

The Meridian Median

Current Events

TIAA-CREF CEO Roger Furgeson talks about saving for retirement in today's economic climate; by Stefanie Carano

Today's dynamic work world calls for a significant change to the way Americans save for retirement, according TIAA-CREF president and CEO Roger Ferguson.

Ferguson spoke Sept. 15 at the "Retirement in Transition: Work, Relax or Reboot?", part of Wayne State University's Forum on Contemporary Issues in Society to address what he calls "the new normal in retirement planning."

He said there needs to be significant changes to the way Americans save for retirement, as the three legs that used to make up retirement funding for most of the workforce - pensions, social security and personal savings - are now all a bit wobbly, and the 401(k)s often used to replace pensions and similar retirement savings is only intended to be supplementary, rather than primary, sources of income. He suggested a number of changes in which financial security in retirement is a shared responsibility by both employees and the employer and mentioned a number of elements the TIAA-CREF thinks retirement plans of the 21st century should include.

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*To My Clients:
A Message from
Jim*

I hope everyone enjoyed their summer, even with the rough ride in the stock market. The month of September ended at a low point in the markets with the S&P 500 down 7% and the NASDAQ and Dow Jones off 6% and 6.5% respectively. It is not so much the decline in the averages but the volatility that has seen the lows tested three times in the last 45 days. Today we broke through a critical point in the S&P 500 of 1120. The quarter from July-September 2011 was the worst period since the first quarter of 2009 and is of predictor of deteriorating conditions that could lead to a recession. In my opinion we will see at least one quarter of negative economic growth but additional Federal Reserve action and possible stimulus from Washington will bring the economy back in the first quarter of 2012. For the year the S&P is now down 10%, with similar declines in the other large averages. The small cap Russell 2000 is off 17% and the international indices are down at least 15%. The S&P 500 peaked in April at 1363

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Money beats: Year to Date Performance Percentages

Domestic Indexes

Dow Jones Industrial Average PR	-3.9
NASDAQ Composite	-9.0
Russell 2000	-17.0
Standard & Poor's 500	-1 0.0

Foreign Indexes

MSCI AC Far East ex Japan ID	-20.9
MSCI EAFE NDTR_D	-15.0

Bond Indexes

Barclay's Aggregate Bond	6.6
Barclay's Mortgage-Backed Bond	5.3

Is Now a Good Time to Refinance?

Given the current interest rate market, every homeowner should consider refinancing their mortgage. That's according to David Kuiper, originator at First Place Bank. Kuiper says that with the multitude of mortgage plans in the current market, refinancing is something every person with a mortgage should consider doing.

"Everything has been custom tailored for the individual homeowner," Kuiper said. "Anybody that has a mortgage should look into it, rates have never been lower."

Just recently, the Associated Press reported that rates on a 30-year mortgage have fallen to a record 4.01 percent and Kuiper said homeowners will be seeing mortgage rates in the low 4's for quite awhile.

Kuiper said some homeowners are concerned that they will not be able to refinance with the decline of property values. Special loan programs have been created to address this concern.

According to The Federal Reserve Board, the following questions should be considered when refinancing: Have interest rates fallen? Or do you expect them to go up? Has your credit score improved enough so that you might be eligible for a lower-rate mortgage? Would you like to switch into a different type of mortgage?

While adjustable mortgages typically outperform fixed mortgages, many people do opt for a fixed rate mortgage because it offers more assurance, less uncertainty since the interest rate remains consistent throughout the term of the loan.

He also said times have never been better in terms of financing and that the current media portrayal of mortgage refinancing as an arduous process is just not true.

"There's more to do documentation-wise but in terms of guidelines, it's become very streamlined," he said.

He said applicants should find the process agreeable, "as long as somebody is qualified, makes payments on time and can afford where they're living."

The Current Market: Fidelity Panel Discussion

There's not much optimism in the investment community this month as the world economy continues to be in decline.

Global opportunities are pretty negative according to the financial experts at Fidelity, who presented "Market Perspective: What's Up Next" to an audience of investors earlier this month.

