SALINE FINANCIAL SOLUTIONS
Investment, Insurance & Retirement Planning

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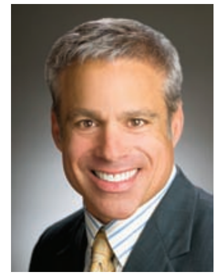

FINANCIAL OUTLOOK

SUMMER 2012

Two Schools of Thought: Fundamental and Technical

There are two schools of thought on how best to analyze the stock market. On one hand are the fundamentalists, and on the other are the technicians. It's typically advisable for investors to make their own separate peace with each. The result can be two sets of indicators that complement each other — and a strategy that leads to better investment decisions.

Fundamental vs. Technical Indicators: The Basic Difference

The basic difference between fundamental and technical analysts is what they look at to make their decisions, with fundamental analysts looking at companies and technicians looking at charts. More specifically, fundamental analysts study the numbers and ratios of businesses — profits and revenues, dividend yields, and ratios of debt to equity and price to earnings. Technical analysts focus their attention on charts that track the price history of an index or stock and the changes in the numbers of shares traded over time.

Underlying these different focal points is a belief in what makes stock prices move. For fundamental analysts, it's a judgment of what a company is worth in the open market, given its strengths and weaknesses compared to its competition. Fundamental analysts sift through the performance data of like companies to estimate what the price of the company they're analyzing should be.

Technical analysts base their approach on the idea that stock prices change for the same reasons that the price of everything else changes: the balance of supply and demand. That means comparing the number of owners of the security who want to sell it at a given price to the number of people who want to buy it at that price. Technical analysts believe that the peaks, valleys, and plateaus of a stock price — compared with changes in the volume of shares bought and sold — reveal that relative balance.

Key Fundamental Indicators

Fundamental analysts use a large number of indicators to determine what they believe is the true potential market value of a stock or stock index. Here are a handful of the most popular ones:

❍ **Price/Earnings Ratio (P/E).** This is the number that results from

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Should You Own Muni Bonds?

Municipal bonds are issued by governments and government agencies below the level of the federal government.

Pro: Potential tax advantages. The most important characteristic of municipal bonds is the fact that the income they generate is generally free of federal taxes (but may be subject to the alternative minimum tax (AMT)), as well as any income taxes levied by the state and municipality that issues them. For investors in the higher tax brackets, this can result in an attractive after-tax yield when compared to Treasury and corporate bonds.

When considering whether to invest in a municipal bond or some other bond whose income is fully taxable, compare the bond's taxable equivalent yield to the current yield or coupon of the taxable bond you're comparing.

One cautionary note: some municipal bonds *are* subject to federal

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Two Schools

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dividing the earnings per share of a company's stock into its price per share. It's also commonly called the "earnings multiple" or simply a stock's "multiple." Historically, the average P/E for U.S. stocks in the S&P 500 is somewhere between 14 and 16, depending on the time frame. Based on the commonly held principle that over the long run the P/E ratio for U.S. stocks reverts to its average, there are times when professionals say the market is "overvalued" or "undervalued" — suggesting that the market is poised for a change in trend. Similarly, stocks can be said to be overvalued or undervalued based on their P/E ratio.

- **Estimated Future Earnings Growth Rate (EGR).** Wall Street analysts usually prepare an estimate of a company's earnings growth rate for a period of time, expressed as an average annual growth rate. Investors who want to buy "growth" stocks look for EGRs of more than 20%, while investors who favor "value" stocks can be satisfied with EGRs in the teens.
- **P/E to Growth Ratio (PEG).** This is calculated by dividing a stock's future earnings growth rate into its P/E multiple. For example, a stock with a P/E of 30 and an EGR of 15% has a PEG of 2. Stocks with PEGs of less than 1 are considered to be bargains and are more likely to keep rising in price, while stocks with PEGs of more than 2 are often considered pricey and more likely to offer a slower rate of return going forward.
- **Dividend yield.** This is simply an expression of a stock's annual dividend divided by its price. Growth stocks often don't pay dividends, so dividend yield is a way of sorting out the comparative attractiveness of value stocks. One way for a stock's yield to rise is for the price to come down while the company maintains the same dividends — these are often considered good buys by value-oriented investors.

