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**Special points of interest:**

- Markets closed—Columbus Day (10/10—Bond Market) Veteran's Day (11/11), Thanksgiving (11/24) and Christmas (12/26).
- **Fall Vacation week: October 24-28. Mike will be covering the office in our absence.**

## Market Commentary

When I was in high school our family doctor one time told me when I wasn't feeling great, "you have a cold...if I treat it you'll feel better in 7 days; if I don't you'll feel better in a week." I went home still feeling lousy, but in about a week I recovered.

Well, this summer we caught an investment cold. Two scenarios developed in the third quarter that made us sick—first, an anemic U.S. GDP rate that declined from +2 to 3% annually to a wheezing +1% plus or minus run rate, and second the plodding, "too little too late" reaction of the Euro zone to the imminent demise of Greek sovereign debt. I had fully expected a choppy summer with little ground to be gained, but the absence of decisive or useful policy initiatives both in Europe and at home have led the world economy to a slowdown that resulted in Q3 numbers that were more than "choppy". The S&P declined by -14.3% for the quarter, the Dow Jones Industrial Average by -12.1%, and smaller companies as seen in the Russell 2000 declined by -22.1%. Ironically, the best place to hide was where everyone was already hiding—in U.S. government debt (at a very low current yield which after inflation provides a tidy negative



**Roy Sokolowski**  
Investment Manager

return) that produced a positive +4.8% total return for the quarter. The markets truly gave us no place to hide as even the much touted gold and commodities markets also collapsed in September.

I think there are two critical short-term components to our current situation and a longer term, or 30,000 foot view to examine as well.

The U.S. economy has been backsliding since last spring. Whether one looks at the unemployment numbers, housing, the various FED beige books, PMI, consumer confidence, etc. the news this summer while not universally dismal,

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## Third Quarter 2011 Market Wrap

<u>Market Indexes</u>	<u>% Change in Q3</u>
S&P 500	-14.3%
DJIA	-12.1%
NASDAQ Comp	-12.9%
MSCI EAFE	-19.6%
Russell 2000	-22.1%

<u>Mutual Fund Yardsticks</u>	<u>% Change Q3</u>
Equity Income	-13.4%
Large Cap Growth	-14.9%
Balanced	-9.9%
Gen US Taxable	+2.4%
Intermediate Bond	+1.9%



## Let's Make a Plan

Certified Financial Planner Board of Standards, Inc. has announced its "Let's Make a Plan" Public Awareness Campaign, designed to help educate Americans about the importance of sound financial planning and raise awareness about the significance of the CFP® certification and the need for competent and ethical financial planning.

We are supporting this effort in our local community by encouraging people to learn more about CFP® certification and financial planning. Pat recently volunteered for a pro bono program organized by the Financial Planning Association of Northern New England to help those impacted by Hurricane Irene who need financial guidance.

"People are pulled in so many different directions when it comes to their finances, but a CFP® professional is uniquely qualified to pull all the pieces together and provide a comprehensive evaluation that looks at the whole picture of a person's financial life," said Charles Moran, CFP®, 2011 Chair of

CFP Board's Board of Directors.

Although most people believe that everyone should have a financial plan, few actually go through the process, opting instead to carry their goals in their head or sketch them out on the back of a cocktail napkin.

A public service website – [www.LetsMakeaPlan.org](http://www.LetsMakeaPlan.org) – will serve as a core feature of the campaign, where consumers can learn about financial planning, the personalized approach CFP® professionals provide and find a local CFP® professional through a search function.

The Board of Directors approved the four-year, \$36 million campaign in November 2010 partly in response to many CFP® professionals who want the public to understand the important role they play in educating Americans on their financial well-being and helping people meet their life goals. The campaign will help provide clarity to consumers who are looking toward designations and certifications to provide guidance on choosing a financial

planner or advisor.

