

CITY SECURITIES WEALTH ADVISORS

Your Life. Your Goals. Your Advisors.

April 13, 2011

As we enter the second quarter of 2011, I want to briefly update you on our current planning work and investment strategies. The environment that we are in presents significant challenges for the accumulation of wealth and for generating lifetime income. The levels of uncertainty for many critical variables are high, including inflation, taxes, risk of loss, value of the dollar, employment, social policy (health care and social security in particular), and expected growth.

Last week I had an insightful conversation with a long time client that recently retired and is transitioning to generating income from their accumulated wealth. Our phone call was preceded by an email containing a list of solid questions he had for me. We discussed the handling of his 401(k) plan, access to their assets in the event of my demise (that question always takes me by surprise), strategies to ensure their wealth is safeguarded from fraud, creditors or custodians or another Bernie Madoff, availability of funds in the days following the death of a spouse (a very good question), wills and trusts, upcoming Required Minimum Distributions, and setting up a monthly automatic income. More importantly, in the span of 30 minutes we were able to confirm appropriate safeguards and liquidity, determine estate planning next steps, setup an automatic monthly income from their assets, and implement a strategy to handle required distributions automatically. As a CFP practitioner, it is easy for me to take these routine matters for granted, so the client's subsequent comment was prescient:

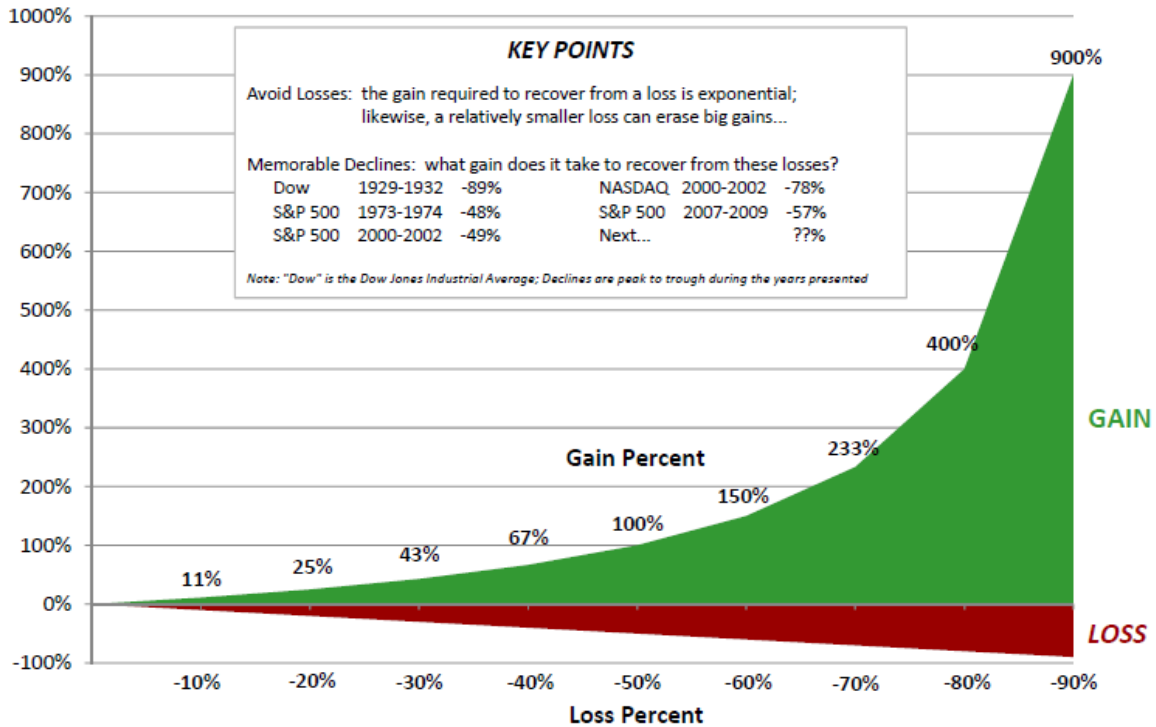
"I've never been retired before, so this is all new to me."

These matters are not routine for clients, and are of great importance. As more and more clients approach the distribution phase of their lives, we have never been more prepared to advise clients how to generate income that is sustainable throughout an extended lifespan.

In my last quarterly update I discussed the positioning of assets into various buckets as the structural solution to the uncertainties of accumulation and income planning. These buckets include an emergency reserve for immediate liquidity and cash flow, a defensive reserve to provide near-term income during economic downturns, and lifetime funds designed to generate inflation-adjusted income for the long haul. The illustration of this strategy is reprinted below.



While we employ distinctive investment strategies appropriate for the unique objectives and time-frame of each bucket, we have one overarching focus for the strategy as a whole: capital preservation. It is always tempting for investors to focus on return rather than risk, but this tendency rarely ends well. The reason for focusing on risk over return is simple mathematics – the lower the portfolio loss during market declines, the lower the subsequent returns needed to restore wealth. For example, a 20% loss requires a 25% subsequent return to break even, while a 50% loss requires a 100% return before the losses are erased. Thus, *focusing on capital preservation serves to significantly increase the total return over time* – even more so when dealing with the cash flow requirements, behavior, and time frames of individual investors.



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As I review the incoming portfolios of new clients, I continue to be amazed by the high levels of risk being taken by those near or in retirement. Exposing oneself to the real possibility of a 50% decline in asset value is not an acceptable level of risk for all but the youngest of investors, particularly given what we know about the ability of lower risk exposure to actually drive higher long term returns. Conversely, investing too conservatively and generating negative real returns (returns after taxes and inflation) year after year is an equally unacceptable risk to lifetime income. As with most things in life, a balance must be found between these. I believe the combination of an appropriately sized defensive reserve, along with risk-managed long term funds, strikes this balance and positions us to effectively adjust for uncertainties now and in the future.

During the first quarter of 2011, domestic stocks rose 5.92% as measured by the S&P 500, international stocks rose 3.26% (MSCI EAFE index), and core fixed income increased by 0.42% (BC Aggregate). We are continuing to position our portfolios for the increasing possibility of rising interest rates, inflation, and a

declining dollar by reducing US equity exposure, increasing international holdings, emphasizing inflation protected fixed income, and laddering bond holdings over shorter maturities.

As the year progresses, I will continue to keep you updated and look forward to each of our conversations. As always, please do not hesitate to call my office any time. It is our pleasure to serve you and your family.

All the best,

A handwritten signature in cursive script, reading "Kenneth F. Klabunde".

Kenneth Klabunde, MS, CFP®