SALINE FINANCIAL SOLUTIONS
Investment, Insurance & Retirement Planning

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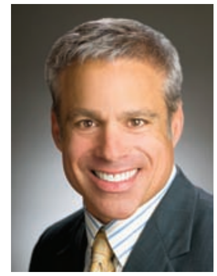

Financial Outlook

SPRING 2012

How to Measure and Manage Investment Risk

Risk — the possibility of losing money — is one of the most feared words in investing. Despite most people's aversion to risk, the history of market manias shows that most people — even some of the most risk-averse — have the ability to abandon their fear of losses when asset prices soar for a long time and everybody else seems to have made a lot of money.

So what gives some people the ability to control their emotions and make cool and calm decisions? Two main reasons are that they know how to measure risk and how to manage it. And, to the extent that individual investors learn both, they increase their chances for making smart decisions that keep their portfolios on track toward meeting their goals.

Two Ways of Measuring Risk

Beta — Professionals have two common ways to measure risk. The first is beta, which is how closely a portfolio's performance matches or varies from that of a benchmark index. The benchmark for large-company U.S.-traded stocks is the S&P 500 stock index, while a general benchmark for bonds of medium-range maturity is the Barclays Aggregate Bond index. The performance of indexes is normally expressed as a percentage and reflects their total return, which is a combination of any interest or dividend payments and their change in price.

Beta is expressed as a number on an open-ended scale, and it can be a positive number, a negative number, or zero. A beta of 1.0 means that a stock or portfolio's returns are identical in both size and direction to the benchmark, while a beta of -2.0 means that the portfolio's returns are twice as large in the *opposite* direction of the index. For example, when the S&P 500 index return is 12%, a portfolio with a beta of 1.0 should also return 12%, while a stock with a beta of -2.0 should lose 24%. A beta of 0.0 means there

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Helping Beneficiaries Avoid IRA Mistakes

While annual contributions to IRAs are still relatively modest, the ability to roll over 401(k) balances to an IRA can result in significant IRA balances. In addition to retirement planning vehicles, IRAs are thus becoming estate planning tools for individuals who won't use the entire balance during their lifetimes. If you are in that situation, help your beneficiaries avoid these common IRA mistakes:

- **Using the IRA balance too quickly.** After an IRA is inherited, a traditional deductible IRA still retains its tax-deferred growth and a Roth IRA retains its tax-free growth. Your beneficiaries' goal should be to extend this growth for as long as possible. If the IRA has a designated beneficiary, which includes individuals and certain trusts, the balance can be paid out over the beneficiary's life expectancy. Spouses have additional options that can stretch payments even longer. Your beneficiaries can also elect to take the entire balance immediately, paying any income taxes due. You should stress the importance of taking withdrawals as slowly as possible.
- **Not splitting the IRA when there are multiple beneficiaries.** When there are multiple beneficiaries, it is typically best to split the IRA into separate accounts by December 31 of the year following

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How to Measure

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is no patterned relationship between the two returns.

Standard deviation — A second way professionals measure investment risk is with standard deviation. Expressed as a percentage, it reflects a range of returns above and below an annual average rate of return for the stock or portfolio itself, without reference to a benchmark. It's standard deviation that measures the way many define risk: volatility.

In statistics, when applied to investment returns, one standard deviation covers about two-thirds of all returns. So a portfolio that has an average rate of return of 9% and a standard deviation of 12% means that in six to seven years out of 10, the portfolio's returns range between -3% and 21%. In general, a lower standard deviation is better, because it reflects less chance of a negative return.

Techniques to Manage Risk

Individual investors can use several methods to help reduce risk. These include:

- **Diversification.** The fewer the number of securities you own in your portfolio, the greater the risk that one or more will produce losses that reduce your ability to generate positive compound returns. In a stock portfolio, that means owning stocks of at least 10 different companies from at least five different sectors (such as, but not limited to, technology, consumer staples, finance, energy, and basic materials).
- **Asset allocation.** This refers to spreading your investments over the three classic asset classes (stocks, bonds, and cash) according to a formula that potentially matches the rate of return you need to meet your goals. The formula determines what percentage of your holdings should be from each asset class (e.g., 70% stocks, 25% bonds, and 5% cash). Because bonds and cash generate more steady (if smaller) average returns than stocks, the more of each included in your portfolio, the less volatile your overall returns should be.
- **Dollar cost averaging.** This is a technique that puts price declines to your advantage. It involves making periodic purchases in the same dollar amount of the same securities. When you continue to buy shares when their prices fall, you buy more shares than when the prices are higher. This gives you more shares, which increases your dollar gains when prices start going back up. However, it neither guarantees a profit nor protects against loss in a prolonged declining market. Because dollar cost averaging involves continuous investment regardless of fluctuating price levels, investors should carefully consider their financial ability to continue investment through periods of low prices.
- **Portfolio rebalancing.** This is a two-step process by which you restore your holdings to the proportions defined by your asset allocation strategy. The first step is to sell a portion of the investments in those asset classes where your holdings have grown to be larger than their prescribed percentage. The second step is to use the sale proceeds to buy more of the securities from those asset classes whose proportions have become too small. This provides a benefit similar to that obtained by dollar cost averaging.

