

Registered Investment Advisory

**Russell  
Hawkes**

ADVISORS, INC.



Fall 2009

# Fee-Only PORTFOLIO NEWS

A Quarterly Summary of Events and Changes



## OUR NEW LOW VOLATILITY INVESTMENT STRATEGY: *What does it mean for me and my money?*

By Peyton Hawkes

Investing for the long term has changed. Economic indicators and historical studies point to our being in, since October 2000, what is known as a **Secular Bear**



**Market.** This means that a fundamental re-structuring is occurring, and until this process is complete, exuberance (irrational, or otherwise) will be hard to find. Instead of increasing profits and share prices, Secular Bear Markets bring decreasing profits and lower share prices are the normal market trend. Within this environment the markets sometimes do go up, but they are bucking a **longer term trend where the rule of the day is financial defaults, deleveraging, and non-existent profits.** It could almost be described as a "sideways" market...volatile, but with no real progress because **the real underlying story**

**is Economic Restructuring.** These are hard times for long term investors to bear, because opportunity seems to be presented only to tactical strategists taking large risks and trying to time the market.

There *are* investment opportunities in this kind of market... it just takes more work to uncover them, and more attention to trends as they play out in the evolving economy. The asset classes which are *unfavorable* in this kind of market are **Stocks, Low Quality Bonds, Venture Capital, Leveraged Buyouts, Long-Bias equity strategies.** The asset classes which are *favorable* in this environment are: **Cash, High Quality Bonds, Gold, Long/Short Commodities, Managed Futures, Short Selling, and Short-Bias equity strategies.**

Specially designed and monitored portfolio strategies have been implemented to recognize the markets for what they are, protect investor capital, and to make changes when appropriate. We have employed strategies designed to produce good "absolute" returns **regardless of larger market behaviors,** and to reward low volatility as the primary design requirement. **The imperative** for investing in Secular Bear markets **is to avoid loss.** Mathematically, it is so difficult to recover drastic losses, that successfully avoiding these losses can provide returns in excess of inflation, and returns which are competitive with stock indexes over the 15-25 years that a Secular Bear market typically lasts.

The core holding for all of our investors are primarily mutual funds employing this Low Volatility design. Alternative asset classes, conservatively-managed, bring advanced risk management to our investors similar to what many successful Endowment Funds have enjoyed. This new portfolio design has been tested over many years, and we consult with portfolio consultant and design author Lou

## ABSOLUTE RETURN INVESTING

There are several "absolute return" mutual funds in our portfolio. Absolute return strategies have a target rate of return of, say, 8%, that is *stand-alone*... it is not relative to an index... it is simply trying to achieve 8%, no matter what stocks or bonds or oil prices or corn prices or interest rates do during that time.

Absolute Return (AR) funds aim to reduce losses by playing the long, or bullish, side of the stock market, but also selling some shares short in case the market falls. This is sometimes also called Long/Short Equity Funds. Every fund manager develops a pricing forecast, and adjusts the "bias" his fund employs based on his/her forecast. In other words, is he devoting more resources to capturing upside, or protecting against downside? Their success during many market cycles earns them a place in our portfolio.

This approach is *not* a *hedge fund*, but it does *mimic* one. Mutual fund regulations demand transparency,

*Continued on page 2*



*Continued on page 3*

prohibit leverage, and subject these types of funds to many more rules than the hedge funds. As you might imagine, this type of strategy, coupled with leverage, could greatly exaggerate the potential for gain and loss, and this is what real hedge funds are famous for doing. Not so in a publicly traded mutual fund.

Absolute Return funds are not new...they have been used by institutional investors for a long time. A 1997 SEC rule change prompted the retail launching of these funds. Fund giants Vanguard and Fidelity don't currently offer them, but several institutional hedge funds have launched retail versions to attract a wider audience.

Absolute Return funds have a risk profile that is similar to bond funds, but unlike bond funds, the objective is a continuous positive return. Absolute Return strategies are actually less volatile than long term bonds, and have greater potential growth. It is these attributes which attract us as advisors, and why we feel this approach belongs in a diversified portfolio, especially in older investors, but really for anyone seeking a less volatile investing experience.

Investing in Absolute Return mutual funds requires that you do your homework. As with all mutual funds, a manager's track record is important, as is the philosophy and outlook of the fund. Expenses, too, should be scrutinized. Although this category of investing does not carry exorbitant costs, it needs to be part the decision as to who manages this sector of your portfolio.

