

INVESTMENT INSIGHTS

A Quarterly Newsletter from the
Investment Management Group
January 2010



Performance Chasing 101

Here is a vivid example of how making investment decisions based upon short-term or recent performance (“performance chasing”) can backfire.

In 2008, the very best performing market index was the Lehman Brothers Long Term Govt. Bond Index. It returned 22.69%. The very worst performer was the MSCI Emerging Markets Index which returned -53.33%.

Investors hardly ever look at returns and want to add money to the asset class or fund that lost the most in the prior year. After 2008, it seemed logical to pursue the “safety” and positive returns of government bonds, instead of risky stocks.

However, through November 2009, things had flip-flopped completely. The Long Term Govt. Bond Index (now Barclay’s) returned -7.25%. This has been the worst performing, and the lone negative index. On the other hand, the Emerging Market Index has returned 71.72%, by far the best performing index year-to-date.

Packerland Brokerages Services Registered Representative—Brad Nordin **Economic Recovery** **What to look for-**

As much as we wish we could say when the recession will end, the truth is it’s impossible to know in advance.

Although past economic performance doesn’t assure future performance, history tells us that every past recession, no matter how long, or deep, or wide, has been followed by a recovery that has lifted our financial markets, and our nation, to new heights.

Furthermore, financial markets have a history of recovering well before it’s clear the economy is on the mend.

By waiting for the economy to rebound before you get back into the market, you run the risk of missing out on what could be one of the most rewarding periods for long-term investors.

But to be able to recognize when a sustainable recovery is truly under way, you need to know what signs to look for.

Contact Brad to discuss your financial future.

Ned Davis research, 2009



John Erdody

John is a portfolio manager, and has over 13 years experience in the investment business.

His responsibilities center on developing the firm’s investment strategies and implementing these for our clients.

He graduated magna cum laude from Central Michigan University with a B.S.B.A. in Finance. John holds the Certified Financial Planner and Chartered Financial Analyst designations.

The CFA charter is widely regarded as the most rigorous professional designation in the industry, and to our knowledge, John is the only charterholder in the Upper Peninsula managing investments for the general public.

An avid outdoorsman, in his spare time John can likely be found working out, hunting, or fly fishing on a trout stream.

He is also a member of the CFA Institute.



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As another year comes to a close, investors will probably reflect on what markets did over the recent past, and what they might seem likely to do in the coming year. We would like to offer some quick thoughts as we head into a New Year.

First of all, in case anyone still needed convincing, the markets continued to provide ample evidence that nobody can consistently predict what stock and bond markets will do – especially over the short term. And keep in mind, in the world of investing, five years is short term, let alone one year. Stock prices move based upon news, which by definition is simply not knowable in advance. How this news differs from expectations already factored into today's price will account for much of the day-to-day volatility in the markets.

For example, the financial crisis in 2008 had such a dramatic negative impact because it was not expected. Major stock indices were down 30-50%. Conversely, at the beginning of 2009, hardly any forecasters were calling for huge gains in the market, yet through November, most major stock indices were up 20-30% or more. Have you ever seen

CNBC invite back all of the forecasters they had on making prior year predictions? Only the lucky few seem to get invited back. It is similar to gamblers only mentioning the times that they win, not how often they lose. This gives the false impression that people are more skillful than they really are. In addition, the successful forecasters in any one year tend to have lousy track records of reappearing the following year.

The good news in all of this is that investors do not need to make successful forecasts in order to have successful investing results. Please read that sentence again. Once people realize this, investing can become a less stressful endeavor. Successful investing is about understanding the relationship between risk and return, diversifying properly, controlling costs and taxes, and maintaining realistic expectations. Our investing strategies revolve around those principles.

We do hope that 2010 will be prosperous for everyone. Happy New Year.

John Erdody, CFP, CFA

Get ready for the 2010 Roth Conversion

If you've considered converting your traditional IRA to a Roth IRA, now may be the time.

The rules governing conversions of traditional IRAs, 401(k) rollovers, and other qualified retirement plans into Roth IRAs have changed— making Roth IRA conversions much more attractive starting in 2010.

A quick refresher on Roth IRAs—

Although contributions to Roth IRAs aren't deductible (unlike traditional IRAs) the qualified distributions from Roth's are normally **income-tax free**. Roth IRAs also offer advantages over traditional IRAs Including:

- Tax– free Growth
- Withdrawal Flexibility
- Extended Funding
- Peace of mind
- Tax Diversification
- Protection from future tax hikes

New opportunities for Roth conversion in 2010— Beginning on January 1, 2010, you may have the opportunity to convert a tax-deferred traditional IRA (other than an inherited IRA) to a Roth IRA, regardless of income. In addition, by converting to a Roth IRA in 2010, you may spread payment of the income tax on your conversion to your tax returns for 2011 and 2012.



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