Cambridge ADVISORS inc. INVESTMENT MANAGERS

INVESTMENT PERSPECTIVE MARCH 2013

LORI L. LIFFRING, CFA ♦ MICHAEL L. BRIDGMAN, ChFC ♦ GAYLAN C. ABOOD
JUSTIN S. ANDERSON, MBA AAMS ♦ KAREN K. BENEFIEL, CPA AAMS

MARKET COMMENTARY

It took nearly 5 1/2 years, but on March 5, the large cap stocks of the DJIA reached and surpassed their previous peak reached on October 9, 2007. Stocks in the S&P 500 finally reached their previous peak on the last day of the quarter. Stock prices surged in the first quarter. The S&P 500 gained 10.7% and the DJIA gained 12.0%. Small cap stocks enjoyed 12.4% gains. Negative growth in Europe and slower growth in China has resulted in lower returns for international stocks: developed markets posted 4.4% gains while emerging markets posted losses of -1.9%.

GDP growth was also dismal in the US during the fourth quarter registering only 0.4%. The Federal Reserve Bank of Dallas had been predicting first quarter GDP growth around 2% as of mid-February. After positive economic reports for February data were published, other analysts became more optimistic and have been revising their growth projections higher – Goldman Sachs and Deutsche Bank are now estimating 3% growth.

Housing has continued to show improvement fueling optimism. Home prices are higher and inventories are lower resulting in homeowners selling their homes faster and for a more favorable price. New home sales and building permits are also rising. Fidelity notes that "when housing starts revert to normal activity, it could convert to approximately 3 million new jobs in construction and related industries".

Fidelity also expects around 3.6 million jobs to be added through 2020 as a result of domestic energy. The increased reserves of natural gas and the increased production from fracking are helping the US to become energy independent. Jobs are expected to be created not only in oil and gas extraction but also in areas that would serve those workers such as health care, retail and leisure. Less expensive natural gas prices in the US can also reduce production costs for manufacturers, making domestic manufacturing more attractive than it has been.

2013 BENCHMARK RATES OF RETURN

INDEX	FIRST QUARTER	YTD
S&P 500	10.7%	10.7%
DJIA	12.0%	12.0%
NASDAQ	8.2%	8.2%
Russell 2000	12.4%	12.4%
International	4.4%	4.4%
Fixed Income	-0.1%	-0.1%

Even with job creation from housing and energy, the unemployment number, now at 7.7%, is expected to remain above the Fed's targeted 6.5% for at least a couple more years. The figure has shown improvement on the surface. However, looking deeper, much of the job growth is currently coming from part time jobs while full time jobs have been on the decline.

The Federal Reserve has indicated that they will continue to be accommodative in order to boost the economy. Inflation continues to remain below their target. Yields on the 10-year Treasury rose from 1.75% at the end of the year to above 2% for the first time since April 2012. As of the end of the quarter, they had fallen back to 1.85%. The rise in yield has resulted in a slightly negative return of -0.1% for the Barclays Aggregate Bond Index for the quarter, which may be a surprise to some bond investors.

As the stock market reached its previous highs and as bond returns soured, more cash flowed into stock funds versus bond funds. We are more confident that stocks will outperform bonds in 2013. Although allocations to stocks may be increased somewhat in accounts where it is appropriate, we still advocate diversification. Bonds and fixed income will provide more stability and security when stock market volatility rises. After the recent run-up in stock prices, it would be normal to see a correction. However, the correction may be short-lived and shallow because many investors now are anxiously waiting a buying opportunity at lower prices.

Even with the troubles in Europe, international stocks should be at least a small part of most portfolios. International stocks and emerging markets have not seen the same rally as the US stocks, so buying them now may represent a better long-term value. China is also showing signs of a turnaround as growth has been improving.

Assets classes such as commodities, real estate, high-yield bonds and international bonds also provide additional diversification opportunities and could be appropriate.

We value our relationship with you, and we are always available to meet with you in person or by phone. Please do not hesitate to call or email us with any questions that you may have.

