YOUR FINANCIAL FUTURE

Your Guide to Life Planning

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As Stocks Continue to Roil, Alternative Investments Gain Appeal

Prolonged stock market volatility has prompted many investors to look for alternatives to equities as they build a portfolio. Alternative investments -- such as real estate investment trusts, commodities, private equity, and hedge funds -- may have appeal for certain individuals.

Make a Plan to Reduce Your Debt

The recession -- and subsequent slow recovery -- has caused millions of Americans to focus even more closely on living within their means. If you are ready to face up to your own financial realities, one crucial step is to set out a plan of action.

December 2011 Market Recap

The final month of 2011 produced mixed results for U.S. stocks. The Nasdaq finished December with a loss, while the Dow and S&P 500 managed to post minor gains.

Fourth-Quarter 2011 Market Recap

Stock prices surged during the fourth quarter, lead by the Dow's gain of nearly 12%, as investors took heart in encouraging signs about the U.S. economy.

FAQs for Near-Retirees

The following frequently asked questions about retirement income should help those nearing retirement know if they are on track to meet their income needs.

As Stocks Continue to Roil, Alternative Investments Gain Appeal

Prolonged stock market volatility has caused many investors to question how much of their portfolios should be allocated to equities. If the stock market is making you nervous, it's important to understand that there are alternatives, which, when used along with stocks, may increase diversification and potentially lessen volatility.[1] However, it's just as important to understand that alternative investments also come with risks.

Hedge funds typically are engineered to seek a more favorable risk-adjusted return than their investors might obtain from a fund that follows a standard market benchmark.

Alternative Investments Defined

Alternative investments take many forms. Here is a look at several common investment types.

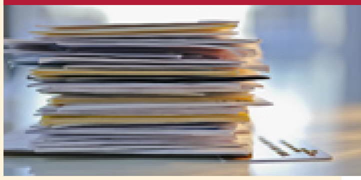
- **Real estate investment trusts (REITs).** REITs invest in groups of professionally managed properties such as office buildings, apartments, warehouses, or health care facilities. To qualify as a REIT, a company must invest at least 75% of its total assets in real estate, must derive at least 75% of gross income from rents or mortgage interest, and must pay at least 90% of its taxable income in the form of shareholder dividends. REITs trade on major exchanges and can be bought or sold as you would trade a stock.
- **Commodities.**[2] These investments include metals such as gold or silver, oil, and agricultural products. In the case of gold or silver, there are dealers who trade these precious metals. If you take physical possession of gold or silver, you will need to arrange for storage and insurance. Because many investors do not want to make these arrangements, exchange-traded funds (ETFs) have become a popular way to access commodities.
- **Private equity.** Major categories of private equity include venture capital, leveraged buyouts, and mezzanine financing. Investors participate in private markets through collective vehicles such as partnerships that actively manage the investment assets on the investors' behalf. Successful investing in this area requires the ability to assess complex financial structures, assume outsized risk in pursuit of superior reward, and tolerate extended periods of illiquidity. Private equity firms frequently require investors to make commitments ranging from $5 million to $10 million or more.
- **Hedge funds.**[3] The term hedge fund is a catch-all phrase describing funds that follow aggressive investment strategies such as intensive use of derivatives and proprietary computerized trading. Hedge funds typically are engineered to seek a more favorable risk-adjusted return than their investors might obtain from a fund that follows a standard market benchmark. These funds are typically offered to investors whose portfolios include more than $1 million in financial assets.

All investing involves risk, including loss of principal; and alternative investments by themselves can be highly volatile. But when used in combination with stocks or other assets, they may help to smooth out long-term returns and provide an alternative when stock returns are choppy. Be sure to consult with your financial professional before investing.

[1]There is no guarantee that a diversified portfolio will enhance overall returns or outperform a nondiversified portfolio. Diversification does not ensure a profit or protect against a loss in a declining market.

[2]Exposure to the commodities market may subject investors to greater volatility as commodity-linked investments may be affected by changes in overall market movements, commodity index volatility, changes in interest rates, or factors affecting a particular industry or commodity.