"The CFP® mark truly serves as the gold standard for personal financial planning," said CFP Board CEO Kevin R. Keller, CAE. "Just about anyone can use the term 'financial planner.' But only those individuals who have passed a rigorous set of criteria and meet our strict ethical qualifications can call themselves a CFP® professional."

This is the first large-scale Public Awareness Campaign the organization has underwritten. For more information on the campaign visit the public service website at [www.LetsMakeAPlan.org](http://www.LetsMakeAPlan.org).

### ABOUT CFP BOARD

***The mission of Certified Financial Planner Board of Standards, Inc. is to benefit the public by granting the CFP® certification and upholding it as the recognized standard of excellence for personal financial planning. The Board of Directors, in furthering CFP Board's mission, acts on behalf of the public,***



Pat Sokolowski



***CFP® professionals and other stakeholders. CFP Board owns the certification marks CFP®, CERTIFIED FINANCIAL PLANNER™, and the federally registered CFP (with flame design) in the U.S., which it awards to individuals who successfully complete CFP Board's initial and ongoing certification requirements. CFP Board currently authorizes nearly 63,000 individuals to use these marks in the U.S.***



## Questions On Your Mind

### **What brings people in to Sokolowski Investment Advisors?**

Here are a few of the common questions that we get from existing and prospective clients. Through planning and analysis we can help you resolve these issues, develop a game plan and (hopefully!) put your mind at ease. Call us to begin the dialog.

- **How often should I review my estate plans? Do I need to set up trusts?**
- **Where should I invest money for college? How much is enough?**
- **How much can I withdraw from my accounts in retirement?**

## MARKET TALK

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## Wealth Management & Financial Planning

*The greatest compliment that we can receive is a referral from our valued clients. Please let us know if you have a friend or family member who could use our services. We will treat them with the care that they deserve.*

is certainly disappointing overall. The economy appears to be growing at a sub 1% rate since the spring, just above what some are referring to as “stall speed” and far below the growth rates we’ve experienced emerging from past recessions. The central question as far as the stock market is concerned is what will the U.S.’s anemic growth do to corporate earnings going forward, particularly because earnings have been very robust over the past year and they are forecast to grow again in 2012.

It simply boils down to the “E” part of the markets P/E (Price Earnings) ratio. If the “E” denominator is reduced, the “P” numerator needs to be reduced as well.

I think the jury is still out on the U.S. economy. We are very close to stalling but I do not believe it is a foregone conclusion. I think if you watch the weekly or monthly changes in the S&P 500, you may see the P/E calculation play out based on fundamental earnings. This is what markets do – sort the wheat from the chaff – and I am not afraid of that process.

Europe is the one to watch, particularly Greece. The Euro system is problematic – being based on a single currency but 17 separate sovereign nations. While the various sovereigns are supposed to live within pre-proscribed financial boundaries lets just say that some of the nations have cheated a bit. To make a long story short, Greece, Portugal, and Ireland are now on EU life support while Italy and Spain are in the emergency room for triage.

Greece is the crux of the problem right now and it is difficult for me to imagine how this crisis will end without a Greek default – either partial or complete. A Greek default could cause a ripple effect that ultimately involves Italy and Spain which have been described as “too big to fail and too big to bail out”. Through U.S. banks and corporations, the ripple might reach the U.S. This is the so called “contagion” effect you have heard of or read about.

I believe (and I’ll over simplify here) that the almost daily concerns about Europe are causing the bulk of the high volatility (plus or minus triple digits on the Dow) days we have experienced over the past month or two. I also believe it is within the power of the Europeans to correct the sovereign debt issues they have created but I

also believe they will only mend their system under extreme pain and slowly at that.

To date, the European reaction to the Greek crisis has been torturously slow and far less in scope than what is needed to reassure the markets. Indeed, the Dow Jones World Index (less U.S.) fell –20.2% in Q3, largely on the fear that the Euros will not be decisive about their crisis. I remain cautiously optimistic that they will resolve their issues, but I now believe it will take a Greek default and a “shock and awe” financial backstopping of the European banks to accomplish it. The markets will continue to pressurize the situation until the various Euro governments accept that Greece as it exists today is financially lost.

