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## The Recession is Over - Really?

**Hear ye, Hear ye, The Recession is Over!**



If you somehow missed the proclamation of the town crier, from Monday, Sept. 20, her is the recap; according to the Nat'l Bureau of Economic Research, **the recession ended in June, of 2009! Pardon me?**

Yes, June of 2009 is the technical, official 'end date' of the most recent downturn, the longest and deepest one plaguing the U.S. economy since the Great Depression.

According to a recent CNN/Opinion Research Corp. Poll, 74% of Americans remain skeptical, believing rather that the economy is still mired in the recession.

Thus, even the Bureau took care to mention that the end of the recession, by definition, is only the point in time when the economy *reaches its low point*. Thus, simply because a stated fact is "technically" true doesn't mean it is "practically" true.

Even President Obama could "feel our pain" in this related statement;

*"Obviously, for the millions of people who are still out of work, people who have seen their home values decline, people who are struggling to pay the bills day to day, [the recession is] still very real for them."*

On a positive note, the same poll found that the percentage of Americans who say the country is improving has increased by 13 points since August - a healthy reversal.

This improvement in public opinion surely was bolstered by an improving stock market. The Dow Jones Industrial Average increased swiftly during the 3<sup>rd</sup> quarter, rising from **9,774** (6-30-10) to **10,788** (9-30-10), or 9.6%.

At Henry Wealth Mgmt. we too have a **Hear ye herald**;

We would like to express gratitude to our wonderful clients, who overwhelmingly do not panic during economic storms and market downturns. Rather, you hold fast to the plans we have developed and investment policies implemented, based on your long-term goals.

As you remain steadfast and strategic, you are in a position to benefit when the markets quickly improve, as they are apt to do and usually, without warning.

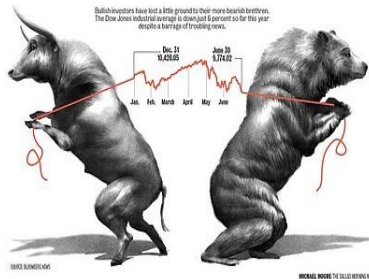
### Dow Jones Q3, 2010



## Asset Allocation and the Lost Decade

The recently dethroned recession closed out a difficult decade for domestic stocks. Referred to now as **The Lost Decade**, this period in time has raised many questions about the concept of investment diversification, namely, **does it work?**

The Lost Decade specifically refers to time period Jan. 2000 through Dec. 2009, when investors in U.S. Stocks (measured by the S & P 500) , **lost money!** This time span accounted for losses on average of 0.95% per year. Thus, an investment \$100,000 at the start of Y2K would have closed out 120 months later at a disappointing \$90,896.



**“Bears prevailing over Bulls”,** is rare over a ten-year period. Yet this victory represents a win over the investor who allocated to **large cap U.S. stocks only**. What about the (dare I say) more prudent investor who allocated his/her assets across a global and more highly diversified investment spectrum?

Let’s first note that there is no generally accepted definition within our industry as to what constitutes adequate diversification, other than financial advisors warning **“do not put all of your eggs in one basket”**.

Our clients utilize portfolios that encompass **many asset classes**, aka, multiple baskets. This means exposure to domestic and international large, mid and small companies, emerging markets and real estate investments.

The argument for diversification was first introduced in the late 1950’s by **Dr. Harry Markowitz**. His impact earned merited **1990 Nobel Prize in Economics** and his findings have had a significant impact on how people invest and diversify.



How do investors benefit by diversifying into many different asset classes? Often times stocks from different asset classes do not **“correlate”**. Simply stated;

- *Securities whose prices tend to move in the same direction over time are said to be **“positively correlated”**.*
- *Securities that tend to move in opposite directions over time are **“negatively correlated”**.*



Thus, a well diversified portfolio of global investments would be comprised of securities that exhibit a **low to negative correlation**. Securities from different asset classes tend to display this attribute.

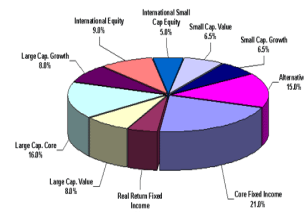
We see the benefits of global diversification when we look at...The Lost Decade. **Dr. Burton Malkiel**, Professor of Economics at Princeton University and author of the hugely popular book,



**“A Random Walk Down Wall Street”,** is a firm Markowitz proponent. Here is his summation of the benefits of being broadly diversified during this difficult period;

*“If you were in U.S. stocks alone, you ended the decade with less money than when you started, but if you diversified, you did very well...The rest of the world is growing faster than we are - in particular emerging markets. If you had diversified broadly across markets, across the world, and with some bonds as well as stocks, you actually ended the decade with about twice as much money as when you started.”*

**The lesson learned?** Decide to allocate assets utilizing many global, low and/or negatively correlated asset classes. This is our philosophy and is executed by leveraging the expertise of a handful of excellent, institutional asset managers. In addition to global stock diversification, our clients’ portfolios in nearly all cases, also include an appropriate weighting to short-term, high quality bonds, which serve to mitigate stock volatility.



Certainly ones goals, time frames and propensity towards risk are significant considerations in arriving at a final recommended allocation. Once built, portfolios are rebalanced yearly.