Managing risk is not about avoiding all losses, since they are an inevitable and normal part of the investment process. Instead, it's about minimizing your losses while achieving the rate of return you need to reach your financial goals. Please call if you need help aligning your investment strategy with your goals while adapting to changing market trends. ❍❍❍

Overdiversification

Diversify. Diversify. Diversify. While this investment advice seems to be continually discussed, it is possible to overdiversify, which can lead to lackluster returns. Thus, it is important to know the difference between healthy diversification and excess diversification.

The primary benefit of diversification for your portfolio is to spread market risk over different stocks in a way that will decrease the impact any one stock will have on your total return. With an appropriate level of diversification, your overall return will not be significantly impacted if one or even a few investments do not perform as expected.

Thus, it is not just the number of investments you hold that impacts your return, but how those investments interact with one another. If you keep adding investments that react to the market in the same way, you are not really diversifying. You are just adding similar investments to your portfolio.

Adding too many investments to your portfolio also makes it more difficult to monitor your investments. With too many investments to keep track of, it is more likely that you will miss important information about investments.

Please call if you'd like to review your portfolio. ❍❍❍

Helping Beneficiaries

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the original owner's death. If the account is not split, distributions must be taken by all beneficiaries over the life expectancy of the oldest beneficiary. By splitting the IRA into separate accounts, each beneficiary can take distributions over his/her life expectancy. This is especially important for a surviving spouse, who can only roll over the IRA to his/her own account if he/she is the sole beneficiary. With the rollover IRA, the surviving spouse can name his/her own beneficiary, thus extending the IRA's life, and can defer distributions until age 70½. When other than an individual or qualifying trust is named as one of the beneficiaries, the IRA must be distributed within five years when the owner dies before required distributions begin or over the owner's life expectancy when the owner dies after required distributions begin. Separating the account or paying out the nonindividual's portion then allows the individual beneficiaries to take distributions over their life expectancies.

❍ **Rolling the balance over to a spouse's IRA too quickly.** Once a spouse rolls over the balance to his/her own IRA, some planning opportunities are eliminated. While the IRA balance can typically be spread out over a longer period when the balance is rolled over, the spouse may need distributions. Spouses under age 59½ can take withdrawals from the original IRA without paying the 10% federal income tax penalty. Once the account is rolled over, withdrawals before age 59½ would result in a 10% federal income tax penalty. Also, spouses who are older than the original owner can delay distributions by retaining the original IRA. The surviving spouse does not have to take distributions until the deceased spouse would have attained age 70½, even if the surviving spouse is past that age. The spouse may want to disclaim a portion of the IRA, which must be done within nine months of the original owner's death. If the account is rolled over, that disclaimer can't be made. Thus, it is typically best for the surviving spouse to determine his/her financial needs before rolling over the IRA balance.

❍ **Not properly establishing the inherited IRA.** An inherited IRA must be retitled to include the decedent's name, the words "individual retirement account," and the beneficiary's name. The IRA cannot simply remain in the decedent's name. The beneficiaries should also designate beneficiaries for their IRAs.

Please call if you'd like to discuss this topic in more detail. ❍❍❍

Your 401(k) Plan after Changing Jobs

Long gone are the days when most employees worked for the same employer their entire careers. That means millions of Americans have participated in more than one 401(k) or other type of qualified retirement plan. A good number of them maintain those 401(k) plans with their former employers. The alternative is to transfer accounts to your current employer's plan or to roll the funds over to an IRA.

While there's no law limiting the number of tax-advantaged accounts you can maintain, there are practical considerations in favor of rolling over your plan assets into a single account:

❍ **It's harder to execute an asset allocation strategy across multiple accounts.** A key to getting the most out of your investments is a defined asset allocation strategy that matches your need for performance and your tolerance for risk. You achieve this by diversifying your portfolio across the basic asset classes and a number of sub-classes. When your portfolio is spread out over more than two accounts, it's more difficult to monitor your asset allocation.

❍ **Plans can change providers.** Plan sponsors (employers) often change 401(k) plan providers as they try to maximize service and minimize administrative expenses. This usually means a change in the plan's fund choices that you need to evaluate. Also, if you don't make your choices in a timely manner, the new provider will typically automatically place your funds in a low-risk alternative.

❍ **Rebalancing is more difficult.** Rebalancing involves restoring your portfolio to its planned asset allocation proportions by selling off some of the investments that are performing well and reinvesting the proceeds in your underperforming investments. The more investments you have in more places, the more transactions you have to execute.