### **From 30,000 feet:**

I think it is useful to break down the global economy into three sectors to understand where we stand today. As I have said before, I have come to believe that the corrections we see today have their roots and their beginnings not in Q3 2011, or 2007-09, but actually as far back as 2000 and that we are currently perhaps 12 years into a larger cycle. Likewise, I think that the global economy (and hence the markets) is fitfully reacting to the expansion and subsequent deflation of three separate bubbles or over leveraged sectors—corporate, consumer, and sovereign—the three legged stool of the world economy.

In both the tech bubble of the late 90’s and again in the financial bubble of 2007-09, corporations of all types were forced to de-lever themselves. Because of their inherent top down structure, corporations have the ability to react quickly and decisively to negative trends. By and large, they have balanced the tech and financial bubble bursting with a lean and mean strategy that has reduced debt, lowered workforce numbers and cleaned the balance sheets. Corporations have increased productivity and margins and currently hold a record amount of cash for a rainy day. Indeed, corporate profits have recovered quickly and have generally been robust over the past two years. Good quality corporate bonds continue to be fundamentally sound and pay their interest. Corporate

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## Market Commentary (cont. from page 3)

dividends have been secure and rising. It appears that one leg of the global stool has rebounded nicely and corrected its over-leveraged condition.

Of course, “workforce reduction” while beneficial on the corporate side, has proved extremely difficult for the second leg of our stool—the consumer. Just like the corporate world, the vast majority of the developed economies’ consumers “levered up” during the 90’s and 2000’s and through real estate, credit cards, and home equity loans lived well beyond their means. The bill came due starting in 2008 however, and the consumer has been forced to repay and liquidate to restore the family balance sheet. The Wall Street Journal indicates that consumer credit rose from 18.4% of personal spending in the early 1990’s to as high as 26.3% in late 2008. The ensuing recession has forced the consumer to retrench and that debt level has fallen to a current 22.8%, but there is a long way to go yet. Unemployment above 9% and the continued long term workout of real estate (which was generally the largest sin-

gle component of both net worth and debt for the average consumer) will slow down the de-leveraging of the consumer but they are making a concerted effort to rebalance.

The last leg of our stool is now the most sick and the focus of our most recent concerns—the sovereigns.

To be sure, sovereign leverage (debt) didn’t happen overnight and the developed world has been gradually degrading its balance sheet for decades, but to some extent the de-leveraging of the corporate and consumer sectors has trickled down to the sovereign. Most recently remember the financial meltdown and the assumption of corporate liability by the U.S. Government (TARP, auto bailouts) and the U.S. response to consumer unemployment and real estate over leverage in the form of nearly two year unemployment assistance, cash for clunkers, various mortgage relief programs, a nearly trillion dollar stimulus plan, etc. All of which landed on the debt side of our government. We’ve traded a variety of individual, corporate and consumer debts for the collective debt of the U.S. Government. In Europe, it’s that plus one more step removed as essentially the German and

French sovereigns take on the debt of the Greeks.

Clearly, this cannot go on forever and we are indeed seeing the beginnings of the end of sovereign over leveraging. Whether it be Greece or the U.S. debt ceiling debate, the excesses of sovereign debt are in the process of correcting.

Our three legged stool is on the mend though still unstable. The corporate world appears to be healed and solid right now, the consumer is recovering but still weak, and the sovereign leg is ill, but beginning to take its medicine. We cannot truly move forward until all three legs are strong again, but when they are, I believe we will be poised on the verge of a tremendous new phase of growth and prosperity. We have a cold; we’ll feel lousy for a while, but we will feel better once we give ourselves time to let it run its course.

That’s the view from 30,000 feet and my great old family doctor.



# Seven Ways to Make Your Survivor's Life Easier

by Adam Bartsch, Esq.

While I encourage everyone to have an estate plan, the reality is that three of every five people die without one. The harm associated with not having an estate plan is real, but this article will not attempt to convince you of the wisdom of having an estate plan, even though it is a good idea.