Fidelity Director of Asset Allocation Management Lisa Emsbo-Mattingly says that a large proportion of the largest economies in the world are showing signs of deceleration.

She said Europe in particular is showing significant signs of a slow down and may already be entering a recession.

On the U.S. economy while the probability of recession has risen significantly over the last two months driven by the declines in the stock market consumer sentiment, Emsbo-Mattingly said the experts at Fidelity continue to think the U.S. remains in expansion albeit with a mid-cycle slowdown.

"Right now the markets are dominated by the Euro story," she said. "The U.S. political situation is creating additional uncertainty."

It appears that the stock and high yield markets have already priced in a recession for the U.S., and Emsbo-Mattingly said the market behavior is looking similar to what was seen in 1987.

"We begin to think about how we want to asset allocate moving forward and we begins to think about perhaps cautiously re-entering this market," she said.

She said the global demand they've seen over the past decade is looking a little long in the tooth and it may be worth it for investors to look at some unloved sectors of the economy, in particular the U.S. consumer.

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These elements were considered based on the opinion, he said of “financial experts” and include the following:

At least 10 percent of a worker’s salary should go toward an employee’s retirement and this percentage should be a contribution of both the employer and the employee.

“The 21st century retirement system should continue to recognize that helping employees achieve financial security during retirement is a shared responsibility,” he said. “Both employers and employees have a role to play.”

He said it’s important that a retirement system provide income for life, income that you cannot outlive, meaning 20 or 30 or 40 years of a so-called retirement income.

Employees should have 5-10 investment options, no more and no less in their investment plan.

“Five to ten allows individuals to make decisions across a diversified portfolio but without making the decision-making too difficult,” Ferguson said.

Funds that target the date an employee is likely to retire (called target-date funds) should be the default investment option.

Workers, he said, should have the opportunity to convert their savings to a guaranteed income stream.

Plans should offer personalized advice on how to save, how to allocate their assets and how to spend once they reach retirement age.

“Any new retirement system has to put a strong emphasis on education and advice, recognizing that most people need help in making decisions about achieving retirement security,” Ferguson said.

He also said a retirement system has to recognize that “one size fits all” does not work.

“We need target approaches for women and minorities, different age groups,” he said, “and obviously we have to focus on the different income groups.”

The system should be also provide projections of what individuals can expect to receive in retirement based on their account balance, savings rates and asset allocation decisions.

Given that employers would be responsible for providing retirement savings and planning, he said the system should be made affordable for employers.

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and currently has fallen to 1099, a 19.6% drop. Any decrease in excess of 20% would indicate that we have entered another bear market with a potential further decrease in the average of 10%-15%.

The strategy is clear that our primary objective is to protect capital in client accounts. The disappointment in the performance this year has not been in the individual securities portion of portfolios but in the mutual fund portion, in particular the bond funds. If we have any economic rebound the bond funds will be the first to participate, along with preferred and convertible preferred stock. Performance has been impacted by the financial situation in Europe. If Europe resolves the sovereign debt situation, by either guaranteeing the debt or replacing it with new Euro bonds, it will lead to increased liquidity in the debt markets. However, it will probably cause interest rates to rise in the US as we will again have competition for US treasury bonds. This is when the Fed may invoke QE3. The fixed income instruments that we hold in client accounts should benefit from this shift away from treasury bonds as investors seek higher yields in floating rate and corporate bonds. Given that the European situation can be resolved in the short term we would consider any potential snap back in the stock market as an opportunity to raise some capital and sell call options to increase income. We do not expect the markets to improve significantly until some positive government action is taken in Washington, and that may not occur until December. Until then we remain cautious and defensive. We will not become aggressive until there are clear signs of improvement on the horizon. I still expect 2012 to be positive but this forecast may be tempered by a reduction in corporate earnings projections.

I know everyone is disappointed in the results this year. We will continue to work to preserve your capital and take advantage of any positive developments to recover asset balances by year-end.

If you have questions regarding your account or would like to discuss please let me know. I am available for meetings either in person or online. You can also contact me by phone or email at james-car@meridian-advisory.com.