❍ **With more than one account, it's harder to assess the performance.** With fewer investments in fewer places, it's easier to monitor their performance and identify how they're doing compared to the markets.

❍ **You may reduce your expenses.** Fees charged by 401(k) plan providers directly affect the returns your portfolio generates. If former employers' plans charge more than your new one, you may be able to boost your portfolio return simply by consolidating your funds into one plan.

Please call if you'd like to discuss this in more detail. ❍❍❍

FINANCIAL DATA

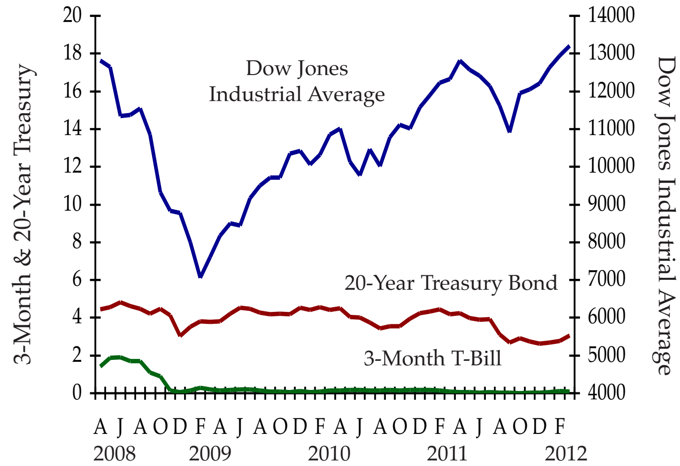
Indicator	Month-end Jan-12	Feb-12	Mar-12	Dec-11	Mar-11
Prime rate	3.25	3.25	3.25	3.25	3.25
Money market rate	0.51	0.50	0.47	0.49	0.00
3-month T-bill yield	0.05	0.12	0.09	0.03	0.10
20-year T-bond yield	2.68	2.76	3.07	2.63	4.18
Dow Jones Corp.	3.42	3.28	3.28	3.74	3.85
30-year fixed mortgage	3.30	3.41	3.58	3.42	4.57
GDP (adj. annual rate)#	+1.30	+1.80	+3.00	+3.00	+3.10

Indicator	Month-end Jan-12	Feb-12	Mar-12	% Change YTD	12 Mon.
Dow Jones Industrials	12632.91	12952.07	13212.04	8.1%	7.2%
Standard & Poor's 500	1312.41	1365.68	1408.47	12.0%	6.2%
Nasdaq Composite	2813.84	2966.89	3091.57	18.7%	11.2%
Gold	1744.00	1770.00	1662.50	5.9%	15.5%
Consumer price index@	225.70	226.70	227.70	0.7%	2.9%
Unemployment rate@	8.50	8.30	8.30	-4.6%	-6.7%
Index of leading ind.@	94.50	94.80	95.50	-18.7%	-15.9%

— 2nd, 3rd, 4th quarter @ — Dec, Jan, Feb Sources: *Barron's, Wall Street Journal*

4-Year Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield

April 2008 to March 2012



Past performance is not a guarantee of future results.

Jeffrey J. Saline Hits the Workshop Trail

As part of its commitment to client education, the team at Saline Financial Solutions spent the month of March traveling throughout New Jersey and Southeastern Pennsylvania meeting with prospective retires and clients. Conducted personally by Jeffrey J. Saline, these gatherings were more than a sharing of general ideas. The Saline-hosted workshops discussed strategies, addressed questions, and explained the intricacies of the retirement process. The team, which is well versed in a great number of corporate retirement plans, spoke in specifics and answered such questions as:

- ❍ What is the process to retire?
- ❍ Can I afford to retire?
- ❍ How do I get a penalty-free income under age 59½?
- ❍ Which choice is appropriate for you: Lump Sum vs. Company Pension?
- ❍ How do changes to IRS Rule 72(t) affect your income?
- ❍ How might the new Pension Reform Act and upcoming contract negotiating affect your retirement?
- ❍ How will the new contract affect you?
- ❍ How do low GATT* rates affect you?

These were just some of the areas covered as Jeff discussed the various options available. Complementing the frequently asked questions, he met one-on-one with prospective retirees and families to analyze their individual needs and offer the most suitable solutions. The goal: To simplify and streamline the retirement process while increasing benefits.

"Educating our clients is one of the most enjoyable parts of the planning process, because it allows us to help them take a more personal approach concerning the direction and quality of their lives," says Jeffrey J. Saline. "Meeting face-to-face is an invaluable first step."

Jeff goes on to say how often he meets prospects at these workshops as a result of referrals. Whether an existing client or recent attendee, their unsolicited and unbiased word-of-mouth recommendation is more than appreciated. It is one of the biggest compliments. "We have and continue to be extremely grateful to all those who entrust their future to us," says Saline. "For these same people who share our name with others, I cannot say thank you enough."

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