



Musings from the Chairman's desk*

As I watched President Obama sign the controversial new health-care bill into law, I felt a bit depressed. And angry. Angry because I felt what was happening was wrong and depressed due to the pain I believe this country is going to face because of this bill and other government sponsored legislation. The bill is historic, but "historic" does not include judgment on whether the event was bad or good. My critique follows and applies to any new legislation or further government involvement in our lives. I use the recently signed healthcare bill as an example since it is new and still fresh in our minds.

I believe my thoughts are relevant since increased government involvement, more regulation and higher taxes—by definition—retard economic growth and thus the creation of wealth for our nation as a whole.

I love this country and the principals on which it was founded. I cherish my freedom and will be forever grateful for the opportunity to pursue life, liberty and happiness. Legislation, whether you are in favor of this particular bill or not, limits someone's freedom (or a group's or that of the entire country's) and inserts government into some facet of our lives. For instance, my freedom is limited with the new healthcare requirement that I carry health insurance. It's probably wise, as a married father of three, to carry health insurance. But what about my son, a healthy 22-year old who works hard and would prefer to work and save for a house before he marries and starts a family. It should not matter what my President, congressman, healthcare expert

**The views and opinions expressed herein are exclusively those of the writer's and not those of the firm's, the shareholders or the employees.*

or any other government representative thinks is the right course for our lives. My son and I should have the freedom and liberty to make our own choices. Put another way, beware the neighbor who wants to make decisions regarding your life and promises that he has your best interests in mind.

The other major flaw in the healthcare bill—or any other unfunded mandate—is its financial impact. I'll wager that this government program, like Medicare, Medicaid and even social security, will grow to similarly disastrous proportions, if not more so. And yes, the deficit will continue to expand at a frightening rate.

Taxing the rich to pay for healthcare will not work. And why not? *According to the IRS, the top 5% of taxpayers already pay 61% of all taxes.* Please, would someone tell me what "fair share" means in taxation. If you have an adjusted gross income of more than \$66,000 you are in the nation's top 25% of earnings and are included in the small group of taxpayers that pay 87% of this nation's taxes. How can this legislation not negatively impact economic growth and the creation of wealth, even prosperity? Where's the money coming from? Here's something that can be done: contact your Congressman and ask him/her, then act accordingly.

Despite my negative tone, I remain an optimist. Betting against America and its hard-working people has always been a losing proposition.

Paul J. Valickus, CFA, CFP
Chairman-Chief Strategist

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St. Germain Investment Management
Post Office Box 15649
Springfield, MA 01115-5649

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Seven details women

Now's a good time to discuss financial

Today, women have more investment options available to them than at any other time in modern history. But which options are best for you? Patty Faginski, our vice president in the client services group, provides a short list that may help answer some of your investment questions.



Patricia M. Faginski
Vice President
Client Services Group

It's been often said that *if you don't plan, plan to fail*. In the world of financial management, that truism carries much weight.

Here are a few key points that every woman should be cognizant of. It's not meant to be an all-inclusive list, but one that can help you steer clear of distractions and put you on the right track with an objective perspective.

- **Contribute to your 401(k) plan.** Or maybe it's another type of retirement plan. The key point is you should be contributing on a consistent basis to a retirement plan in good and bad times. Make sure you understand what you're contributing to and how much. And if your employer can make contributions, take advantage of that program. It can really add up. Remember to always "pay" yourself first.
- **Identify your goals.** When was the last time you looked at your personal goals? Chances are, probably longer than you'd care to admit. Identifying goals has a way of creating tasks involving many details. Capture those details. For instance, you may have near-term plans to fix your home. How does this play out in the scheme of things?
- **Examine your current life stage.** When clients ask me about setting priorities, I advise them to first look at their present conditions. For example, do you have specific goals in mind? Are there circumstances to think about that may involve your children? Grandchildren? Perhaps you're the caregiver or primary provider for a stricken family member. Your current and future finances can be influenced by several factors.

investors should know.

financial details that matter to you.

According to the *Small Business Research Institute*, women entrepreneurs will be the major driver in creating new employment opportunities in small business enterprises in 2010 and beyond. Similarly, women will have more control over professional and personal purse strings as well as directing key financial decisions.

- **Is your investment strategy still on target?** Review your statements to see if the asset allocation is in keeping with your investment goals. Do you need to modify the mix [for example, more stocks versus bonds]?
- **Talk to an expert.** Let's cut to the chase. You are not a financial expert. And while your accountant is good with numbers, it doesn't make him/her an expert on investment strategy or wealth management. It may be tempting to hire someone in your immediate family, but we recommend you don't. You need someone objective and emotionally detached from the financial aspects of your life.
- **Yes, women do live longer than men.** It's scientific fact so you might as well embrace it. Living longer means you need to plan smarter and for a longer time horizon. You may choose to work longer. Part of your plan should include strategies for creating sustainable income opportunities. Remember that when you do retire, your distribution period will likely be longer as well. The link below may lead you to other details regarding your long-term financial well being.
<http://longevitycalculator.aarp.org>
- **To move or not to move.** Give some thought as to where you'd like to live. The options can impact your entire retirement strategy. Once again, the objective recommendations from a professional investment advisor are key. Whether staying or moving to another community or even another country, become knowledgeable about constraints and resources before you decide.

“...if your employer can make contributions, take advantage of that program....pay yourself first.”

Why bonds matter.

Louis Bartenstein—Vice President Fixed Income



Just as we noted in previous newsletters, the market is recovering. It may not be at a clip favorable to some, but the recovery is in motion. What hasn't changed is the volatility that's inherent with stocks. It's always been a part of investing since day one.