[3]Hedge funds often engage in speculative investment practices that may increase the risk of investment loss. Hedge funds can be highly illiquid; are not required to provide periodic pricing or valuation information to investors; may involve complex tax structures and delays in distributing important tax information; are not subject to the same regulatory requirements as mutual funds; and often charge high fees.



Make a Plan to Reduce Your Debt

The recession -- and subsequent slow recovery -- has caused millions of Americans to focus even more closely on living within their means. If you are ready to face up to your own financial realities, one crucial step is to set out a plan of action. Here are some key considerations to keep in mind.

Once you have a record of your spending, compare your average monthly outlay with your monthly income.

Keep Track of Your Spending

It's hard to reduce your spending if you don't have a good idea of how much you are spending. Keep track of your typical monthly expenses for three months to find out where your money is going. To get an even more realistic idea, factor in some unexpected expenses -- such as auto and home repairs. Once you have a record of your spending, compare your average monthly outlay with your monthly income. If you have a surplus, this is the amount you can apply each month to paying down debt and building savings. If you have a shortfall, you'll need to examine your expenses more closely to see what you can potentially cut back or cut out.

Keep Saving

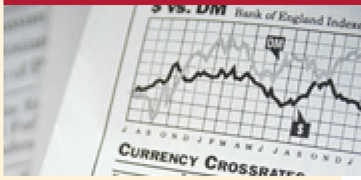
One way to establish good saving habits is to make saving even easier than spending. A handy tip is to set up separate savings accounts with separate goals attached to them. Here are three suggestions that can help you better allocate your savings.

- **Emergency Account:** Your goal for this account should be to build up at least three to six months of living expenses. This way, if you lose your job or need a lump sum to pay for a significant expense, you may not have to tap into your other savings or ring up more debt.
- **Family Account:** This account can help fund your children's school expenses (such as class trips and team uniforms) or vacations.
- **Investment Account:** This account should be reserved for general or long-term saving goals. Hopefully, you already have a retirement savings account (either through your workplace or on your own) and perhaps a college savings plan. But having another account to save for other longer-term goals -- maybe to start your own business or remodel your home -- can be a smart move.

Keep a Tight Watch on Your Credit Cards

If you've accumulated significant credit card debt, you've first got to stop the bad behavior. Paying off debt is easier once you stop using your credit cards.

- Pay off your highest interest credit card debt first, making sure you avoid the "minimum balance trap." Paying more than the minimum can make a big difference.
- Consolidate your debt by transferring outstanding balances to lower-rate cards. If you don't want to transfer your balances, you may be able to get your current credit card company to match the interest rate of a competitor.
- Cancel all cards except for the one that offers the lowest interest rate.
- Finally, set up a realistic payment timetable and stick with it. If you have trouble keeping pace, talk to a professional. The counselors at the nonprofit National Foundation for Credit Counseling can help develop a more structured plan for you. To find the nearest location, call 800-388-2227 or visit www.nfcc.org.



December 2011 Market Recap

Throughout the month, stocks wavered up and down as investors continued to ponder whether the euro zone is making any significant headway in solving its debt crisis.

(For the month ended December 30, 2011.)

December's volatility benefitted blue chips and the broader market, but technology stocks dipped to finish the year in the red. Although investors were encouraged at times by domestic and international economic developments, Europe's financial crisis and the potential for worldwide repercussions weighed on stocks throughout the month. Stocks seesawed up and down as investors continued to ponder whether the euro zone is making any significant headway in solving its debt crisis. On the home front, the Federal Reserve's Federal Open Market Committee upgraded the U.S. economic outlook in its December policy statement, but noted "significant downside risks to the economic outlook," largely from turmoil in Europe. The Fed also disappointed some investors when it said it wasn't ready to launch another round of quantitative easing. As the month unfolded, more signs of a potential turnaround in the U.S. economy partially offset concerns about Europe. Data showed improvements in employment, retail sales, business inventories, consumer confidence, and business confidence. Falling home prices, however, continued to weigh on the market.

