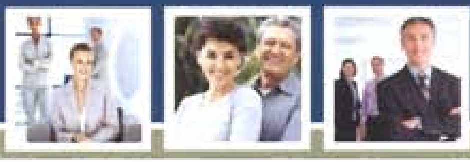

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THE AMERICAN MILLIONAIRE

A SOPHISTICATED APPROACH TO BUILDING WEALTH

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MARKET VIEWS

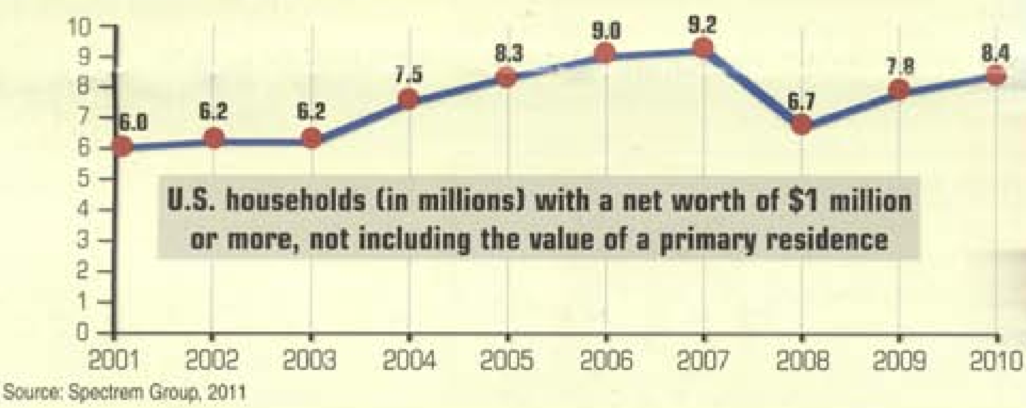
Facing Market Jitters with a Long-Term Approach

Affluent individuals are currently more inclined to describe themselves as conservative investors. But despite their trepidation, it may not be wise to shun equities entirely. Page 3

"Entrepreneurs are simply those who understand that there is little difference between obstacle and opportunity and are able to turn both to their advantage." — Niccolo Machiavelli
Italian writer and statesman
Source: Thinkexist.com, 2011

More Americans Made It to a Million

The number of millionaires grew 16% in 2009 and 8% in 2010, reaching a total of 8.4 million.



Source: Spectrem Group, 2011

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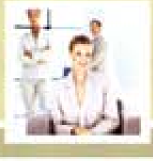


BIG PICTURE

The Financial State of the States

Budget Challenges May Harm the National Economy

State general fund revenues for 2011 have been forecasted to rise an estimated 5.9% over 2010 and to increase another 2.1% in fiscal year 2012.[1] But despite two years of projected revenue increases, state governments struggled to close deficits totaling roughly $103 billion as they passed their 2012 budgets.[2]

The American Recovery and Reinvestment Act of 2009 was intended to help states cope with short-term revenue shortfalls caused by a deep recession. Since the act was passed, the federal government has provided more than $250 billion in temporary emergency aid to the states, but the amount of federal support will ramp down considerably in fiscal year 2012, falling to less than $24 billion. Unfortunately, unemployment levels and demand for state-funded health-care programs and social services remain high, and tax collections have not improved enough to make up for the loss of Recovery Act dollars.[3]

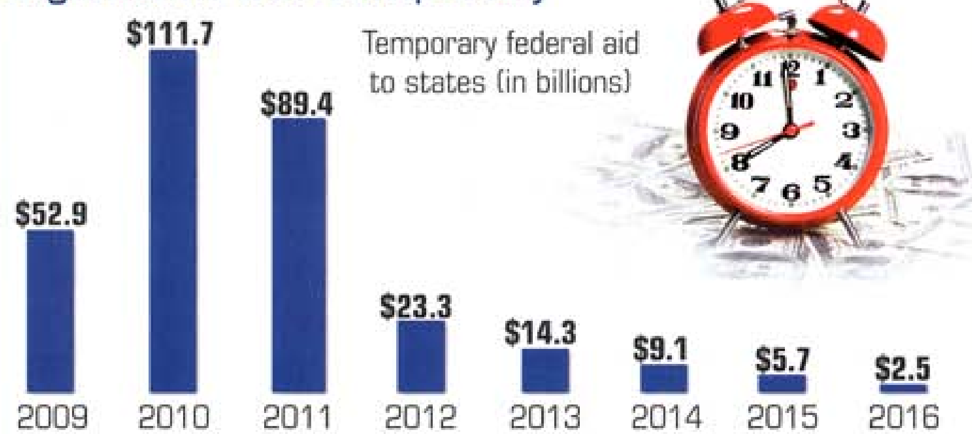
Here's a closer look at the financial pressures facing the states, and how the methods used to address their budget shortfalls could ultimately serve as a drag on the national economy.