Key Technical Indicators

- **Resistance and support levels.** Technical analysts pore over charts to detect prices where a stock has had difficulty moving higher, as well as where it has resisted going lower. On the high side, these are prices where owners sell to take their profits, and the sellers outnumber the buyers. On the low side, these are prices where buyers believe the stock is a bargain and begin to outnumber the sellers. Technicians in general, and traders in particular, look at breakouts at these levels as a sign either to buy a stock for upside potential or to short a stock and make a profit as its price falls.
- **Price and volume signals.** Technical analysts use the combination of changes in a stock price and volume of shares traded as a sign of its likely future price trend. Although not infallible, any move that occurs on higher volume is regarded as likely to continue in the same direction. Conversely, when the price changes on lower volume, technicians view continued movement in that direction as less likely. These signals are regarded as particularly strong if the pattern continues over several days, weeks, or months.
- **Moving averages.** Technical analysts make heavy use of the moving averages of stock prices. A moving average is computed by adding the closing price for a specified number of days (typically 10, 20, 50, and 200 days) and dividing the total by the number of days. These moving averages appear on charts as lines of different colors that rise and fall and often cross over one another. Some traders use specific crossovers as buy or sell signals — for example, some traders will buy a stock or enter the market when the 20-day moving average crosses the 50-day moving average from below. Moving averages are also used by some traders as levels of resistance and support; these traders will buy or sell a stock when the price moves above or below the moving average line.
- **MACD.** This acronym is short for a powerful indicator known as Moving Average Convergence and Divergence. It is considered an indicator of a stock or index's price momentum — the strength and direction of its price trend. MACD measures the difference between a short- and long-moving average of closing prices (normally 12 and 26 days) and uses changes in the difference as buy or sell signals.
- **Relative Strength Index (RSI).** Like MACD, this indicator is known as an "oscillator" because its value continuously moves up and down, usually in sustained trends. It measures where in the range of a stock's closing prices over the prior 14 days the current price is. When a stock is in the upper 30% of its range, the stock is regarded as "overbought" and poised to pull back in price. When a stock is in the lower 30% of its price range, it's regarded as oversold and likely to begin moving higher.

Fundamental and technical analysts are often very partisan about their methodology. But many professional managers use both methods to fine-tune both their short- and long-term strategies. In the words of some Wall Street professionals, fundamental analysis tells you *what* to buy, and technical analysis tells you *when* to buy it. Please call if you'd like to discuss fundamental and technical analysis in more detail. ❍❍❍

Should You Own?

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taxes. Called "private activity bonds," they're often used to finance projects like sports arenas and investor-led housing. Investors need to be sure they're really obtaining a tax advantage.

Con: Potential "call" risk. Municipal bonds are often "callable," which means that issuers reserve the right to refinance their bonds if interest rates fall far enough. Knowing whether the municipal bond you're thinking of buying is callable or not can help avoid the unpleasant surprise of a call.

Con: Regional economic risk. Unlike the U.S. Treasury and the biggest corporations, municipal bonds are more exposed to the vagaries of local or regional economies. While the temptation is to focus largely on issuers that offer the greatest tax advantages, your city, county, or state may suffer harder economic times than other parts of the country, exposing you to greater risk of default. To offset this risk, you may want to invest part of your municipal portfolio in issuers outside your region.

Con: An inefficient national market. Another difference between the markets for Treasury and corporate bonds and the market for municipals is that the municipal market is far more inefficient. Thus, information about any particular bond or issuer may take a long time to be recognized by the larger market. As a result, there can be both more hidden problems surrounding a bond as well as more opportunities to discover undervalued bonds.

Consider the Credit Rating

The major rating agencies give implicit ratings to most municipal bonds. These ratings reflect the relative risk that the issuer may not be able to make interest payments in time or in full, or to redeem the bonds at face value when they mature. The lower the credit rating, the higher the interest rate the issuer has to pay. What investors are faced with determining is whether the extra yield is sufficient compensation for the higher risk.

Municipal bonds that have the highest credit rating have achieved that rating typically for one of two reasons. Either the issuer has excellent financials or has purchased municipal bond insurance.

The two are not always equal, especially now that so many municipal governments are experiencing financial squeezes. The danger is that in a widespread municipal financing crisis, the bond insurance agencies might not have enough money to cover all insured issues in full. ❍❍❍

A Portfolio Tune-up

Over time, the weighting of the asset classes in your portfolio can change. After spending a great deal of time to develop an asset allocation strategy, it can be frustrating to see these changes. However, a simple rebalancing of your portfolio may be all that is needed to get your portfolio back in line.

The need for rebalancing is part of the nature of investing. Since different investments earn different rates of return, their values grow at different rates, changing the weightings in your portfolio. These changes can cause your portfolio risk to increase or decrease, making rebalancing a necessary part of portfolio maintenance.

While you should definitely rebalance when your financial objectives or life circumstances change, you also want to rebalance on a regular basis. There are three basic methods to consider:

- **Rebalance annually.** Choose a date to rebalance, perhaps at the beginning of the year, when you receive your annual statements, or at the end of a quarter. On that date every year, compare your current allocation to your target allocation. Any allocations off by more than 5–10% would require rebalancing. Once you have rebalanced, don't be tempted to make other rebalancing changes during the year. Wait for your next rebalancing date.
- **Rebalance when your allocation differs from your target allocation by a designated percentage.** With this type of rebalancing, you monitor your portfolio more frequently, perhaps monthly. Once your allocation moves from your target allocation by a predetermined percentage, perhaps 5–10%, you rebalance your portfolio.
- **Rebalance based on current market conditions.** With this approach, rather than one specific percentage for each asset class, you might have a target range. For instance, you might allocate anywhere from 30–50% of your portfolio to large-capitalization stocks. Depending on your views of the market, you might want to allocate near the low or high end of that range. Thus, your allocation will change as your views about the market change.

