower interest rates help bond owners.

yield alternatives will start putting money to work again in stocks, driving up prices and returns for current stockholders.

DON'T GET CAUGHT IN A PONZI SCHEME

In 1920 Charles Ponzi defrauded investors for nearly \$7 million in the type of scheme that has since borne his name. Ponzi, who went to prison and died in poverty, would have been proud of his protégé Bernard Madoff, now in prison for defrauding investors of an estimated \$65 billion in his own Ponzi scheme.

Despite Madoff's notoriety, big and little Ponzi schemes are uncovered regularly and individual investors continue to lose thousands to hundreds of thousands of dollars in them. *Investment News* last year reported that Ponzi schemes involving over \$9 billion in losses were reported in 2010.

Thriving on distress

These schemes seem to thrive when legitimate investment markets are in distress: Ponzi schemes usually promise generous, steady returns and attract investors trying to avoid the stock market's ups and downs or trying to improve on low rates on bank deposits.

You should understand how a Ponzi scheme works and know the warning signs so that you can protect yourself, your family, and friends.

Ponzi schemes are pyramids: The scam artist continues to take in new money and uses that to make "interest" and "principal" payments to

previous investors. Typically the schemes collapse under their own weight as it becomes impossible for the operators to bring in more and more money to keep paying off earlier investors.

Ponzi perpetrators typically convince an initial group of investors of their investment "idea," promise a high rate of return, and then build

credibility by delivering on those promises by using new money to pay off initial investors.

Spot the Ponzi

The Securities and Exchange Commission offers these red flags:

1. A promise of high returns with little or no risk.
2. Consistent returns that don't fluctuate with markets.
3. Irregular paperwork and a lack of third party disclosure on investments.
4. Difficulty receiving payments.

Ponzi operators typically are not federally- or state-licensed and their investments are not registered with authorities. If you are suspicious of any financial salesperson or investment, check on licensing and registration with the SEC and state authorities.



Charles Ponzi deceived thousands of investors in 1919-1920 promising big returns on postal receipts. He ended up in prison.

Ponzi operators "build credibility by delivering on those promises by using new money to pay off initial investors."

EMPLOYEES RELY HEAVILY ON 401K PLANS TO BUILD RETIREMENT WEALTH

The rapid decline in traditional pension plans for employees in the private sector has placed greater responsibility on them to save and invest for retirement.

A 401k savings plan has become the principal vehicle for many employees. It has grown to be so important, in fact, that half of the workers who participate say they would not save any money toward retirement if it weren't for their 401k accounts, according to a new survey of 1,000 plan participants by Fidelity Investments.

No IRAs

Surprisingly over one-fifth of those in the survey said they don't use any other savings vehicles for retirement, including Individual Retirement Accounts.

An employer-provided 401k allows employees to put away up to \$16,500 annually. For those 50 and older, most plans allow a catch-up provision of an additional \$5,500 per year.

Although half of those in

the survey said they would contribute more money to their 401k plans, many indicated that hard times had scotched those good intentions.

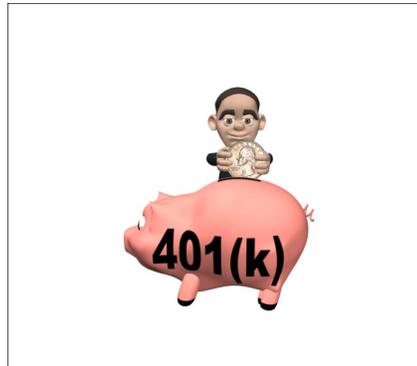
Twenty-five percent of the workers surveyed said they had reduced their contributions, and half of those said they already regretted or expected to regret that decision.

Meanwhile, almost another quarter said they had borrowed against their accounts.

Employer plans that offer matching contributions seemed to encourage employees to save more, Fidelity found. About half said they had increased their contributions in recent years because their employers offered dollar matches.

Boosting your savings

There are some strategies you can use to boost your savings to the maximum allowed. First, never let employ-



The 401k plan has become a vital source of retirement savings for employees.

er contributions go unclaimed. Employers often match the first 3 percent to 6 percent of pay that an employee contributes.

Second, every time you get a cost of living increase or a bonus, increase your contribution rate by 1 percent to 2 percent of salary. If you keep doing that regularly you will reach your maximum contribution within a few years.

Once you've reached the maximum, use an IRA, preferably a Roth IRA, for additional retirement savings.

"Never let employer contributions go unclaimed."

DOUBLE DIP, ELDER MONEY ABUSE, & MORE

Economists may not be sure whether we have entered a double-dip recession, but middle-class consumers are convinced the downturn is here, found a survey by First Command Financial.

It asked 1,000 consumers between age 25 and 70 who had household incomes of at least \$50,000 about their economic outlooks.

Two-thirds said the American economy has slipped back into recession, up from about half who said that in a year-earlier survey.



The majority also believed the recession would last a year or more.

Conning the elderly

One-third of financial abuse of the elderly is perpetrated by family, friends, and neighbors, according to a study by the insurance company MetLife.

Its 2011 report on elder financial abuse found that forged checks, stolen credit cards, and the transfer of assets were to blame. Most victims are between the ages of 80

and 89 and they tend to live alone and require health or home maintenance care, the study found.

Underwater mortgages

The majority of homeowners told a survey by Rasmussen Reports in July that their mortgages were worth more than the value of their homes, the polling firm said.

The 51 percent who said they were underwater increased sharply from the 39 percent of homeowners reporting they were in that situation in December 2008, Rasmussen said.

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BAD TIMING BY MUTUAL FUND BUYERS HURTS THEIR RETURNS

During the sharp stock market decline of late July and early August mutual fund investors were pulling money out of stock and commodity funds at a rapid clip.

Their decision to sell into a big market drop makes one wonder whether that after the dust clears they will have once again demonstrated bad timing.

A study released by Morningstar Inc., the investment data firm, just before the summer stock swoon showed that the majority of mutual fund investors had such bad timing they underperformed the returns offered by the funds they owned.

“Large flows from equity funds to bond funds in the past couple of years have meant that investors who did make changes were generally



Mutual fund investors have bad timing.

going the wrong way,” the company said.

Morningstar compared inflows and outflows for various mutual fund categories and then weighted returns to investors by the money invested in each asset class.

The results, it says, tell “us how the average investor fared in a given asset class.” By comparing the average investor return to the average

overall return for an asset class, Morningstar was able to tell if investors were doing as well as the investments they owned.

For the most part, they did not do well over the one- and three-year periods ended last Dec. 31.

For instance, over the full year 2010, the average U.S. stock fund earned 18.6 percent, but the average investor in such funds earned 16.7 percent because of timing decisions, Morningstar said.

Out of six asset classes investors only beat one: Alternative funds returned 3.6% for the year, but the average investor earned 16.3%, the company said.

Over the three years ended last Dec. 31 investors underperformed in five of six asset class categories, it added.