



# STAFFORD WELLS

personal wealth management newsletter

July 20, 2011

## ***Dear Clients & Friends,***

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In today's low interest rate environment, it may be hard to see any value in investing in money market funds except as a holding place to hold cash for when a future opportunity emerges and a source of liquidity. As for bonds, many of the well-known bond experts, including BlackRock's Larry Fink and Pimco's Bill Gross, believe that the risk in bonds is rising, because as economies recover, interest rates will start to rise.

This situation does not leave us with many choices except the obvious: investing in stocks. Due to the volatility of the U.S. economy and the headwinds we face, I believe long-term value lies in high-quality companies with strong balance sheets and global presences, including emerging markets and strong cash flows demonstrated by dividend payments. Even as the market fluctuates around from positive to negative, these companies should weather the volatility better than U.S. companies that only do business in the U.S. or companies that are poorly capitalized. Should we go into a period of inflation, these large dividend-paying companies should enjoy the benefits of earnings that come from areas of the world, such as the emerging markets where people are consuming more.. These companies should also benefit from a currency standpoint as a portion of their earnings come from countries whose currencies at the time may be stronger than that of the US. For the past couple of years, I have tilted the equity component of client portfolios toward stocks whose companies have strong cash flows and above average dividends. These higher-quality companies have not always outperformed firms with weaker balance sheets and low to no dividends. In 2008, all stocks dropped dramatically, regardless of quality. However, over the next few years, I see these large dividend-paying companies as one of the best opportunities for growth.

### **Update regarding the Illinois Tuition Program**

We keep reading about the changes and issues revolving around the Illinois tuition program. If you are a client of Stafford Wells, then you are not invested in that controversial program. All Stafford Wells clients with college savings programs are invested in the Illinois Bright Start Direct Program. I continue to be a fan of the Illinois Bright Start (direct) program for several reasons:

- Low management fees on the "direct" program
- Access to low-cost exchange-traded funds (ETFs)
- The 5 percent state tax deduction that contributors benefit from (only through this program)
- The program's assets are invested directly in the funds (not with the State of IL.)

If you are not utilizing a 529 plan for your child's college education, you should consider the

excellent tax benefits of investing in such a program:

- The 5 percent state tax deduction
- The assets grow tax-free so you do not incur taxes on gains and income

In a typical investment account (per Morningstar), taxes can reduce your returns on average by 2.5 percent. Over 10 years, on an investment of \$10,000, a portfolio would have given up \$3,487 in returns due to taxes alone. A 529 plan allows you to grow the assets in the plan tax free (assuming that funds are drawn down for the intended purpose).

In the meantime, should you have any questions on your portfolio, the contents of this note or any other issue, please give me a call. I am would be happy to answer your questions on the phone or at our next meeting.

You may be interested in my recent blogs on

[Why Taxes Matter In an Investment Portfolio](#)

[Four High Yield Investments](#)

[The U.S. Dollar Currency Has Been in a Decline: How to Invest](#)

[Can You Protect Your Investment Portfolio From Risk?](#)

Susan Templeton was recently interviewed by Mary Frances Bragiel for Today's Chicago Woman on [How Much Money is Enough](#).

Interested in learning more about how much you need to save? Susan Templeton will be a panelist on the topic; ***How Much is Enough? on Thursday September 22<sup>nd</sup> from 7:30-9:30 AM***. This event is being hosted by the Metropolitan Club of Chicago and sponsored by Today's Chicago Woman. More information will be available after July 28<sup>th</sup> at; [StaffordWellsAdvisors.com](#)

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*Best regards,*

***Susan Templeton***

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