

# THE ENVISIONARY

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## Bondageddon?

Studying the flow of money into different asset classes over time can be very interesting. In 1999, we saw record money flowing into the stock market, especially technology stocks. Remember that? Then came the crash in 2000. People moved away from stocks and into bonds. As we started to recover, and had a good run for a few years, money moved back into stocks. As things heated up, and flows were strong, "The Big One" came in 2008. Since then, due to significant fear, money has been flowing like a river into bonds. In the mean time (between March 09 and September 10), the S&P 500 went up 75%. We could do many articles on the mis-timing of the average investor, but this is not what I want to focus on here. It is our thoughts on the bond market, and how there is something extremely important which we need to be paying attention to.

The bond markets have been on a good run for almost thirty years. In the early 1980's, interest rates as measured by the ten year U.S. treasury yield, were around 16%. They have been on a very slow decline ever since. In the early 90's they were in the 8% range. Today, they are hovering around 2-3%. For many years, on average, bonds have been giving investors pretty good returns with reasonably low risk. Today, however, an investor is expected to lock up their money for ten years for a return of 2%. And they can't wait to do it. This says fear is making decisions.

Let's do a quick review of how bonds work. Bond prices and interest rates go opposite directions. For example, say you bought a \$1,000 bond three years ago when rates were 4%. Since then, rates have gone up to 6%. Let's say you need to sell your bond. So you go down to the corner and see if anyone wants to buy it. I come along and say, hey I just bought a bond paying 6%. I will buy yours but will only pay you \$900. (Why would I pay \$1,000 for a 4% return when I can get a 6% return?)

The market downturn of 2008 introduced some interesting scenarios into the financial markets, including bond rate strategies. The U.S. economy has needed to favor low rates to jumpstart the mortgage market and keep things moving overall. At the same time, countries like China want competitive rates if they are to invest in our debt over the long term. In addition, there is much discussion about inflation and deflation at the same time. The Federal Reserve is printing money by the billions and promising to buy back treasuries, which basically means they are so concerned about a stalled economy that they are trying to create their own inflation. Meanwhile, people on the street talk about commodities, food prices, and what they see as inflation in action.

So where will this lead? Our humble opinion is that in the shorter term, we will see rates staying lower. We need to have focus on employment and economic growth in the United States. The Fed has said they will do whatever they need to keep things moving. Plus, core inflation (the main measure of inflation without food and energy), remains very low. Food and energy are often excluded because of their significant price volatility. (We expect to see significant price rises in food and energy.) Most importantly, banks have been hoarding cash because they are uncertain about the future, and they need to keep their reserve requirements in shape. With that said, there will be a time in the not so distant future where we will excel into more normal economic growth, and rates will be allowed to find their natural path. Corporations will start to spend the trillions of cash they have in the bank. The Fed will start to tighten, thereby raising rates. But it is when banks start to lend, finally unleashing tons of money into the system, that we will start to see the prospects of inflation.

Back to bonds. At the very least, one could seek out the negative relationship between inflation and bond prices. In addition, let's review where we are. Remember, we started at 16% and went down to the 2% range in Treasury notes. I think it's safe to say that we are closer to the bottom than the top. That means, whether we see rates rising very fast, or a preferred steady incline, it means a general decrease in bond prices (all at a time when investors can't buy them fast enough). Bondageddon? It might feel like it for some.

This article is intended to give a more straightforward analysis of what often seems to be complex and contradictory information. It is also a brief mention of how we view the current environment, what we see coming, and the factors which will influence how we make decisions moving forward.

*The Envisionary*

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## Inspirational Corner



### Your River

Picture if you will, a flowing river. Now, see yourself sitting on the shore of one side, looking across to the other. On that beach is a bottle with a genie in it, ready to grant you any wish. All you have to do is swim across the river and it will be yours. This sounds great, until you actually attempt to do it. Maybe you're not a strong swimmer. There are powerful currents to take you off track, undertows which pull you down, etc. Maybe some other time.

This brief story represents the goals we make (or don't make) in our lives, and the process we take in meeting (or not meeting) them. The genie bottle is the specific thing we want. The river represents all of the reasons why we don't try, or don't reach them.

Think of something you really want. If it is worthwhile, it will probably be hard to achieve. You may look out and see a river of obstacles, thereby, not even attempting it. If you do, there are currents which will seek to drown you. But when you persist, know that nothing will deter you from success.

One day, a young man asked Socrates how to gain wisdom. As the story goes, he took the man into a nearby lake, grabbed him and pushed his head under the water. At first the man thought it was a joke. But as time went by, he became frantic, and tried to get free due to lack of oxygen. Finally Socrates pulled him up, coughing and gasping. He said, "when you desire wisdom with the same intensity as you desired to breathe, nothing will stop you from getting it". And so it is with your goals.

See you on the other side of the river.

