FALL 2011

CJM Wealth Advisers, Ltd.

PLANNING WITH PURPOSE

Trick or Treat? – It Depends on the Day You Ask!

The autumn stock markets have continued to be burdened with volatility. All of us have felt jubilation when we have a significant "up" day followed by despair when those gains are wiped out in the day or two that follows. Each market open has left us to wonder, will today give us a "Trick" or "Treat" and will it hold? The truth is no one really knows what each day will bring. However, it may be useful to look at just one day in the life of the markets this fall and all the factors that impacted the performance as well as the challenges that lay ahead.

It was easy to feel good when the stock markets rose dramatically on Thursday, October 27th after the early morning announcement that agreements had been reached on a funding plan for European rescue fund (EFSF) and a 50% write-down on Greek government debt.

But now we must study the details. The celebration in the markets may have been overdone. Yes, it is useful that a framework for addressing the debt problems in Greece and southern Europe was established. But all the implementation details have yet to be defined and adopted. This may not be done quickly. We must remember that the European leaders had met 13 times before reaching an agreement. And, it is the political nature of what is being addressed that, in part, makes this so difficult. There are 17 nations that must agree in principle on everything that must be done. So the countries leaders must be engaged on an ongoing basis in explaining the scope of the problem and why it is in the interest of their citizens to assist the Greeks (and perhaps the Italians, Spanish, Portuguese, and possibly the French). This can be a difficult explanation when you look at the views of the northern Europeans.

Think for a moment how you might feel if you are German. You live in one of the most financially sound countries in the world. You have the largest economy in Europe and you have a work ethic that you don't feel is mirrored by everyone else in the European Union. It is only 21 years ago that German reunification was accomplished. You took on the burden of integrating the former East Germany and funded the major infrastructure projects that were needed and provided training as necessary to assimilate the people in the east into the economic power house that you had built in the west. You don't remember a comparable sacrifice by any other government in Europe. But, now you are asked, for the good of all, to help Greece and perhaps Italy, Spain and Portugal. An analyst on the radio recently suggested that this was analogous to an individual being asked to co-sign loans for her extended family members who haven't worked as hard as she has.

So the political issue is going to remain before us -- but so are the hard details of what has been left undone. At the end of October, banks have not yet agreed to participate in the swap of Greek debt for the new bail out fund bonds. While there may be some agreement that there will be a 50% haircut (cut in value) of the Greek bonds -- there is no clarity on

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Question & Answers

How do I view other electronic delivery options available for my PAS account?
In NetXinvestor, go to the Accounts tab, then click the Profile tab and finally select the Document Delivery tab. You will see each of your account numbers displayed, along with your current e-Delivery preferences. You will notice that prospectuses and other documents are available to be e-delivered; simply click the boxes for the documents that you want to receive electronically.

My son earns income from mowing lawns, raking leaves, and various other landscaping tasks but gets paid cash by the employer. Can I open a Roth IRA for him?
The regulations state you MUST have reportable income to make a Roth IRA contribution. Performing landscaping duties i.e. mowing lawns would constitute earned income. Check with your income tax preparer to determine how the earned income should be reported.

I have an active SEP (Simplified Employee Pension IRA). Can I convert part of the SEP plan to a Roth IRA?
As long as the SEP agreement allows you access to the funds (and most SEPs will allow you access), you can do a conversion from a SEP account to a Roth IRA. If you will be receiving future SEP contributions in this account, make sure you leave enough money to keep the SEP active.

My child got a scholarship for college! Is it taxable?
If a scholarship is used to pay for college tuition, fees, books, or required equipment, it's not taxable. But if the scholarship is used to cover room and board, travel costs, or optional equipment, or if it's awarded as payment for teaching, research, or some other required service, then it is taxable.

Did You Know?

2012 Cost of Living Adjustments

- In October, the Social Security Administration announced an increase in monthly payments. The Cost of Living Adjustment (or COLA) is increasing by 3.6%; the first increase in two years. According to the Social Security Administration, most retirees rely on Social Security for a majority of their income. In fact, many rely on it for more than 90% of their income. Presently, monthly Social Security payments average $1,082, or about $13,000 a year. A 3.6% increase would amount to an additional $39 a month, or about $467 a year.

- The IRS has announced that taxpayers will be able to set aside an extra $500 in 401(k) plans and benefit from an additional $120,000 estate tax exemption in 2012, under Cost of Living Adjustments. The 401(k) contribution cap will be $17,000 in 2012, up from $16,500 this year. The 401(k) limits also affect contributions to similar accounts, including the 403(b) plans for school employees and nonprofit workers and the Thrift Savings Plan for federal employees.