Through 12/30/11*	December	YTD	1-Year	3-Year	5-Year	Closing Value
S&P 500	0.9%	0.0%	0.0%	11.7%	-2.4%	1,257.60
Dow Jones Industrials	1.4%	5.5%	5.5%	11.7%	-0.4%	12,217.56
Nasdaq Composite	-0.6%	-1.8%	-1.8%	18.2%	1.5%	2,605.15

Source: Standard & Poor's. The S&P 500, Dow Jones Industrials, and Nasdaq Composite are unmanaged indexes. It is not possible to invest directly in an index. Past performance is no guarantee of future results.

**Price only. Does not include dividends.*

Fixed-income focus The benchmark 10-year Treasury yield ended the year below 2% - for the first time since 1977, according to *The Wall Street Journal*. Investors were eager to park their cash in safe haven assets on rising speculation that the euro zone debt crisis is far from over. The 10-year yield was 1.88% at the end of December, down from 2.06% one month earlier.

Housing highlights U.S. existing home sales rose 4.0% from October to 4.42 million units in November, according to the National Association of Realtors (NAR). Sales were up 12.2% from the 3.94 million units in November 2010. However, a sharp downward revision to the NAR's historic existing home sales data underscored the severity of the collapse in housing. The adjustment indicated that an average of 14% fewer homes, or about 600,000 units, were sold annually between 2007 and 2010. Also, the S&P/Case-Shiller 20-city home price index was down 3.4% over last October, according to a late December release.

Economic fundamentals The U.S. Federal Reserve maintained its interest rate near zero at its December 13 Federal Open Market Committee meeting. There were upgrades to the outlook, as the committee noted "improvement in overall labor market conditions" as opposed to "continuing weakness." At the same time, the central bank added a reference to "apparent slowing in global growth," and said that "strains in global financial markets continue to pose significant downside risks to the economic outlook." The Fed also released its new economic projections, which were weaker than the June forecasts. The Fed cut its projection of 2011 GDP growth to 1.6%-1.7% from 2.5%-2.9%

Fourth-Quarter 2011 Market Recap

(For the quarter ended December 30, 2011.)

After losing more than 10% of their value in the third quarter, U.S. stocks surged in the year's final three months, pushing blue chips into positive territory for 2011 and leaving the S&P 500 where it began. The Nasdaq's quarterly gain, however, wasn't enough to pull the tech-heavy index out of the red for the year. Each index began the quarter with year-to-date losses of at least 5%, but stocks surged in October, helped by encouraging reports on the U.S. economy and signs of progress regarding the European debt crisis. Halloween's profit taking ended the month on a down note, but the Nasdaq and S&P 500 both finished the month up more than 10%, and the Dow nearly posted double-digit returns as well. Momentum shifted in November, however, as investor anxiety over the European debt crisis and domestic budget uncertainties restrained optimism arising from more signs that the U.S. economy may be improving. Volatility remained the theme in December, as news of falling U.S. home prices and slowing global economies offset positive sentiment that grew during the quarter on news of improved employment, retail sales, business confidence, and consumer confidence.

Momentum shifted in November as investor anxiety over the European debt crisis and domestic budget uncertainties restrained optimism arising from more signs that the U.S. economy may be improving.

Through 12/30/11*	Quarter	1-Year	3-Year	5-Year	Closing Value
S&P 500	11.15%	0.0%	11.7%	-2.4%	1,257.60
Dow Jones Industrials	11.95%	5.5%	11.7%	-0.4%	12,217.56
Nasdaq Composites	7.86%	-1.8%	18.2%	1.5%	2,605.15

Source: Standard & Poor's. The S&P 500, Dow Jones Industrials, and Nasdaq Composite are unmanaged indexes. It is not possible to invest directly in an index. Past performance is no guarantee of future results.