By Lee Stoerzinger

## Globalized thinking

For many years, we have been learning about the opportunities and benefits available through international investing. It has become almost a cornerstone of diversification to include at least a portion of one's assets in global markets, whether it be through equities, bonds, etc. But what if I said that a well rounded portfolio for someone with a long term risk perspective should contain, let's say, 40%-60% international equities, then maybe some U.S. equities, and some bonds? My guess is it would make you a little uncomfortable. Well, we just may be slowly edging in that direction, and here's why.

We all know that the U.S. has been a leader in many things, such as GDP growth, production and trade, consumption, etc., for years. We have the largest economy on earth. As a matter of fact, California is the 8th largest economy in the world. However, as we move into the future, things are simply changing. 95.5% of the world population lives outside of the U.S.. Countries such as China, India, and Brazil are taking up more of the global GDP. While established economies such as the U.S. and parts of Europe grow at 2-4%, emerging markets are growing at 8-10%, with little debt, and at the same time have a class of people who are savers.

As it sits right now, more than 40% of the sales from America's largest companies are coming from international sources. They have understood this economic change for a long time, as their survival depends on it. It is our belief that as investors, we are also going to make the paradigm shift. We must understand in our minds that much of the growth in the world from here on out will occur in other places. The demographics support this, as well as the fact that many countries around the world are simultaneously leaving poverty behind, and entering a truly global economy.

As we build our portfolios, they tend to be a reflection of our views. As things continue to change, our views will evolve in order for our portfolios to accurately and comfortably fit our world. We believe that one day, the constructs of a portfolio won't be looked at the way they are now; so much U.S., so much international, etc. They will simply be built for the primary goals, such as yield, risk, tax efficiency, etc. Global diversification will be a primary assumption. What an awesome time to be alive; to see such powerful forces at work. It's going to seem kind of weird for us Americans, but for the rest of the world, it's game on!

*[Investing presents certain risks not associated with investing solely in the United States. These include currency fluctuations, political risks, accounting procedure differences and the lesser degree of public information required to be provided by non-U.S. companies.]*

## Fair

A few months ago, we had a recent widow in our office. She is in her 80's, and so was her husband who recently died. It was one of those marriages we see often with that generation, where the husband made most of the financial decisions, including bills, investing, etc. Now, in addition to losing her partner and picking up the pieces, she is left with some very new decisions to make. This includes running the household, paying taxes and bills, and not to mention, learning how to invest a reasonably large sum of money. I can't explain how difficult this situation can be for many people. It is such a big life transition.

So we're in the meeting. The first part was simply listening to her story, and reminiscing on her recent loss. Then we transitioned to the part about managing money, income needs, and the overall process she will need to put in place in order to move forward. We assured her that one of the key things we will be helping her with is gaining that comfort level with the day to day things. I said that we cannot replace her husband, but will do our very best to let her know that she will never be alone. Until we have that part in place, investing is too overwhelming, almost to the point where it doesn't matter.

The next thing we did was present a solid, but easy to understand investment strategy which makes sense and addressed all of her initial concerns, such as access to the money, tax efficiency, preservation of capital, etc. After we did this, she sat back in her chair, thought for a second or two, and said, "that sounds good. I just want something that is fair". I was kind of taken back. Fair? I knew she meant it to be a positive, as she decided to work with us. However, in almost twenty years, no one has ever said to us, "I want my investments to be fair." Plenty of other words have been used such as maximum return, low risk, don't lose me any money, tax free. But never the word fair.

Ever since our meeting, I have been thinking about this notion of fair. Was it the thinking of a WWII generation investor who values trust in a relationship above all else? Or, was it someone who has a very good understanding of the details, and found a very good, and all encompassing word to describe her thoughts on moving forward with our firm? Knowing this person, it was probably a little bit of both.

At Lee Stoerzinger, Inc., we set our expectations high. And as we move continuously forward, striving for success in all areas, we must never forget that sometimes in life, the good old axiom of being fair can be what matters most.

# Client blessings



We had a wonderful time, once again, at our Thanksgiving Open House in mid November. We had over 100 clients drop by our office for some fellowship, laughter, cocktails, and pies!

It is a blessing for us to look out and see a roomful of clients who have become friends to us over the years. If there ever was a worldwide contest for the "Nicest Firm Clients", Maggie is sure that we would win 1st Place!

Here's to wishing you the very best in this new year. And as always, thank you for your business.



## Impact investing

You may have heard of "socially responsible investing". This is a category for those who wish to invest in certain industries, such as economic sustainability, water, or green energy. Or, maybe someone simply wishes to exclude certain categories, such as gambling. This also fits under that roof.

Have you also heard of micro lending? This is about lending funds to people in impoverished countries, who lack the capital, infrastructure, credit and employment history to build a successful business. It is a powerful link between the emerging and established worlds.

It is our belief that we are entering a new stage in the area of combining social value with investment returns. Impact Investing, as it is called, will take things to a whole new level, by giving people the opportunity to combine their charitable and social capital into organized systems of micro lending, community development, fair trade, etc.