Mounting Concerns

Most state governments are required to pass balanced budgets, a task that has become more difficult because of low tax revenues. Many states have resorted to emergency measures such as issuing more general obligation bonds, underfunding employee pensions, and tapping "rainy day" funds to deal with imbalances.[4] Twenty states have depleted their reserves almost entirely, reporting less than $7 million in cash.[5]

Heavy borrowing and underfunding pension funds will shift some of the burden to the future and could also have other financial consequences. Higher fixed debt payments and growing pension liabilities could eventually take up a larger portion of available revenue and leave even less for critical public services down the road.

Significant but Temporary



Source: The National Association of State Budget Officers, 2011

Feeling the Effects

Now that federal stimulus dollars and cash reserves are more limited, many states are planning to cut spending on education, social services, and local governments and to reduce their payrolls. State and local governments were expected to cut a record number of jobs (up to 110,000) in the third quarter of 2011.[6] In addition to layoffs, pay cuts and furlough days could reduce the earnings of many public employees. In more than half of the states, workers could also be required to contribute more of their own salaries toward their pensions.[7]

Laid-off public workers could conceivably join the ranks of unemployed and/or cash-strapped consumers who are unable to afford their mortgages, food, clothing, and other necessities. In hard-hit areas, local businesses could also feel the effects of government downsizing as both consumers and agencies cut back on spending. States employ more than 19 million people — or 15% of the U.S. workforce — and state spending accounts for 12% of gross domestic product.[8]

It's not unusual for state and local government finances to take longer to recover in the wake of a recession.[9] However, if the pace of business hiring is unable to make up for government job losses, it's possible that large-scale cutbacks at the state level could be a significant setback for the broader economy.

1, 3, 5) The National Association of State Budget Officers, 2011
2) Bloomberg, June 24, 2011
4) CNNMoney, June 6, 2011
6, 9) CNNMoney, June 5, 2011
7) *The New York Times*, June 15, 2011
8) *The Wall Street Journal*, May 18, 2011

MARKET VIEWS

Facing Market Jitters with a Long-Term Approach

Shunning Stocks Entirely May Also Pose Risks

Despite the fact that stocks rebounded more than 77% from the end of the bear market in March 2009 through the end of 2010, 58% of investors in one survey said they had lost faith in the stock market.[1-2] Even younger investors, who may have many years before retirement to ride out market fluctuations, have become more inclined to say they are conservative investors and prefer lower-risk investments.[3]

These sentiments could be interpreted as an emotional response to distressing economic conditions and market volatility. Over the long term, investors who avoid equities altogether could be making a costly mistake. They may run the risk that their portfolios could fail to keep up with inflation or produce sufficient retirement income.

An investment strategy based on sound principles could help you stay on track to pursue your financial goals. Asset allocation and diversification are important tools that are often used to help a portfolio endure market volatility while pursuing the potentially higher investment returns that have historically been associated with stock investments.

Timing Is Tricky

In this hypothetical example, an investor who missed the 12 best months for stocks over the past 30 years would have earned a much lower return than an investor who remained fully invested.

Source: Thomson Reuters, 2011, for the period 12/31/1980 to 12/31/2010. Stocks are represented by the S&P 500 Composite total return. This example is used for illustrative purposes only and does not include the impact of taxes or investment fees and expenses. Past performance is no guarantee of future results. Actual results will vary.

Tested Techniques

The average annual return of U.S. stocks from January 1981 through December 2010 was 10.71%. This compares with 10.19% for corporate bonds and 5.28% for cash alternatives.[4]

Asset-class performance can vary significantly from year to year, because each class tends to behave differently in the face of changing economic and market conditions. Over the past 30 years, domestic stocks were the best-performing asset class for 16 years, corporate bonds were the top performer for nine years, and cash alternatives offered the highest returns for five years.[5]

Targeted stock investments may provide further diversification within the equity category. When included in the above comparison, foreign stocks outperformed domestic stocks, corporate bonds, and cash alternatives in 14 of 30 years.[6] Past performance is no guarantee of future results.

