

INSIGHT

Helping You Reach Your Goals

FALL 2011



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Adapting to Uncertainty

STRATEGIES TO HELP SUCCESSFULLY ADAPT TO THE WORLD AS IT IS BECOMING

Given the recent crush of upsetting news—natural disasters, high unemployment, governments on the brink of bankruptcy and fear of inflation—it's easy to see why investors might feel confused and uneasy. However, helping investors adapt is at the heart of our commitment to you.

ADAPT TO THE NEW WORLD OF INVESTING

Change doesn't happen overnight. It doesn't in nature and it doesn't in the investment world either. But investors who have a more refined perspective, plan more precisely and invest more globally take proactive steps towards adapting to the world of investing as it is becoming—instead of as it once was.

DEVELOP A MORE REFINED PERSPECTIVE

A balanced type of investor knows that every day events occur that could make you want to change your investment portfolio. But this investor

also realizes that using the news to make decisions about a long-term investment plan can be very costly.

First, a financial plan should be based on things every investor can control. For example, have you spent time creating your vision of a life that you feel is meaningful? How do you like to spend your time? Do you feel that your investments will help you live that life?

Second, news reports tend to overlook some basic facts, especially when it comes to economics and markets. For instance, most investors would probably be surprised and reassured to hear that on April 30, 2011, U.S. equities had been up 118% since the market low on March 9, 2009.¹

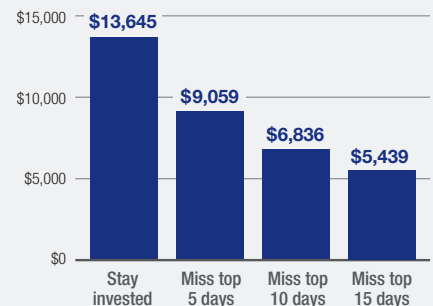
Last, an investor who relies on the news to decide when to invest needs to accurately predict which news the market is going to react to, when and how. Will the market respond to the scary news and go down? Or will it go up in response to the good news? Investors can make—but can also

lose—a lot of money trying to make such predictions. As the chart below shows, even missing a handful of the best days in the market can have a surprisingly negative impact on the value of your investment.

continued on page 2

IMPACT OF STAYING INVESTED VS. MISSING THE TOP MARKET PERFORMANCE DAYS

The growth of \$10,000 invested from June 1, 2001–May 31, 2011



Source: Russel 1000® Index. The Russell 1000® Index measures the performance of the large cap segment of the U.S. equity universe. Indexes are unmanaged and cannot be invested in directly. Past performance is not indicative of future results.

See important disclosures on page 4

Adapting to Uncertainty

continued from cover



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PLAN MORE PRECISELY

Planning and saving for retirement can be challenging if you are also saving for a child's college education and helping aging parents. It's no surprise that 51% of American workers feel behind on their retirement savings.²

But three questions can help you build a more precise plan. One designed to help maximize your retirement lifestyle while at the same time helping minimizing the risk of outliving your money. Ask yourself these questions: (1) Do I know how much money I will need in retirement? (2) If I pursue my current lifestyle, do I risk outliving my money? (3) How do I make my nest egg work as hard and as smartly as possible to satisfy my goals?

CONSIDER BEING A MORE GLOBAL INVESTOR

Over the past 40 years the U.S. market capitalization (the total value of publicly owned stock) has grown 2753%.³ But during that same period, U.S. equity markets have shrunk to account for only half as much of the global market capitalization as they used to⁴—and this decline is expected to continue.⁵ However, when you look at how the typical U.S. investor's retirement portfolio is invested, the picture

A trusted financial advisor can help you look beyond the headlines to reveal a different story.

is very different. On average, 82% of the portfolio is invested in the U.S.⁶

If you're one of those investors, you may be missing out on future growth opportunities in such areas as commodities (raw materials such as steel, copper and aluminum), infrastructure (think bridges, roads and pipelines) and bonds of other countries. The commodities will be used to expand and upgrade the infrastructure of the growing economies. Governments of these countries will rely on investors all over the world for help in financing the growth—in part through bond investments.

Although each of these asset classes can be volatile and carry certain risks, including, but not limited to, geopolitical, liquidity, economic uncertainty and instability, they can be beneficial to providing further diversification to an investor's portfolio. See related article on page 3.

EMBRACE A NEW OUTLOOK

At times it can feel like the world is conspiring against investors. But you try to do the right

thing: work hard, save diligently and invest intelligently. Repeatedly, through thick and thin. Because if you let your guard down, the media assaults your senses. However, a trusted financial advisor can help you look beyond the headlines to reveal a different story. With your advisor you can analyze your long-term goals and develop a plan to reach them—making it easier to tune out the noise. Happily, you realize you were doing the right thing all along: focusing on the things you really can control.

—Russell Investments

¹ Russell 3000® Index. Indexes are unmanaged and cannot be invested in directly. Past performance is not indicative of future results.

² Prudential, "The New Economic Reality and the Workplace Retirement Plan." January 2010.

³ Source: S&P Global Broad Market Index for 1970, Russell Global Index for 2010.