Imagine this. You have an inclination for using some of your investment capital which could make a global impact. Maybe there are women crafters in Bangladesh, or coffee farmers in Guatemala looking to break the chains of societal business limitations, and develop a solid life for themselves. We are at the beginnings of a structured system which looks to provide this opportunity in an orderly, global, and efficient manner.

This is by no means an offer or solicitation for specific products, but to provide information about a concept on a global level, which we are watching closely, and believe could make significant changes to our world. According to Ron Cordes, Co-Chairman of Genworth Financial, "U.S. investors own 37 trillion of investment capital. Even catalyzing 1% of that is \$370 billion -- enough to have amazing, groundbreaking, life-changing differences." We agree, sir. We agree. Look for more information on this topic in the future.

## Q&A with Lee

### **Favorite book:**

*Maximum Achievement* by Brian Tracy. It's a Genie in a bottle.

### **Favorite Movie:**

Casino.

### **Favorite food:**

Spaghetti.

### **Fun childhood memory?**

Finding salamanders in window sills, putting them in wagons, and walking down to the pet shop (with no parents) to sell them.

### **Why did you get into this business?**

I'm a finance and economics geek. It's my passion. Plus, I love helping people learn how money can work for them in their life.

### **Worst part of the business?**

When investors use short term information to make long term decisions.

### **Best decision you ever made?**

Besides marrying Maggie?  
Starting my own company.

### **What would you be doing if your weren't doing this?**

Writing books, and something to do with landscaping and the outdoors.

### **What don't most people know about you?**

I have a tattoo, I eat mostly fruits & vegetables, and I study the paranormal.

### **One thing you could never do without.**

My faith.

### **What keeps you up at night?**

The politicians running our country. All of them.

### **What do you look forward to?**

Being a father to that little girl.

### **What will your legacy be?**

To leave the world better, cleaner, and more organized than I found it.

## Financial Data

@ Close of Business, 12-31-10

(Information by finance.yahoo.com & banx.com)

Indicator	12-31-10	09-30-10
Prime Rate: (base)	3.25%	3.25%
Discount Rate:	0.75%	0.50%
3 Month T-bill yield:	0.10%	0.14%
30 Year T-bond yield:	4.33%	3.68%
Gold (1 oz.)	1421.10	1307.00

Fannie-Mae Home Mortgage		
30 Year fixed:	4.84%	4.43%

Indicator	12-31-10	09-30-10
Dow Jones Ind:	11577.51	10788.05
S&P 500 Index:	1257.64	1141.20
NYSE Composite:	7964.02	7281.07
Nasdaq Composite:	2652.87	2368.62
AMEX:	2208.38	2021.88
Russell 2000:	783.65	676.14
DJ Willshire 5000:	13360.13	12020.91

## Show Us What You Know

All who contact us with the correct answer will be placed in a drawing for a **\$30 gift certificate** of your choice.

### QUESTION:

Regarding investing, what is the difference between alpha and beta?

### Winner from last quarter:

Gail Wessels

### Others who answered correctly:

Bob Anderson	Derek Gold
Dan Holley	Angela Logsdon
Richard Rodgers	Greg Rydel
Nicole Schomaker	Jerry Stoerzinger

**Good Job Everyone!**

### Question from last quarter:

In the movie *Back to the Future*, when was Marty McFly born. Month/Day/Year?

### Answer:

June 12, 1968

## A Note To Our Clients:

New relationships with our firm are often the result of people who are in life transitions. Whether it is retirement, the passing of a spouse, selling a business, or other life events, they often trigger the need for complex financial analysis and planning. Who do you know that is currently in a life transition, and would benefit from a relationship with our firm? Your referrals are always greatly appreciated.

If you have a friend or colleague who would be interested in receiving our newsletter, please let us know, or sign them up at [www.leestoerzinger.com](http://www.leestoerzinger.com).

# lee. stoerzinger<sup>INC</sup>

RETIREMENT SPECIALIST

## Our Mission

To guide our clients in achieving true independence so they can focus on living out their meaningful purpose.

Lee Stoerzinger, Inc. is a proactive investment and retirement planning firm. Our primary focus is retirement income planning for retirees and pre-retirees looking to appropriately structure their assets.

Our expertise is in helping our clients identify how the pieces of their financial lives fit together, understand the investment process, set realistic expectations for their personal situation, and blend investments into a comprehensive financial plan.

The foundations of our firm are built on trust, experience, education and objectivity. We seek to provide world class service, and exceed our clients' expectations in all manners.

We hope that our actions - in all that we do for our clients, our profession, and our community - would continue to bring powerful meaning to the word character.

If you seek financial independence and are truly dedicated to your future, we invite you to contact us.

Take care, and as always, we look forward to sharing our newsletter next quarter.

Sincerely,

Lee Stoerzinger, CFP®  
President

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