All investments are subject to market fluctuation, risk, and loss of principal. When sold, they may be worth more or less than their original cost. Investments seeking to achieve higher rates of return generally involve a higher degree of risk. Investing internationally carries additional risks such as differences in financial reporting, currency exchange risk, as well as economic and political risk unique to the specific country. This may result in greater share price volatility. Bonds are subject to inflation, interest-rate, and credit risks. Asset allocation and diversification do not guarantee against investment loss; they are methods used to help manage investment risk.

Stay the Course

Emotional trading can cause even the savviest investors to sell stock investments when prices fall and to buy again when prices are rising, but such behavior may cause them to realize losses and miss out on gains. Studies have shown that investors who ignore short-term fluctuations and remain invested in the market may benefit from better results.[7-8]

The stock market is unpredictable. Having a long-term perspective may help you avoid making emotionally driven investment decisions that could have lasting consequences.

1, 4–6) Thomson Reuters, 2011, for the period 12/31/1980 to 12/31/2010. Stocks are represented by the S&P 500 Composite total return. Corporate bonds are represented by the Citigroup Corporate Bond Composite Index. Cash alternatives are represented by the T-Bill 3-Month Yield Index. Foreign stocks are represented by the Morgan Stanley Europe, Australasia, and Far East Index. The performance of an unmanaged index is not indicative of the performance of any specific security. Individuals cannot invest directly in an index. Rates of return will vary over time, particularly for long-term investments. Past performance is no guarantee of future results. Actual results will vary.

2) *The Los Angeles Times*, June 1, 2011

3) *U.S. News & World Report*, February 9, 2011

7) *Smart Money*, June 28, 2011

8) *InvestmentNews*, June 7, 2011

Help Chart the Future of Your Family Business

Why Succession Planning Really Matters

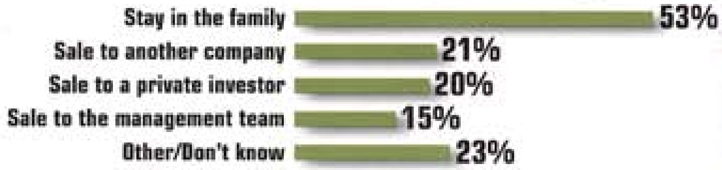
A recent survey found that 27% of business owners expect to hand off their businesses in the next five years. And even though more than half of the business leaders who plan to retire believe their companies will stay in the family, it has been estimated that only about 36% of American family firms actually are passed on to a second generation.[1]

The transition from one generation to the next is considered to be one of the biggest risks to the survival of a family-owned business, so it's somewhat surprising that 47% of family firms have no formal succession plan.[2]

A thoughtful succession strategy not only outlines when and how ownership should be transferred but also takes tax implications, family relationships, and other sensitive issues into account.

Family First

How business owners expect their companies to change ownership



Source: PricewaterhouseCoopers, 2010 (totals more than 100% because multiple responses were allowed)

Management Succession

Think realistically about who is most capable, motivated, and/or prepared to run the business. Because it may take several years to groom a successor, it's important to identify potential candidates early. If no family members are interested in leading, you may want to consider tapping someone competent from outside the family.

Ownership Succession

Family members who are not willing to take on significant operating roles may still want to retain a stake in the company. How you decide to divide your ownership shares among your heirs and business partners could have a major influence on the future of the company. Involving family members in the process may help promote a smooth transition.

Keep Taxes in Mind

Because tax laws tend to change frequently, it can be critical to stay on top of potential estate tax issues. Trusts, buy-sell agreements, and/or insurance policies may be used to help reduce taxes or provide the funds to help pay them.

It's a shame that some businesses must be sold either to pay estate taxes or because family members can't agree on how to move forward. Forming a plan well before you intend to retire could help ease the transition to the next generation.

1–2) PricewaterhouseCoopers, 2010

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Anxiety can lead investors to deviate from their well-laid plans. We can help provide the perspective needed to remain disciplined during bouts of market volatility.

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