This article is directed at the **60 percent** of people who die without an estate plan, and how they can make their survivors' lives a bit easier, even without legal planning.

**First**, make a list of where important assets and papers are located, and hide the list where your survivors will know where to find it. This will include where your most important documents are kept, such as property deeds, life insurance policies, bank account statements, brokerage statements, etc. Your survivors need to know what you own, and what proceeds, such as life insurance, your estate may be entitled to, if you die unexpectedly. Where do you hide such a list? Consider folding it in half and placing it in your favorite book. Just make

sure your survivors know what your favorite book is.

**Second**, ensure your beneficiary designations are up to date and consider adding your spouse or a child to your financial accounts. Financial accounts that include beneficiary designations or a transfer on death clause will pass directly to the joint account owner without passing through probate. This entails some risk, because the child could exhaust the account before you die, but if that is unlikely, such accounts may be a good way to lessen probate costs.

**Third**, explain your wishes for final arrangements, such as funeral parlor, organ donation, burial instructions, etc. Children may not know your favorite hymns or passages, but that's no reason to leave these out of your final departing.

**Fourth**, if you are in poor medical health, try to settle any pending lawsuits or major disputes. It's far easier for you, as principle, to arrive at a reasonable settlement than it is for someone acting on your behalf

to arrive at a settlement based on what they believe you would have wanted. Whenever a person acts on behalf of someone else, a negotiated settlement is far less likely. It is important to make an effort to resolve disputes sooner rather than later.

**Fifth**, if your estate contains hard to sell assets, such as a family business or a collection of unusual items, make a plan for how the business or collection should be handled and sold upon your death. This may include a business succession plan or simply providing a list of appraisers and brokers for the collectible.

**Sixth**, consider your major debts. If they are large, you need to determine how they will apply to your estate and if your spouse or anyone else will be personally liable for your debts. How you hold title to assets may determine who is responsible for paying off your debts.

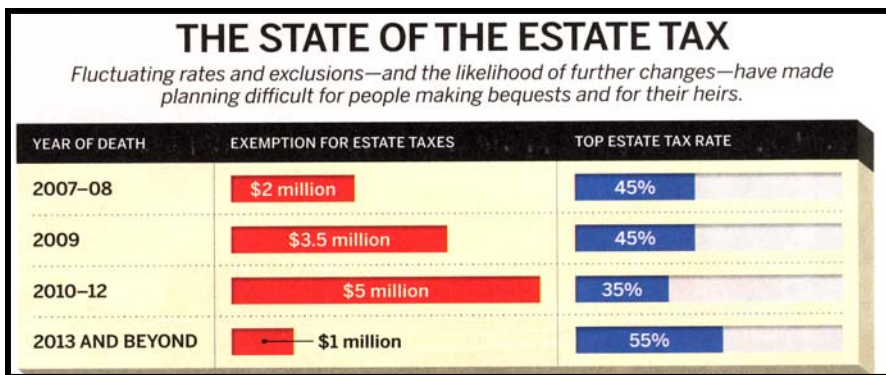
**Seventh**, talk to your children about your final wishes. Even if you do not have an estate plan in place, try to, over time, communicate what you intend to do.

Most family disputes arise because either no communication has taken place or your children are taken by surprise. If your children start arguing about who gets what, the damage will never be repaired. Prevent disputes through communication, which will ensure family members remain capable of respecting each other and maintaining positive relationships.

If you fall into the majority of people who decide that your state legislature has a good enough plan for how your life-long assets should be distributed to your survivors, then at least make the effort to ensure your survivor's life is easier by following some of these steps.

*We are pleased to have repeat guest columnist, estate attorney Adam Bartsch provide this article.*

*Adam is the founder of North-East Estates and Trusts, PLLC (NEET), a law firm focusing solely on estate planning for residents of Vermont, New York and Massachusetts since 2004. He can be reached at 802-985-8811.*



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