There are many ways to accomplish changing your allocation among investments. You can purchase additional amounts of the investment that is underrepresented in your portfolio. You can sell investments in overrepresented portions and invest the proceeds in underrepresented portions. Any withdrawals can be taken from overweighted investments. Income from your portfolio, such as dividends and interest, can be invested in underweighted investments. Ultimately, you need to consider tax ramifications and your own individual investment preferences. ❍❍❍

Financial Data

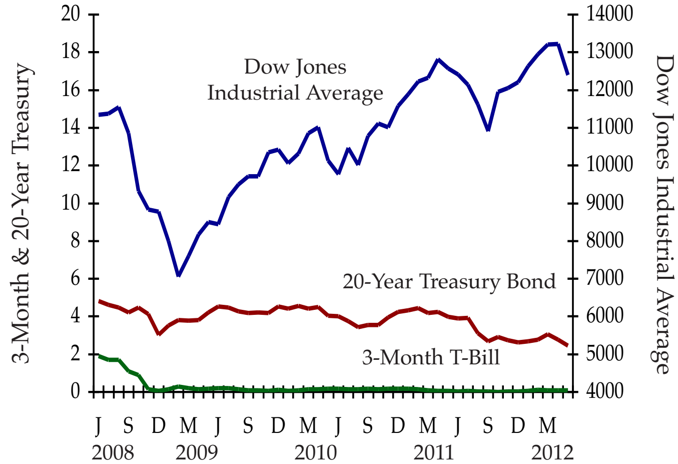
Indicator	Mar-12	Apr-12	May-12	Dec-11	May-11
	Month-end				
Prime rate	3.25	3.25	3.25	3.25	3.25
Money market rate	0.47	0.49	0.50	0.49	0.00
3-month T-bill yield	0.09	0.09	0.09	0.03	0.06
20-year T-bond yield	3.07	2.76	2.46	2.63	3.99
Dow Jones Corp.	3.28	3.21	3.32	3.74	3.55
30-year fixed mortgage	3.58	3.35	3.27	3.42	4.25
GDP (adj. annual rate)#	+1.80	+3.00	+2.20	+3.00	+0.40

Indicator	Mar-12	Apr-12	May-12	YTD	12 Mon.
	Month-end			% Change	
Dow Jones Industrials	13212.04	13213.63	12393.45	1.4%	-1.4%
Standard & Poor's 500	1408.47	1397.91	1310.33	4.2%	-2.6%
Nasdaq Composite	3091.57	3046.36	2827.34	8.5%	-0.3%
Gold	1662.50	1651.25	1558.00	-0.8%	-1.8%
Consumer price index@	227.70	229.40	230.10	1.7%	2.3%
Unemployment rate@	8.30	8.20	8.10	-6.9%	-10.0%
Index of leading ind.@	95.40	95.60	95.50	-18.7%	-16.1%

— 3rd, 4th, 1st quarter @ — Feb, Mar, Apr Sources: *Barron's, Wall Street Journal*

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

June 2008 to May 2012



Past performance is not a guarantee of future results.

News and Announcements

Jeffrey J. Saline Receives 2011 Award of Excellence From WE2, Inc.

This May, Jeffrey J. Saline, President of Saline Financial Solutions (SFS), received the 2011 Award of Excellence from WE2, Inc. in recognition for his contributions as a board member and superior production levels. After several years as a WE2 committee member, Jeff was appointed to the board in February 2011 to provide insight and valuable first-hand experience to the WE2 third-party money managers.

Says Saline, "It is always an honor to receive such an award. To be recognized within my first year as a board member is even more so." WE2, a subsidiary of NEXT Financial Holdings, Inc. and an affiliate of NEXT Financial Group, Inc., provides investment professionals with a trusted resource for innovative investment solutions.

The Workshop Trail Heats Up

Schools may be out for summer, but the Saline Financial Solutions Workshops are still in session. As corporate downsizing continues, understanding your options and preparing for the future is more important than ever. So this July and August, the Saline team takes its commitment to financial education on the road once again traveling throughout New Jersey and Southeastern Pennsylvania.

Jeffrey J. Saline, who has successfully retired hundreds of employees from large companies and is well versed in a great number of corporate retirement plans, conducts the workshops personally. Speaking in specifics versus generalities, he discusses strategies and explains the intricacies of the retirement process. In addition to addressing many frequently asked questions, Jeff meets 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. Meeting face-to-face is an invaluable first step.