**Price only. Does not include dividends.*

Euro zone Concerns that Europe's debt crisis may spread dominated market sentiment during the quarter and pushed stocks to a six-week low in November. But investors were buoyed by the decision of six central banks to pump more money into the global banking system to help ease the burden of Europe's lingering debt crisis.
Consumer confidence After dipping in October, U.S. consumer confidence surged through the rest of the fourth quarter. The Conference Board Consumer Confidence Index jumped more than 9 points in December to 64.5. The increase was much stronger than expected, and came after November confidence jumped 15 points to 55.2. Consumers became more confident on the present situation and expectations, as recent gains in the index were broad-based.
Yields in perspective The 10-year Treasury yield fell during the quarter to a year-end level not seen in decades. The yield stood at 1.88% at the end of December, down from 1.92% at the beginning of October. Uncertainty about global economies inspired investors to seek out the "safe haven" investment, as did bouts of stock market volatility during the quarter.
Commodity comments Oil prices finished the fourth quarter at just under $99/barrel, up from $79/barrel at the beginning of October. Gold prices lost ground, falling to $1,534/ounce at year's end from $1,637 at the start of the quarter. Sales of the precious metal by European banks and a preference for U.S. dollar investments helped send the price lower.

FAQs for Near-Retirees

While studies indicate that many people are likely to need between 60% and 80% of their final working year's income to maintain their lifestyle after retiring, low-income and wealthy retirees may need closer to 90%.

After years of saving and investing, you can finally see your retirement on the horizon. But before kicking back, you still have some important planning to do. The following frequently asked questions about retirement income should help you begin the final stages of retirement planning on the right foot.

1. When should I begin thinking about tapping my retirement assets, and how should I go about doing so?

The answer to this question depends on when you expect to retire. Assuming you expect to retire between the ages of 62 and 67, you may want to begin the planning process in your mid to late 50s. A series of meetings with a financial consultant may help you make important decisions such as how your portfolio should be invested, when you can afford to retire, and how much you will be able to withdraw annually for living expenses. If you anticipate retiring earlier, or enjoying a longer working life, you may need to alter your planning threshold accordingly.

2. How much annual income am I likely to need?

While studies indicate that many people are likely to need between 60% and 80% of their final working year's income to maintain their lifestyle after retiring, low-income and wealthy retirees may need closer to 90%. Because of the declining availability of traditional pensions and increasing financial stresses on Social Security, future retirees may have to rely more on income generated by personal investments than today's retirees.

3. How much can I afford to withdraw from my assets for annual living expenses?

As you age, your financial affairs won't remain static: Changes in inflation, investment returns, your desired lifestyle, and your life expectancy are important contributing factors. You may want to err on the side of caution and choose an annual withdrawal rate somewhat below 5%; of course, this depends on how much you have in your overall portfolio and how much you will need on a regular basis. The best way to target a withdrawal rate is to meet one-on-one with a qualified financial consultant and review your personal situation.

4. When planning portfolio withdrawals, is there a preferred strategy for which accounts are tapped first?

You may want to consider tapping taxable accounts first to maintain the tax benefits of your tax-deferred retirement accounts. If your expected dividends and interest payments from taxable accounts are not enough to meet your cash flow needs, you may want to consider liquidating certain assets. Selling losing positions in taxable accounts may allow you to offset current or future gains for tax purposes. Also, to maintain your target asset allocation, consider whether you should liquidate overweighted asset classes. Another potential strategy may be to consider withdrawing assets from tax-deferred accounts to which nondeductible contributions have been made, such as after-tax contributions to a 401(k) plan.

If you maintain a traditional IRA or a 401(k), 403(b), or 457 plan, in most cases, you must begin required minimum distributions (RMDs) after age 70 1/2. The amount of the annual distribution is determined by your life expectancy and, potentially, the life expectancy of a beneficiary. RMDs don't apply to Roth IRAs.

5. Are there other ways of getting income from investments besides liquidating assets?

One such strategy that uses fixed-income investments is bond laddering. A bond ladder is a portfolio of bonds with maturity dates that are evenly staggered so that a constant proportion of the bonds can potentially be redeemed at par value each year. As a portfolio management strategy, bond laddering may help you maintain a relatively consistent stream of income while limiting your exposure to risk.[1]

When crafting a retirement portfolio, you need to make sure it generates enough growth to prevent running out of money during your later years. You may want to maintain an investment mix with the goal of earning returns that exceed the rate of inflation.

[1]Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and are subject to availability and changes in price.