Because bonds typically earn more than cash and fluctuate less than stocks, it's important to consider bonds in your portfolio. What follows are frequently asked questions about bonds, and why they matter in your portfolio.

Aren't bonds really for older more conservative investors?

Not necessarily. A lot depends on your life stage and other factors that influence your investment goals. Regardless of age, if a good part of your investment strategy is to generate income, then having bonds in your portfolio could make sense. In most instances, bonds can provide more favorable interest rates when compared to CDs or money market funds.

But I'm not overly conservative. I'm comfortable with some risk and if bonds are safer compared to stocks, then shouldn't I forego bonds altogether?

We hear this question on occasion and it's important to remember that while bonds may not offer the same return potential as stocks, bonds do have the potential to balance or offset some of the uncertainty stocks present. For example, bonds can help deflect some of the volatility and curb stock losses during market downturns. As is often the case, bonds typically rise in value when stocks decline.

Okay, then, what bonds should I discuss with my St. Germain advisor?

You do have a number of options or choices when it comes to investing in bonds.

- **U.S. Government bonds:** issued by the U.S. Treasury and various government sponsored entities, these bonds are backed by the Federal Government. While it's true that interest is taxable, having U.S. Treasuries exempts investors from both state and local taxes and represent the most credit worthy fixed income investment.
- **Municipal bonds:** issued by local and state governments, these are issued to help fund public projects. Since bonds are loans you make, be advised that credit quality can vary from one municipality to another. Income from municipal bonds is generally exempt from Federal taxation and may be exempt from state and local taxes.
- **Corporate bonds:** issued by companies of various sizes across a number of industries to help fund their business activities. Here at St. Germain Investment Management, all corporate (and municipal bonds) are rated no less than investment grade at the time of purchase.
- **International bonds:** issued by foreign countries and non-domestic companies. These bonds must meet the same quality and return standards as the other bond categories.



“The [bond] portfolio is not designed to maximize returns at every discrete point of the economic cycle.”

I’ve been told that interests rates are rising and we’re entering an inflationary period. What happens to my bonds?

The bond portfolios are intended to provide a stable stream of income based upon the coupon rate and the par amount of the asset (these elements are fixed and do not vary over time). Bonds are not intended to provide a counter to rising inflation rates (inflation indexed bonds are exceptions but owing to their lower yields and tax status are at best an adjunct asset class).

Owing to the portfolio construction which contains short maturities, the portfolios have the ability to reinvest in a current rate environment as bonds mature and principal is made available for reinvestment. This structure along the yield curve serves as a counter to an inflationary environment.

What kind of returns should an investor expect with a bond portfolio?

The bond portfolios are designed to provide a 4%-6% return over a long-term horizon. That horizon will include periods of expansion, inflation and even periods of recession. The portfolio is NOT designed to maximize returns at every discrete point of the economic cycle. Given the quality of the holdings, the diversification among the sectors and maturities over the course of the economic cycle, the portfolios will optimize the risk/reward tradeoff and best serve the investment objectives of the client.

If you have additional questions about bonds, come in and talk with your investment advisor along with our Fixed Income Vice President, Lou Bartenstein. It’s significant that you can talk with Lou because he is our fixed income expert and a key decision maker on the St. Germain investment policy committee.



**Michael R. Matty, CFA, CFP
President**

Rays of Hope.

As the economic conditions worsened over the past few years, we saw significant declines in the stock market, a downturn in economic indicators, and a dampening in the mood of the general public.

We have now seen a significant rebound in the market. While we have not yet established new highs, we ARE in a market that is closer to the 'old highs' than we are to the panic lows of last year. As we have mentioned in the past, the stock market is a leading indicator of the economy, so it is signaling better times ahead. The question is, when will the economy begin to show signs of an upturn?

We believe the early signs are already here. Job creation statistics, for example, have been showing an improving trend for a number of months. While they remained negative, the trend was clearly showing improvement, with fewer losses every month. And in fact, the job creation number has recently turned positive¹. Admittedly, there is likely some distortion due to the recent hiring of census workers. Nonetheless, things definitely look brighter. The job creation statistics will ultimately carry through to the unemployment rate and push it down.

Besides some job growth, what other bright indicators do we see on the horizon? Nationally, housing prices seem to have bottomed². Anecdotally, the real estate market seems much better, with appropriately priced houses moving much quicker than in the past. While we are in no way back to the real estate market of a few years ago, that market was clearly unsustainable.

In addition, retail sales have recently shown their biggest gains in a decade³. While pessimists point out that unusual weather and the timing of the Easter holiday may have caused the big gains, we think consumers are overall beginning to feel better, and perhaps begin to spend at more normal levels.

The bottom line? We are finding good news on the horizon. While some may try to explain away the reasons, we are simply seeing too many signs to comfortably ignore them. When we have to continually explain away the reasons for all the good news, perhaps it really is good news. A few quarters ago, there was simply none to be found. We think the signs are for real.

1 Bureau of Labor Statistics [CES]

2 Case Shiller Index

3 Reuters World News

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1500 Main Street Springfield, MA 01115 800-443-7624
St. Germain Investment Policy Committee These are the professionals
who manage your portfolio:

Paul J. Valickus, CFA® CFP
Chairman, Chief Strategist
Michael R. Matty, CFA® CFP
President
Timothy W. Suffish, CFA® CPA
Senior Vice President
Louis Bartenstein
Vice President

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