We have 8 funds that we have approved for portfolio use, and from January to June of this year, they have returned on average 5.26%. Not bad, considering the stock market has been extremely volatile and returned a little over 3% during the same time period. We are believers in Absolute Return investing, and forecast it will be part of our strategy for some time.

#### STAY TUNED:

Next issue we will cover the  
MANAGED FUTURES strategies  
in our portfolios.

## 2010: AN OPPORTUNITY TO CONVERT IRA'S TO ROTH

By Peyton Hawkes

The ROTH IRA is a good tool for growing wealth... tax-free accumulations, tax-free withdrawals, and no Required Minimum Distributions at age 70½. The "catch" has been a) the contributions are not deductible and b) there are income limitations to contributing and converting to ROTH IRA's.

In 2010, the income restriction is being lifted, but for this year only. So, for many people, 2010 is the time to look seriously at the possibility of conversion from a Traditional IRA to a ROTH.

Under 2009 tax law, there is a \$100,000 income limit for conversion **including the amount you want to convert**. So, for many people, the "convertible" amount can be quite small under current law. Also, any amount you do convert is fully taxable this year.

In 2010, two significant changes occur a) the income restriction is lifted and b) the income declared can be spread out over 2010 **and** 2011, with the tax due in April 2011 and April 2012, and potentially reducing the total tax liability created by the conversion.

So... is this a No-Brainer? Should everyone convert their Traditional IRA's to ROTH? Well, not exactly. It is a question of when the "crossover point" is... the time when, looking back, you have overcome the fact that doing the conversion created tax liability, and you have "crossed over" into a positive net return. This hinges on the tax bracket you forecast for future distributions: high future tax rates, more benefit to having done the conversion.

Also, net benefit hinges on lifespan: the more time the new ROTH has grown, so more of its value is "growth" instead of "principal." So for young people it is more of a No-Brainer, for older people it gets more questionable.

Estate Planning is also impacted, because tax treatment is quite different for the Traditional versus ROTH IRA. Gone are the Required Minimum Distributions, and your heirs benefit by getting tax-free distributions (although the inherited IRA distribution rules still apply). So you would be doing your heirs a favor if you don't need the money while you are alive and can pay the tax before you die.

For this strategy to make sense, two things must happen. First, the tax rules for ROTH IRA rules must remain as they are now. Second, you must believe you won't need the money in the ROTH IRA during your lifetime and that your heirs will pretty much leave the account alone, except when required to take minimum withdrawals to comply with the tax guidelines.

To the extent these assumptions prove untrue, the idea of using a ROTH IRA to create a tax-free annuity for your heirs becomes that much less attractive. Remember, you are paying a high price — the upfront conversion tax — in order to set your heirs up for future tax savings that you hope will extend over many years.

We have installed a software program to evaluate the benefit, and forecast a "crossover point" given your personal circumstances. Give us a call and we'll be happy to explore the possibility that you could benefit from this one-time conversion opportunity.

Stanoslovich directly. Thus far in 2009, we have been pleased with the portfolio's behavior during this very volatile stock market period since January.

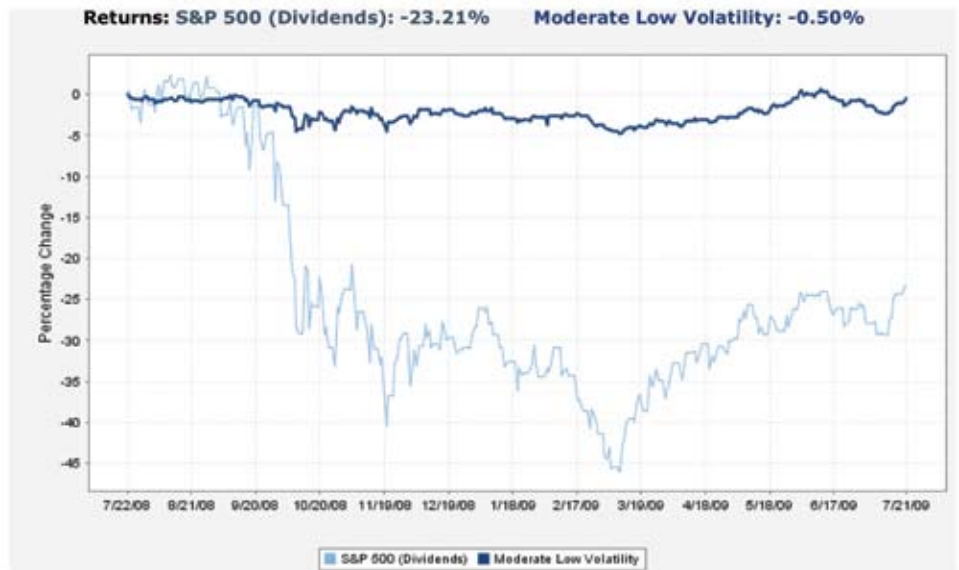
**Risk-seekers** may co-subscribe to the **Global Tactical Long Equity (GTLE) portfolio**, which is not constrained by low risk requirements, and whose managers have been given broad license to seek growth wherever they find it, worldwide. **GTLE is the "Alpha"** portion of our allocation strategy, and is targeted at those investors seeking maximum growth while understanding the **long time frame that may be required** for this portion of the portfolio to bear fruit.