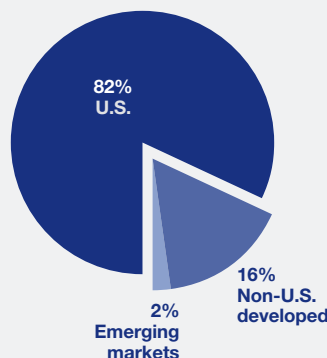
⁴ Source: S&P Global Broad Market Index for 1970, Russell Global Index for 2010.

⁵ International Monetary Fund, World Economic Outlook Database, April, 2011.

⁶ Source: Hewitt Associates: Trends and Experience in 401(k) Plans, 2009.

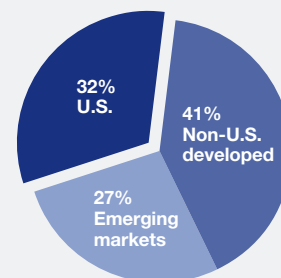
AMERICANS INVEST CLOSE TO HOME

Average U.S. investor retirement portfolio equity allocation (2009)*



*Source: Hewitt Associates. Trends and Experience in 401(k) Plans 2009.

World market capitalization (2010)**



**Source: Russel Global Index. Indexes are unmanaged and cannot be invested in directly. December 2010 data is historical and is not indicative of future results.

See important disclosures on page 4

All the World's a Stage—for Investors

DESPITE RECENT MARKET VOLATILITY, EMERGING MARKETS MAY STILL PROVIDE A BOOST TO INVESTORS SEEKING LONG-TERM GROWTH

By Erin Peterson

In recent years, the growth in emerging markets has been nothing short of astonishing. For example, since 2000, China's gross domestic product has quintupled, from \$1.2 trillion to nearly \$6 trillion, and India's has more than tripled, from \$460 billion to \$1.7 trillion.¹ Other countries have showcased equally impressive growth rates in recent years. For that reason, it's no surprise investors are eager to get in on the action.

Still, there are layers of complexity that investors must navigate to invest effectively. The bustling economies in BRIC countries—Brazil, Russia, India, and China—and others have led to significant inflation, and many countries are trying to tamp it down by raising interest rates. Balancing growth, inflation, and interest rates is tricky territory, says John De Clue, Senior Vice President and Regional Investment Manager for U.S. Bancorp's Wealth Management Group. "There's perhaps no more serious threat to the investor than runaway inflation," he says. "But many investors believe that these countries will be able to orchestrate a 'soft landing' and moderate their policies to decline the growth to a reasonable level."

Political instability in emerging market countries can be high—as evidenced by political unrest in countries such as Egypt and Libya. Because circumstances may change literally overnight, there is typically greater volatility in these investments, though investors with a steady, methodical approach may likely be rewarded over time.

Investment options also tend to be far more limited than they are domestically. "It's one thing to say that you're interested in investing in Brazil, but for an American investor, that might mean having three to five stocks to choose from, as opposed to hundreds or thousands that we have here," says De Clue.

For these and other reasons, it's best not to focus too heavily on one country, says Jim Russell, CFA and Regional Investment Manager for U.S. Bancorp's Wealth Management Group. "We think a diversified approach is probably the more prudent approach—as opposed to exclusive exposure to a single country," he says. "A basket of exposures to several emerging market countries may make the most sense for a potentially low-risk approach and a competitive return."

TWO PIECES OF AN INVESTMENT PUZZLE

Those who choose investments with assets denominated in foreign currency should understand that they're making a decision not only to invest in a company or group of companies, but also to invest in a currency. This means that returns are not only dictated by the performance of the investment itself, but also by the performance of the currency relative to the dollar.

"Investors need to understand the rapidity of growth in emerging markets."

—John De Clue, Senior Vice President and Regional Investment Manager

For example, those who invested in the MSCI EAFE (Morgan Stanley Capital International Europe, Australasia, and Far East) Index in the decade preceding the Great Recession had investments that outperformed the S&P 500. But peeling the investment and currency components apart is revealing, says De Clue. "That was a decade of decline for the dollar," he says. "Because an investor sold dollars to invest in developed Europe, they benefited from the appreciation of the euro. Investors can be happy with the returns, but it's important they realize that oftentimes the majority of the return was derived through currency."

Investors should realize that with investments in emerging markets, they are also implicitly making a bet on the future of

the dollar. Those who have the view that the dollar will remain under pressure and gradually weaken in the decade ahead may potentially improve their investment performance by having a larger share of their total portfolio outside the dollar. Those who think the dollar's recent weakness is a fluke, not a long-term trend, may opt to limit their international exposure. An investment in any emerging market is an investment that likely will be deeply affected by changes in the dollar.

A LOOK AHEAD

Investing in emerging markets is a challenging prospect, but as economies outside our own continue to grow, it is increasingly important not just to be aware of the changes but also to understand them. Most expect China's economy to become larger than the U.S. economy within 40 years, for example, which was seemingly unthinkable a few decades ago. "We can argue about the timing, but it's happening, and it's most likely unstoppable," says

De Clue. Other economies are seeing explosive growth—and with it, potentially worthwhile investment opportunities. By investing wisely in emerging and rapidly growing economies, investors may see significant bottom-line benefits.

Erin Peterson is a Minneapolis-based freelance business and finance writer.

¹ World Development Indicators from the World Bank, published August 9, 2011.

See important disclosures on page 4

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