October 1st, 2011

# Money Matter$

A Quarterly Newsletter from Sommers Financial Management

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Volume 9, Issue 4

## Focus On Fraud

By Joyce Pereira

Last month, the North American Securities Administrators Association (NASAA) came out with their annual list of financial products and practices to which unsuspecting investors fall prey. At the risk of losing your interest, I'll shed light on just a few.

On the list, you'll find various forms of Ponzi schemes. Thanks to Bernie Madoff for teaching the common person what the term Ponzi scheme actually means. Although Mr. Madoff accomplished this on a huge scale, defrauding thousands of investors to the tune of almost $65 billion, he wasn't the first. And no, it was not Social Security, either—as Rick Perry, presidential hopeful from Texas, might have you believe. Charles Ponzi became notorious for using the technique of paying off early investors with later investors' money in the early 1920s.

Affinity fraud is a term on the list that has gained more recognition lately with the growth of social networking sites like Facebook, Twitter and LinkedIn. Con artists find opportunities to target their victims by quickly establishing trust and credibility. "The person you trust might be deliberately mimicking your likes and interests to lure you into a scam," says the NASAA president. We've all seen the targeted ads to "Buy Gold" or "Foreclosed Homes", which both made the top investor traps.

Something else that hit home was variable annuities. If you've ever been sucked into the lure of a guaranteed minimum income benefit rider (paying above market interest) like me, you soon realize the benefit comes at a high cost. Variable annuities are notorious for high fees. The mutual funds available in annuities can often be purchased in a typical investment account without a "surrender" period lock-in. For the majority of people who own annuities, they just don't make sense.

What it boils down to is this: Consider the source of the information, and ask questions.

For a complete list of what to watch out for, check out www.nasaa.org and look for the headline titled, "Con Artists Find Profit in Get-Rich Schemes Tied to Economic Uncertainty."

If it sounds too good to be true, it probably is.

## ETF Extra — SDPR International Treasury Bond ETF (BWX—60.60)

BWX is an easy way to get exposure not only to bond issues from other governments outside the Unites States, it also exposes the investor to the currencies of the issuing investment grade governments. By investing in BWX, you are often able to receive higher yields than comparable US government bonds, and you also diversify your currency allocation as a hedge against the U.S. dollar. The SPDR® Barclays Capital International Treasury Bond ETF uses a passive management strategy designed to track fixed-rate local currency sovereign debt of investment grade countries outside the United States.

**BWX's Notable Statistics**

| | |
|---|---|
| One Year Return (as of 8/31/11): | 11.7 % |
| Year-to-date Return (as of 7/31/11): | 8.9 % |
| SEC 30-day Yield (as of 9/2011): | 1.9 % |
| Total Assets in the Fund: | $1.52 Bil. |
| Estimated Annual Expense Ratio: | 0.50 % |
| Average Years to Maturity: | 8.84 |
| Effective Duration: | 6.80 |
| Current Yield: | 1.81 % |

*"If it sounds too good to be true, it probably is."*

### *Five-Year Average Annual Returns*

**Dow Jones Industrial 30 Average: -1.3 %**

**S&P 500 Large Company Index: -3.1 %**

**NASDAQ Composite Index: 1.4 %**

**Russell 2000 Small Company Index: -2.2 %**

**SFM's 'MODEL 25' PORTFOLIO: 4.1 %**

(see back page for current stock holdings in the Model Portfolio)

## SFM's ORIGINAL "Model 25" STOCK Only Portfolio

| Company Name | Value Grade | Cash Flow | Risk Grade | Market Cap |
|---|---|---|---|---|
| Aflac | A+ | A- | D | Mid |
| Amgen | C | B- | A- | Large |
| AstraZeneca | B | B- | B | Large |
| BP | A+ | D | B+ | Mega |
| Colgate-Palmolive | C | B- | A+ | Large |
| Chevron-Texaco | A | D | A- | Mega |
| Federated Investors | B | B+ | D | Small |
| Gilead Sciences | C | A- | B | Large |
| Corning | B | A- | B | Mid |
| Gap Stores | A | B- | C | Mid |
| Hewlett Packard | A+ | D | C | Mega |
| IBM | B | B- | A+ | Mega |
| Intel | B | A- | B | Large |
| JPMorgan Chase | A | A- | B | Mega |
| Lockheed Martin | A | D | A- | Large |
| 3M | B | B- | B | Large |
| Microsoft | B | A- | A+ | Mega |
| Oracle | C | B+ | A- | Mega |
| Phillip Morris International | C | A- | A+ | Large |
| Rio Tinto | A | A- | B | Mega |
| AT&T | B | C | B+ | Mega |
| Taiwan Semiconductor | B | A | A- | Large |
| Tata Motors | A+ | A+ | A- | Large |
| Texas Instruments | B | A- | A | Large |
| Walmart | B+ | D | A- | Mega |

**SFM ORIGINAL Model "25" Portfolio**

**vs. A Relevant Benchmark**

| | SFM Model 25 | S&P 500 Index |
|---|---|---|
| 3 Month Return: | **- 12.2 %** | - 14.3 % |
| 12 Month Return: | **- 0.7 %** | - 0.9 % |
| 3 Year Average Annual: | **1.0 %** | - 1.0 % |
| 5 Year Average Annual: | **4.1 %** | - 3.1 % |
| ROR Since 6/1/2003: | **12.4 %** | 2.0 % |

## Commentary & Ramblings

*by Adam Sommers*

I read Morningstar Advisor last month, and have come to the conclusion that this is indeed the era for ETFs. For the 15 years that I've been in the investment business, Morningstar has focused most of their attention on the mutual fund industry. They developed, and have modified, a mutual fund star ranking system, and they have an extensive fund research platform. But this month, they turned their attention to ETFs; and for good reason. For the twelve months through June of 2011, actively managed mutual funds saw outflows of $66 billion, while ETFs saw that same $66 billion figure flood in.

A Morningstar bigwig stated, "**The future belongs to low-cost, passive strategies—and the most efficient vehicle to deliver that type of investing—ETFs**. The 70-year-old mutual fund structure served its investors well, but it's time to move on. There's a rapid adoption of fee-based and fiduciary advising models. These advisors want to keep costs low, stay diversified, and not churn the portfolio. They buy the best performing funds—not the best paying—driving the flows into passive and low-cost vehicles at astounding rates."

The editor of Morningstar Advisor says, "With just one tenth of the assets that mutual funds hold, ETFs have a long way to go before they become the investing vehicle of choice for most Americans. But if we *are* entering a fee-based, fiduciary age, when efficiency and low costs become paramount, **the ETF industry is in a prime spot to offer what advisors and investors will demand**."

The reason for the shift from mutual funds to ETFs, Morningstar opines, comes down to technology. Mutual funds are from the 1940s, and ETFs are from the digital age. Why should investors have to wait until the end of the day to know what price they paid for their shares? Would you buy a car that way? Would you go to the dealer at 10 a.m. and say, "I want to buy that SUV," only to have the salesman tell you that you should give him $16,000 now, come back at 3 p.m., and then after everyone else has bought their car, he'll tell you how much car you bought? Of course not, but that is how mutual fund technology works.

With ETFs, technology has made intra-day trading possible, and tax efficiency is improved with the injection of a secondary market in addition to a primary one. Disclosure is also more transparent with ETFs.

Morningstar concludes with this statement, "**In the end, the investor is the winner and "fee eaters" and "commission addicts" are the losers**. Investments will be "bought", not "sold" as would happen in any efficient capital market. At least, that's our theory." Ours too.