We at Russell Hawkes Associates believe that our primary directive is reducing the risks our clients face when investing in this uncertain economic climate. Our outlook is admittedly conservative and our approach cautious. However, we feel that the current Low Volatility asset mix is valid, and offers opportunities to grow assets while taking "the abyss" out of the realm of possibility. Everyone is different, but if you share our vision of responsible, absolute returns, and desire the objectivity of a fee-only relationship, then we may be just what you have been looking for.



Moderate Low Volatility: Backtest

1 Year



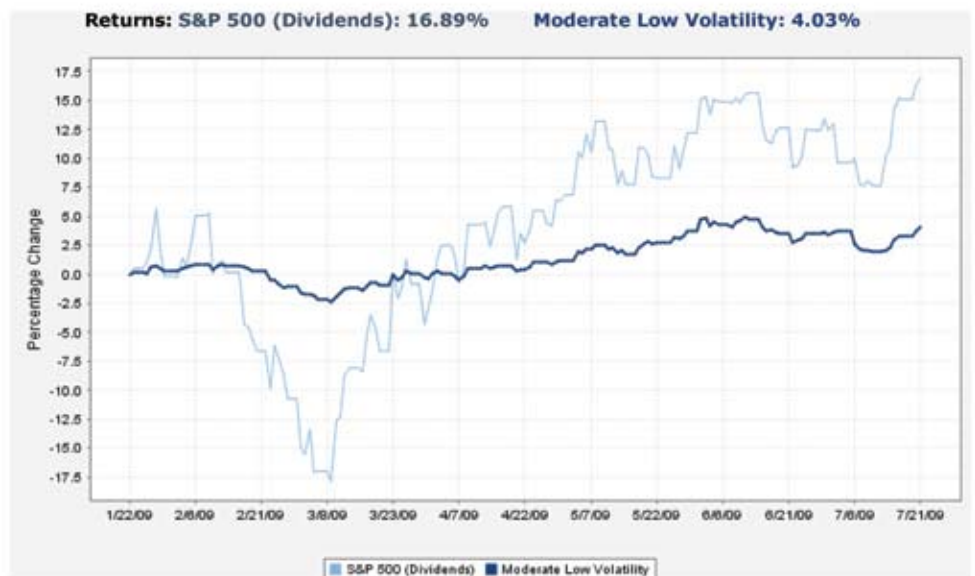
Moderate Low Volatility: Backtest

5 Years



Moderate Low Volatility: Backtest

YTD



# GLOBAL TACTICAL LONG EQUITY (GTLE)

The GTLE portfolio supplement is aggressive, and assembled without regards to risk control. This portion of a client's portfolio can be expected to rise and fall as much as, or more, than the overall stock market.

