



Winter 2011

JOHN W. BEAN
info@wisdomfinancial.net

CURTIS J. FORD
info@wisdomfinancial.net

JAMES H. NASH
info@wisdomfinancial.net

GREG HEATON
gheaton@wisdomfinancial.net

ROBERT N. NASH, CFP®
info@wisdomfinancial.net

DENNIS D. DUFFY
dduffy@wisdomfinancial.net

(800) 959-8485
(309) 944-1117
(309) 944-1118 fax

P.O. Box 237
Geneseo, IL 61254

Words of Wisdom

2011: New Year, Same Advice

Last year, the title to the lead article in our Winter 2010 Words of Wisdom was “2010: *New Year, Same Advice*”. As we enter 2011, we feel that this is still the best title for our first Words of Wisdom for 2011. We have all been conditioned by the financial services industry to ask the question, “What will the markets do in the new year?” There is always someone in the financial services industry who will attempt to answer that question with some prediction. Sometimes they guess right, but mostly they guess wrong. Our answer remains the same: **WE DON'T KNOW!!!**

We are not fortune tellers. We do not own and do not want to own a crystal ball. The financial markets are controlled by over six billion people making daily buying and selling decisions. One of our basic tenets at Wisdom Financial Services is that **no one** knows whether the market will go up, down, or remain unchanged. What we do at Wisdom Financial Services, whatever the market does in 2011, is properly position our clients to take advantage of the market's opportunities. Our goal is to obtain market returns.

One of our most important responsibilities to our clients is to provide the coaching to keep one disciplined. Not to panic when markets go lower and not to become greedy when markets rise. Fear and greed are two powerful emotions that destroy investors' peace of mind.

As we enter 2011, we hope that you have peace of mind on your finances based on the investment philosophy, investment techniques and asset allocation that we offer to you.

What do we mean by investment philosophy? Here at Wisdom Financial Services, that means that based on supply and demand, the markets are the best determinate of price. It means that all available information is factored into the current price and therefore only new and unknowable information and events change pricing. Finally, **consistently** predicting market movements and capturing additional returns unrelated to risk is not possible for any individual or entity.

What this means for you, our client, is that we are focusing on capturing market returns by utilizing asset class structured funds with true diversification over thousands of individual holdings of stocks and bonds. Our techniques eliminate stock picking, track record investing, and market timing from your investment process.

We often wonder that, if our clients share this investment philosophy, why do some continue to invest part of their funds with investment advisors who do not have the same investment philosophy? That is, they continue to maintain investments with organizations that attempt to beat the market by picking hot stocks, relying on the past record of investment managers to select mutual funds, and move funds in and out of the market in a futile attempt to time the market. We would encourage everyone to consider that if they share our investment philosophy, that they consider having all of their investment assets in a Wisdom portfolio. We believe this will lead to greater peace of mind and financial reward over the long term.

As we go into 2011, you can remain confident that your portfolios through Wisdom Financial Services remain well diversified, that we will not bend to the winds and whim of the talking heads in the financial press, and will stay disciplined to our investment philosophy, and investment techniques, including, very importantly, periodically rebalancing your portfolio. Our advice remains the same: turn off the hype and talking heads and recognize that they have no more of an idea of what is going on in the future than you do.



James Nash, Dennis Duffy, John Bean, Greg Heaton, Robert Nash, Curtis Ford

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10 INVESTING FACTS YOU PROBABLY DON'T KNOW BUT SHOULD *by Daniel Solin*

The securities industry spends hundreds of millions of dollars a year in advertising, but that doesn't mean the general public is getting the straight scoop. Nor does the blanket coverage from the financial media ensure that the public is shielded from misinformation. So, as you contemplate investing for the New Year, here are 10 facts you probably don't know (but should):

1. This wasn't the "lost decade": All the talk about the "lost decade" is complete nonsense. Investors who bought and held a globally diversified portfolio of low-cost stock and bond index funds did just fine. Dividing that portfolio into 60% stocks and 40% bonds, while not suitable for everyone, is an average asset allocation and is routinely used by defined-benefit retirement plans. The annualized return for that asset allocation for the past decade was approximately 6%. Investors in a portfolio of 100% stocks, invested in the same globally diversified manner, had an annualized return of almost 8%. But, yes, it was a "lost decade" for those who invested all of their assets just in the S&P 500. I don't know why anyone would do that. I also don't understand why any "expert" would use that index as a benchmark for the entire market. It isn't.

2. "Great" companies can be lousy investments: Consider Lehman Brothers, WorldCom, General Motors, Consec and Chrysler. Companies that are "great" one day can tank the next. There's no way to tell who's next.

3. The S&P 500 Index is very unstable: While most investors understand that companies enter and exit the S&P 500 index periodically, few understand just how unstable it is. In the 41 years from 1957 to 1998, only 74 of the original 500 companies were still in the index.

4. Most investment clubs underperform the market: An extensive study of the performance of 166 investment clubs showed 60% did worse than the market. There are many reasons for joining an investment club, but superior investment performance shouldn't be one of them.