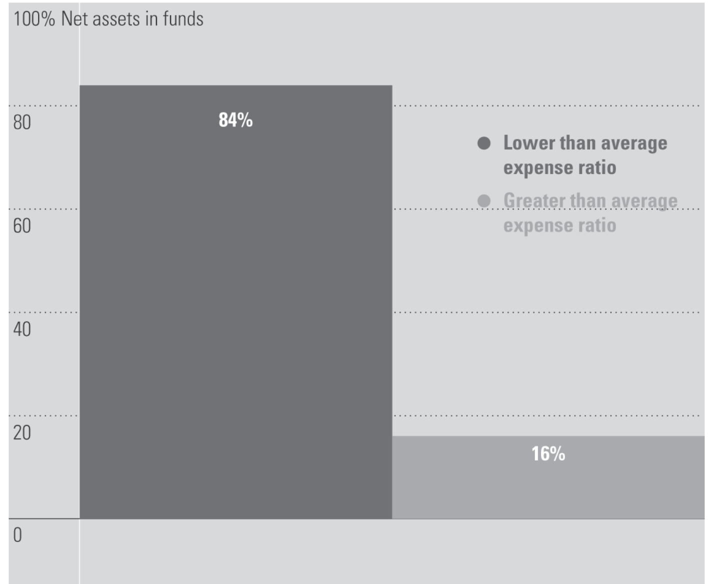
- The estate tax exemption for 2012 will be $5.12 million, up from $5 million this year. The higher threshold is scheduled to expire at the end of 2012, and the $1 million limit under previous law is set to return. The annual exclusion for the gift tax will be $13,000, unchanged from 2011.

- The IRS announcement on cost-of-living adjustments for 2012 also affects the standard deduction, the personal exemption, income thresholds for various tax benefits and the size of the tax brackets.

Lighten the Load

Source: Morningstar

Low Expense Funds Hold Majority of Assets



Do mutual fund investors prefer to invest in funds offering low expense ratios? The answer is yes.

Expense ratios are an important factor in choosing a mutual fund, because they affect returns on an investment. It seems that the market is taking matters into its own hands and putting more assets in low-expense funds. As of February 2008, the median expense ratio for domestic stock funds was 1.10. Investors pooled about 84% of net assets in funds with expenses lower than the median, leaving a small portion to higher expense funds. You would think that a majority of funds available to investors would have fairly low expenses.

However, a quick count reveals 51% of funds have below-median expenses while 49% have expenses equal to or above the median expense. So why do some funds have higher expenses relative to others in their category? Specializations in sectors such as real estate or funds that invest internationally typically are more expensive to manage. Expense ratios have declined over time due to economies of scale and increased competition within the mutual fund industry. With more funds available and a variety of added investment choices, investors have clearly chosen the low-cost alternative.

This is the percentage of fund assets paid for operating expenses and management fees. The audited expense ratio is useful because it shows the actual amount that a fund takes out of its assets each year to cover its expenses. Investors should note not only the current expense-ratio figure, but also the trend in these expenses; it could prove useful to know whether a fund is becoming cheaper or more costly. When considering high expenses vs. low expenses, potential investors must also consider the fund's objective and its size. Certain objectives, such as foreign equity funds, have higher costs and therefore, higher expense ratios. As for size, smaller funds are normally costlier than larger funds, as they do not have the benefits of economies of scale.

Source: The average expense ratio is represented by the median value of all funds used in this analysis. Median expense ratios were computed for the oldest share class of all domestic stock funds in Morningstar's open-end database.

5 places to never use your debit card

In some situations, using a debit card can expose you to fraud or identity theft.

Source: Mainstreet.com

No doubt about it, debit card usage is a big part of the new normal on Main Street these days as consumers try to manage credit card debt.

According to the TSYS & Mercator Advisory Group Debit Survey 2011, debit is now the preferred payment type in most point-of-sale locations, beating cash, credit cards and checks.

But that doesn't mean you should use debit cards all the time. In fact, there are some places and times that using a debit card is actually a lousy proposition.

For example, using a debit card online can work against you. If you have a problem with the purchase or your debit card number is stolen, it's a huge hassle to get the money restored to your account and make your card number safe and secure again. In the online world, credit cards are usually a better bet.

Here are some other instances where debit card usage is a bad idea:

- **Rental or security deposits.** If you have to put money down to rent a car or heavy-duty home improvement equipment, try not to use a debit card. Why? Because the business will actually take the money out of your account in the form of a security deposit. You'll get the cash back when you return the car or equipment. But with a credit card, the money is just "frozen" but not actually charged and you won't ever notice it's gone.

- **Restaurants and bars.** There are way too many prying eyes around a dining establishment to trust using your debit card. Apart from the risk of having your card stolen, restaurants are one of those rare places where someone actually walks away with your card and you don't see them for a few minutes. Much better to use cash when dining out.

- **Regular payments.** Businesses love to get their sticky little fingers on your debit card number so they can extract dues straight from your bank account on a regular basis. Whether it's a gym or your insurance company, you're better off using a credit card. That's because if there's a dispute, the business won't take the cash right out of your checking account if they don't have your debit card number.