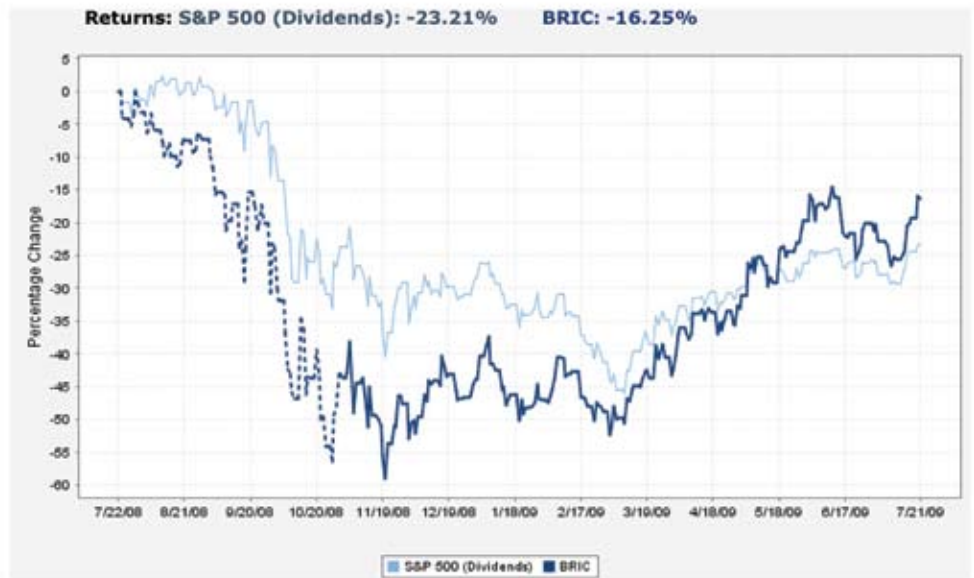
Because the GTLE is very volatile, it is generally used in measured amounts. For younger clients who understand and are prepared for the volatile nature of GTLE, higher percentages are used. For older clients, their tolerance for risk and the return goals in their financial plan dictate how much GTLE is used.

The mandate for GTLE is to capture broad market movements, while also exposing investors to concentrated positions in volatile areas such as technology, energy, and emerging markets. We do this using low-cost products, typically Exchange Traded Funds "ETF's", and Folios of selected stocks.

GTLE has very high return potential. In periods of market growth, the GTLE should show market average returns or better. In exchange for these high returns, investors must pledge equal amounts of patience, as market downturns will most certainly batter these holdings with vigor.

BRIC: Backtest

1 Year



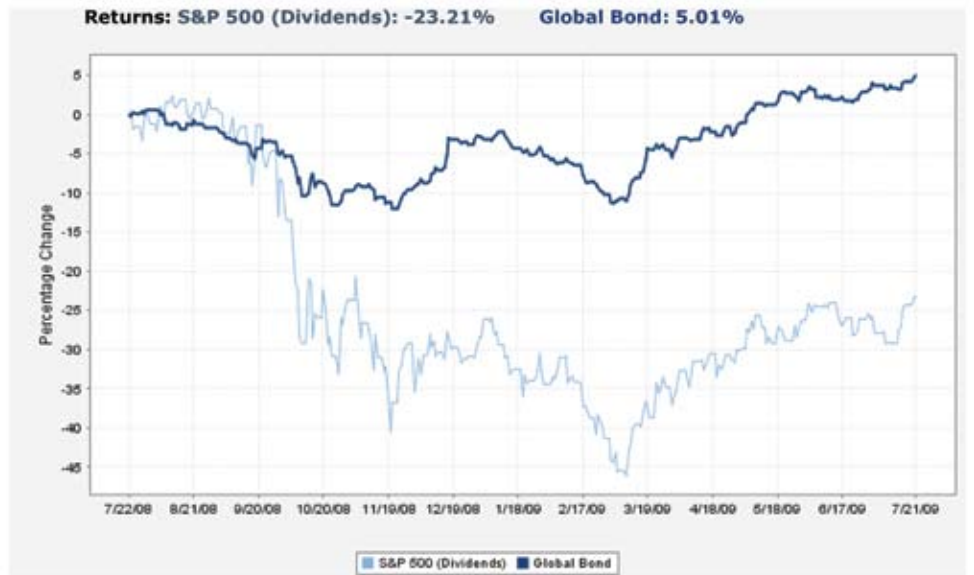
Global ETF: Backtest

1 Year



Global Bond: Backtest

1 Year



## CURRENT GTLE PORTFOLIO COMPOSITION

### Global Exchange Traded Funds – 25%

*ETF's representing virtually every worldwide stock market outside the United States*

### Brazil, Russia, India, China “BRIC” – 20%

*84 stocks representing the 4 largest players in the Emerging Markets*

### Global Bonds – 20%

*One mutual fund and 2 ETF's representing non-US Government Bond holdings, unhedged for growth as the US currency weakens*

### Clean Energy Sector – 10%

*Stocks and ETF's from the Energy sector making contributions to clean energy sources*