5. Mutual fund out performance can be explained by luck, not skill: This is the big one. When mutual funds tout their great performance over the past five years, they want you to believe their fund managers have superior stock-picking skills. Not true. A recent study found no evidence of skill in the performance records of over 2,100 funds. The study's ramifications are profound. If outperformance is based on luck, there is no way to predict the next lucky fund. Investors should avoid all actively managed mutual funds and invest in a globally diversified portfolio of low-cost stock and bond index funds instead.

6. Most investors should not hold individual bonds: Most investors would be far better off selling their individual bonds and buying a low-cost, short- or intermediate-term bond index fund. They would get greater diversification, superior management of their bond portfolio, more liquidity and lower cost. A study by Vanguard summarizes these advantages.

7. Most investors should not hold individual stocks: An individual stock has the same expected return as the index to which it belongs, but it can have up to twice the risk. That's because holding an individual stock entails risks that are unique to that stock, like corporate dishonesty or the death of a key executive. You can get the same expected return, with less risk, by investing in the index. Same return, less risk. You would think it would be a "no-brainer." Yet investors, egged on by their brokers and looking for the next monster stock, continue to gamble with their money by investing in individual stocks.

8. Warren Buffett does not "beat the market": I'm a huge fan of Buffett. Most investors believe his company, Berkshire Hathaway (BRK.A), has consistently beat the market. Not true. The index with approximately the same standard deviation (a measure of risk) as Berkshire Hathaway is the Emerging Markets Value Index. For the 10 and 20 years ending Dec. 31, 2005, Berkshire Hathaway stock underperformed that index. You can see the analysis here.

9. Warren Buffett advises investors to invest in index funds: Over the years, Buffett has repeatedly recommended that investors stick to low-cost index mutual funds. He even prefers them to ETFs, as he explained in an interview on CNBC in May, 2007.

10. Chasing big returns causes the brain to react just like snorting coke: Both activities are addictive. This explains why investors act so irrationally and fall easy prey to brokers and advisers who claim they can "beat the markets." The brokers are drug dealers, and the investors are addicts. You can compare the brain images of investors looking for a big score and drug addicts doing the same thing, here.

2011: New Year. . .

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Later in this newsletter, we list our some of our 2011 educational events. We look forward to seeing you at as many of those events as possible. It is very important that you, as part of the Wisdom Nation, attend these events to network with us and other fellow Wisdom investors. Finally, as a believer in our investment philosophy, invite a friend or relative who is not taking advantage of our coaching to one of our seminars to introduce them to us. We truly want to "save the world one investor at a time!!" All of us at Wisdom want to thank you for your business and your confidence in us to give you the best advice possible.

WISDOM FINANCIAL SERVICES, L.L.C.

Greg Bob Jim John Curt Dennis

IRA CHARITABLE ROLLOVER PASSES FOR 2010 AND 2011

On December 17, 2010 the President signed into law *The Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010*. This bill restores the IRA Charitable Rollover for 2010 and permits its use in all of 2011. The act is retroactive to January 1, 2010 so donors who previously made 2010 IRA rollovers will qualify.

The principal rules for direct transfers from an IRA to a qualified public charity are:

1. The IRA owner must be 70 1/2 or older.
2. The transfer is for no more than \$100,000 each year. (A 2010 transfer qualifies for the required minimum distribution.)
3. It must be to a public charity either outright or for a specific purpose, but may not be to a donor advised fund or supporting organization.
4. The transfer is made directly from a custodian or trustee to the charitable organization.

A very important potential 2010 benefit exists. Because Congress recognized that it is very late in the year, individuals who choose to make a qualified charitable distribution rollover from their IRA trustee to a charity may make their 2010 charitable gift during 2010 or in January of 2011.

Remember that this distribution is NOT considered a tax deduction. However, any money transferred to a charity will not be considered taxable income and therefore will not be taxed.

Call the Wisdom office to schedule a time to meet with your coach to review your portfolio and the issues related to your IRA and charitable planning.

WISDOM FINANCIAL SERVICES, L.L.C. UPCOMING EVENTS

MARK YOUR CALENDAR

NEW EDUCATIONAL WORKSHOP

GETTING INCOME

FEBRUARY 24, 2011 • 12 NOON & 6:00 P.M.
LAVENDER CREST WINERY • COLONA, ILLINOIS



Please call us at 800-959-8485 for your reservations.

Separating Myths From Truths — The Story of Investing

MARCH 22, 2011
2:00 P.M. • 6:30 P.M.
LAVENDER CREST WINERY
COLONA, ILLINOIS

MARCH 31, 2011
2:00 P.M. • 6:30 P.M.
CLARION HOTEL CONFERENCE CENTER
5202 BRADY STREET • DAVENPORT, IOWA

**BACK BY
POPULAR DEMAND
DR. ALAN ZIMMERMAN**



JUNE 4, 2011
QUAD CITY
WATERFRONT
BETTENDORF, IOWA

**CLIENT
APPRECIATION
EVENT**

NEW • TIMELY • MUST SEE

**NAVIGATING THE FOG
OF INVESTING**

MARCH 10, 2011
STONE CREEK INN
MOLINE, ILLINOIS

*Please join us for
one of these showings*
2:00 P.M. SHOWING
7:00 P.M. SHOWING



P.O. Box 237
Geneseo, IL 61254

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We want you to get to know us. . .



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at [\(800\)959-8485](tel:8009598485) or info@wisdomfinancial.net