As you know, we also preach **“thought and reason”** to guide us through inevitable difficult stretches, shunning **“emotion and reaction”**. Sure we change allocations, but always in accordance with *goal changes*, not *mood changes*.

We believe that global asset allocation is alive and well and is the prescription in advance for the next **Lost Decade**.

## Life Insurance - When needed, what kind and how to own?

### Life Insurance Question 1- When needed?

**Income Replacement:** Sam earns \$150,000 per year. Along with wife Sally they agree that \$100,000 per year of income would be needed if Sam dies. At a 5% distribution rate (not guaranteed), a policy amount of **\$2,000,000** would generate **\$100,000/ yr.**



**Pension Maximization:** Those nearing retirement with a pension must select between a larger benefit for their life only or a lesser one to provide a spousal benefit. In effect, these pensioners are buying life insurance from the pension plan. **A personal policy may offer more flexibility and better terms.**

**Business Uses:** Businesses use life insurance to fund buy/sell agreements as well as to insure key employees.

**Charitable Usage:** Some desire to financially benefit their church, synagogue and/or favorite cause. A life policy can create a lasting legacy and also assist with the charity's current needs.

**Estate Taxes:** Wealthy persons buy policies to ensure liquidity is available for estate taxes. This was a non-issue in 2010- ask George Steinbrenner's heirs, who are saving a reported \$500 million in taxes since he died in 2010, when the estate tax was repealed.

Starting in 2011 and thereafter, estate taxes are set to return to the unfavorable rates that applied ten years earlier. The first \$1,000,000 per person at death is exempt. Beyond that, estates could get hit at **up to 55%**, unless congress acts.

### Life Insurance Question 2- What kind should I buy?

**Term Life Insurance:** Analogous to "renting", term provides affordable coverage for a temporary period, usually 10, 20 or 30 years. The insurance company issuing the policy is betting that you will either outlive the coverage or cancel it before you die. Of all term policies ever sold, only 1% of ever result in a death claim.

**Permanent Life Insurance:** This type may be likened to "owning" and is designed to provide lifetime protection. Premiums are much higher initially, but usually cost less over one's life expectancy. Permanent coverage may build equity, yet the most popular form today does not focus on building "cash value".

Called "**No-Lapse**", this kind of permanent coverage focuses on low premiums without an emphasis on building cash value. If payments are made as scheduled, the policy cannot lapse.



**Term vs. Permanent:** At HWM, we recommend when cash flow is an issue, a **larger term policy** rather than a smaller permanent one. Why? Because beneficiaries never ask what "*kind*" of insurance their loved one or business partner had, but rather, "*how much!*"

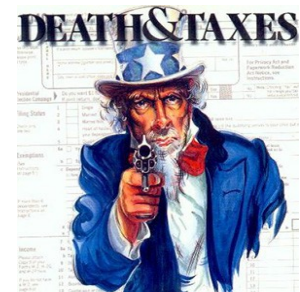
Affordability issues aside, a **ladder approach** can make sense, whereby a large term policy is purchased for the critical years (such as child rearing ones) on top of a smaller permanent one, designed to provide a forever, "no-lapse" component.

### Life Insurance Question 3- How should the policy be owned?

**Personal vs. Trust Ownership:** While death proceeds are normally free from income taxation, proceeds OWNED by an insured will be included in his/her estate.

If Sam buys AND owns a \$2,000,000 policy on his life, at his death, his estate would increase by \$2,000,000 and could trigger huge estate taxes!

Think of this; why does a contract that may be worthless during your lifetime, need to become part of your taxable estate at your death?



To avoid the dreadful duo of death and taxes, many opt for insurance owned by an **Irrevocable Life Insurance Trust (ILIT)**. An estate planning attorney can easily and affordably establish an ILIT as part of an overall estate planning strategy.

If Sam created an ILIT, made annual gifts to it equal to the yearly premium and the trustee of the ILIT paid for the coverage, the \$2,000,000 proceeds would NOT be included in his estate.

An ILIT can certainly be structured to pay needed income to Sally and to make additional distributions to her as necessary for health or lifestyle purposes. **Bottom line - almost any policy exceeding \$1,000,000 should be a candidate for an ILIT.**

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#### Disclosures:

Asset allocation and/or diversification do not protect against loss of principal. Rebalancing assets can have tax consequences. If you sell assets in a taxable account you may have to pay tax on any gain resulting from the sale. Please consult your tax advisor.

International investing involves special risks such as currency fluctuation, lower liquidity, political and economic uncertainties, and differences in accounting standards. Risks of foreign investing are generally intensified for investments in emerging markets.

The S&P 500 Index is an unmanaged group of securities considered to be representative of the stock market in general.

The Dow Jones Industrial Average is a popular indicator of the stock market based on the average closing prices of 30 active U.S. stocks representative of the overall economy. Indices are unmanaged and cannot be directly invested into.

The NASDAQ Composite Index measures all NASDAQ domestic and international based common type stocks listed on The NASDAQ Stock Market.

The MSCI EAFE is a stock market index designed to measure the equity market performance of developed markets (Europe, Australia– Asia, Far East), excluding the US & Canada.

10 Year Treasury Note is one form of United States Treasury security issued by the Dept. of the Treasury. Treasury securities are debt financing instruments of the United States Federal government.

Past performance is no guarantee of future results. Comments concerning the past performance are not intended to be forward looking and should not be viewed as an indication of future results.

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