- **Wi-Fi hot spots.** Never use your debit card for an online purchase while at a coffee shop or other business that offers free Wi-Fi access. Many of those businesses have unsecured wireless connections, so it's much easier for hackers and scammers to log on and steal your data.

One thing to keep in mind when making the debit-credit decision at retailers: Debit cards allow you to choose between a debit (having cash taken straight out of your account) and a credit transaction (where the money will be taken out but it could be a few days later). In most cases, choosing the debit option makes the most sense. For one thing, credit purchases cost the retailer more cash in swipe fees, so you could be hurting a small business owner. But the real problem is the delay when choosing credit -- you may forget the purchase and not account for the money. That can lead to an overdraft situation and the onerous fees that can go with them.

Debit cards are great financial tools, and it's easier carrying a card than a wad of cash. But debit cards shouldn't be used all the time -- and the situations listed above should be at the top of your list of "no debit" zones in the future.

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what interest will be paid on the bonds that will be received in exchange for the Greek debt. And, no one knows whether this bail out of Greece will be sufficient to end the crisis permanently. Because the real cost of the Greek deal is not clear -- no one knows how much of the emergency fund remains to address the needs of other weak economies in southern Europe. And, lastly no one knows for sure whether the plan that has been adopted will constitute a default on their debt obligations by Greece. If it is a default, then the banks may pursue credit default swap agreements rather than accept a 50% write down in the value of their Greek bond investments. This could further roil the markets.

So, was the stock market response on October 27th justified? Probably. The problem had been going on so long that it is likely that fear of failure had driven markets too low -- particularly in the US. But, is there a chance that there was too much euphoria and that the market may not maintain the above 12,000 level on the Dow that was quickly achieved? Probably. Economic growth across much of the world is weak. China's growth, though the strongest, is slowing down as the government tries to engineer a soft landing as they work to bring down inflation. Growth in the US is likely to be modest, somewhere in the 1% to 2.5% range. And, Europe is likely to enter recession if it hasn't already.

Looking ahead, we think it is going to be a time where income from investments is going to emphasized. Growth is unlikely to match income for quite a while. Unemployment in the US is going to decline very slowly and the housing market recovery is likely to be years in developing though the pace will be different in various parts of the country.

That said, we should not ignore the fact that real (inflation adjusted) GDP in the US has grown at an average annual rate of 2.5% for 9 quarters. While not high enough to reduce unemployment -- we shouldn't ignore the growth. Strikingly, the strongest part of our economy has been business investment. Investments in equipment and software have grown at an annual rate of 12.9% over the past 9 quarters. The transportation component has been the strongest showing an annual rate of growth of 43.3% over the same period (that is a lot of trains, planes and trucks)! And the consumer that we constantly hear is in trouble is continuing to spend. Purchases of furniture and household appliances increased 5% in the past year and now stand 0.3% below the all time high set in late 2007. Those who are still working have propelled consumer spending on durables to pre-crisis levels. And, those who are not working are facing continued serious challenges. The problems that confront us include getting people back to work and weathering the possible storm from the economic challenges from outside our shores.

So our present reality may be like the kid who overindulges on Halloween candy. We will likely have days of those sugar "highs" followed by that inevitable stomach ache. As we remember from those sugar filled days, the best course is to enjoy the treats a little at a time and avoid the crash. Lasting progress is usually slow and at times erratic. Patience remains the key.

CJM News

Congratulations Parker!

Our very own Parker Trasborg, member of our Asset Management Team, was notified this fall that he passed the CFP® Comprehensive examination. This 2-day exam is the CFP® equivalent to a bar exam and is the culmination of a series of other required examinations and a tremendous amount of work. Parker will officially receive his CFP® next summer after he completes the required 3-years of experience. We at CJM are extremely proud of Parker's commitment to our profession and this wonderful accomplishment.

Boo!

Thought everyone would enjoy pictures of some of our CJM Children in their Halloween costumes. They all look great!!

David Greene and family all dressed as Star Wars characters

Megan and Ally Jones (daughters of Brian, granddaughters of Tim) as beautiful fairies

Since 1978, CJM Wealth Advisers, Ltd. has been working with affluent individuals, families and business owners to address financial concerns no matter how acute or broad they may be. With a collective focus on helping our clients live the life they want, we understand that financial planning needs to be done with a purpose in mind. Otherwise, what is the use of planning at all? At CJM Wealth Advisers, Ltd., we believe in planning with purpose.

What is your purpose? Is it to…

…create a retirement income stream to last a lifetime?
…minimize investment risk and maximize return?
…prudently plan a legacy for your heirs?
…carefully position a business for a future sale?

We offer our clients real solutions by being objective and approachable while delivering excellent client service.

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