17330 WRIGHT ST, STE 205 | OMAHA, NE 68130 | P: (402) 697-1166 | F: (402) 697-9271
CAMBRIDGEADVISORS.NET

FINANCIAL PLANNING

Retirement Planning

"If you fail to plan, you plan to fail." Most people have heard this quote by Benjamin Franklin and agree with its premise. However, more and more people are ignoring it when it comes to retirement planning. Either they feel too busy, they think they have plenty of time to save, their current spending is too high and they don't want to cut back, or it is too overwhelming to think about. Rather than employ the "head in the sand" method, it is much better to work with a trusted advisor and face the reality. The earlier you start setting goals, implementing a plan and tracking progress, the better you are able to make adjustments to increase the likelihood of reaching your goals. Cambridge Advisors is here to help you do all of this.

Usually for high income earners, saving in your employer's retirement plan is not enough to sustain your current lifestyle in retirement. You should still max out your contributions, but additional savings in a taxable account may also be necessary. For example, if you earn $400,000 a year and you and your employer contribute the maximum to your 401k for 30 years, your savings could provide an income stream of around $150,000* per year in today's dollars during retirement, and you would still owe taxes on this amount. Most likely, you would not want your lifestyle to decrease this much.

True, some expenses will go away in retirement. You won't need to save for your retirement any longer and most likely your children will be out of college so that savings will no longer be necessary. However, it is not unusual to see new expenses (such has helping your children buy a new home or setting up college funds for grandchildren). Also, expenses related to your hobbies or travel often increase as you have more time to devote to them.

Healthcare expenses can also be significant in retirement and the amount retirees pay are expected to increase. The Employee Benefit Research Institute found that Medicare only covered 59% of expenses in 2009. Furthermore, they estimate that an average couple age 65 should have saved $163,000 to cover their healthcare expenses. If, however, they have higher than average prescription drug use, they may need closer to $387,000 to cover healthcare related expenses. Unfortunately, actual healthcare expenses are hard to predict because your health or the laws surrounding healthcare could change. Having extra savings to cover the unknown can provide peace of mind as well as flexibility to meet your needs.

* Assumes $51,000 per year contributions for 20 years, $56,500 per year contributions for 10 years, retirement at age 60 for 30 years, earnings net of inflation and expenses of 5% for first 20 years, 4% for the next 10 years, and 3% during retirement years.

QUESTION: *Why should I be concerned about Cyprus?*

ANSWER: Cyprus is the latest of the European Union members to find itself in financial trouble due to their high debt. Cyprus is only 0.2% of the EU's GDP so some are wondering why they should be concerned about whether or not the small island defaults on their debt. Cyprus is unique due to the solution reached in order for the country to receive a bailout from the ECB. Initially, the Cyprus banks were going to "tax" their depositors up to 10% of their balances. Banks were closed for over a week while the details were worked out so that a run on the banks could be avoided. Most of the outrage over this "tax" was over concern for small depositors. The most recent deal protects small savers, but imposes possibly a 40% "loss" on bigger depositors, defined as those who have balances above the insured level of 100,000 Euros (about $128,000 US dollars). Regardless of whether you call it a "tax" or a "loss", in actuality it is a confiscation of personal property—the first of its kind in recent history. Some people believe it is okay in this case because many of those who will be affected are Russians who Berlin lawmakers believe have earned the money through illegal means and are using Cyprus banks as a safe haven. However, others such as Eurogroup President Jeroen Dijsselbloem are eyeing this solution as a model for future aid packages. If a country like Italy or Spain were to follow suit, distrust of banks and authorities could disrupt worldwide financial systems.

CAMBRIDGE ADVISORS NEWS

Cambridge Advisors is positioning itself for a future of continued long-term growth. Last year, in addition to updating our logo, we revealed a new website with new features for our clients such as a blog and the ability to access past newsletters. We invite you visit our website (www.cambridgeadvisors.net) and share it with your friends and family who may want to explore a relationship with Cambridge Advisors but need more information before they are ready to take the next step. We also offer a no obligation Discovery Meeting so they can learn more about Cambridge Advisors and how we work with our clients to see if our services would benefit them. Be assured, we will never share your confidential information with anyone so your privacy is protected.

This spring we upgraded our computers and software for email and portfolio accounting because it is important that our technology is always up to date. We are committed to the continued growth of Cambridge Advisors and hope to work with you for many years to come.