### Technology Sector – 10%

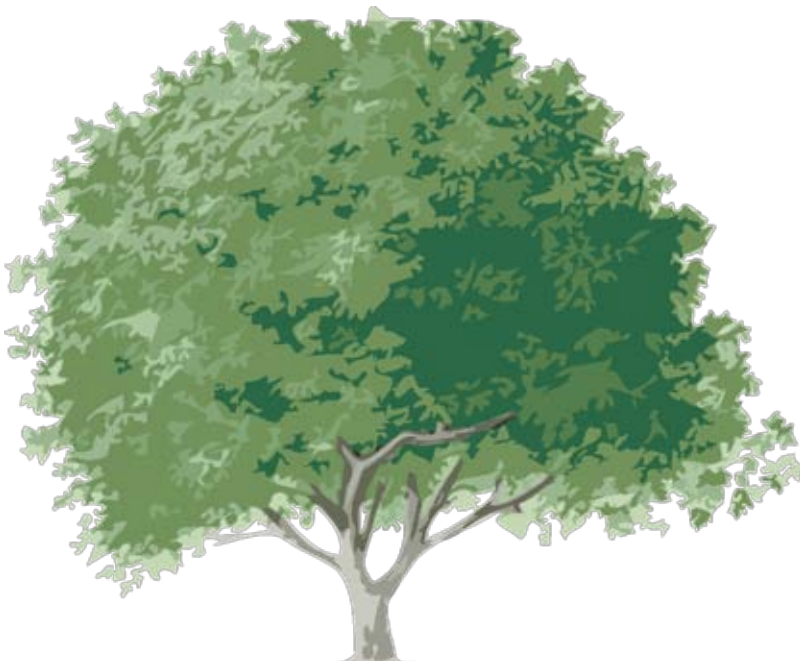
*30 stocks with primary business operations in the Technology sector*

### Internet 5 – 10%

*Google, Yahoo, Ebay, Amazon, Baidu stock*

### Energy Sector – 5%

*30 stocks with primary business operations in the Oil and Energy sector*



*“Inflation hasn’t ruined  
everything.  
A dime can still be used as a  
screwdriver.”*

—QUOTED IN P.S. I LOVE YOU,  
COMPILED BY H. JACKSON BROWN, JR.

**Fee-Only Portfolios** are designed to provide cost-effective asset management to investors of all stripes. Russell Hawkes Associates Inc. is a fee-only advisor to the Portfolios. We use only no-load products, and are never driven by the incentives that commissions offer.

FOLIOfn is custodian to the fee-only portfolios, and offers access to Mutual Funds, ETF's, FDIC-insured deposits, and "folios" of selected stocks.

Low volatility portfolios are modified periodically in accordance with our strategists. Global tactical portions are modified periodically to reflect tactically-relevant changes.

Portfolios can be assigned to each investor through a simple self-administered needs test, or a full financial plan prepared by the Advisor.



[www.hawkesfeeonly.com](http://www.hawkesfeeonly.com)

721 Chenango Street  
Binghamton, NY  
607-773-8055

*Investment Consulting and Retirement  
Solutions Since 1981*

PRSTD STD  
U.S. POSTAGE  
**PAID**  
PERMIT # 197  
BINGHAMTON, NY



The National Association of Personal Financial Advisors ([www.napfa.org](http://www.napfa.org)) is committed to the fee-only business model, to eliminating the conflicts of interest, and to offering an alternative to traditional financial sales.

Russell Hawkes Associates is a proud member of NAPFA.

The ROTH IRA is a good tool for growing wealth.

*See page 2 for details.*

## Free Informational Seminar: Working with a Fee-Only Advisor, and Investing in Low Volatility Portfolios

Presented by Peyton Hawkes, President, Russell Hawkes Associates

Join us for a morning or evening seminar at  
the Binghamton Public Library.

Low Volatility Portfolios may be JUST the strategy you have been looking for to protect and secure your financial future. We will explain how we construct these low-risk portfolios, and how these strategies have fared during the recent crisis. We will also discuss how the Global Tactical Long Equity enhancement provides meaningful and measured risk exposure.

Also, learn why working with a Fee-Only advisor is different and BETTER than sales-based financial advice. Your family deserves better!

Complimentary refreshments will be served.

WEDNESDAY,  
OCTOBER 7th at 5PM or  
THURSDAY,  
OCTOBER 8th at 10AM

Decker Room at the Broome  
County Public Library,  
Court Street, Binghamton

RSVP to  
[Rhonda@hawkesfeeonly.com](mailto:Rhonda@hawkesfeeonly.com),  
or call 607-773-8055 and  
reserve your seat today!

