

HOLIFIELD HUNTLEY

Financial Advisers

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Realistic Risk

We'd all love to get high returns with no risk, but in the real world that doesn't happen. In fact, trying to achieve that can make you vulnerable to scam artists like Bernie Madoff, who promise the moon to get their hands on your money. It also can make us vulnerable to panic — selling into downturns when we realize we're taking risks that we can't handle.

A better approach is to accept that some risk-taking is inevitable, then figure out what kind of and how much risk you are able and willing to handle. Here are some factors to consider in determining your risk level:

- How much do you rely on your investments to meet your basic living

expenses? If you've got those covered, you can afford to take more risk.

- Do you have a separate emergency fund or cash reserve to handle irregular expenses such as household and vehicle repairs, insurance deductibles and appliance replacement? If you don't, you need to set those funds aside first.
- What kind of insurance do you have? Life? Disability? Long-term care? The more comprehensive your insurance coverage, the more risk you can afford to take in your investments. If you're married, consider the financial position of the surviving spouse after the first spouse dies.

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Adviser Corner

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Balancing Act

Rebalancing your investment portfolio is crucial to maintaining the proper risk profile and asset class mix while reaping the benefits of diversification.

Since investors cannot be sure which asset class will dominate the markets at any given point in time, it is advisable to maintain an asset allocation that is appropriate for you. Investors may tend to avoid rebalancing because it involves buying losers and selling winners, but what they don't realize is that they're buying low and selling high -- definitely a good position in investing.



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- How soon might you need to spend the money? If this is money you'll be using to buy a car next year, you're a short-term investor who needs safety and liquidity.
- How's your psychological makeup? Ask yourself how much of your money you're honestly comfortable putting at risk, then don't go over that amount.

Many of us experienced first-hand the pain of loss during late 2008 and early 2009. Did you sell investments and then miss out on the rebound? One way to avoid a repeat mistake is to adopt mental accounting. Think of your investments as being in separate imaginary buckets even when they are mixed together in the same account. You can have a "safe" bucket of CDs, money market accounts and high-quality bonds, and a "growth" bucket of stocks, stock funds and lower quality bond funds. You choose the balance you want between those two buckets and periodically move money from one to the other when things get too far out of line.

Most risk reduction methods involve some cost — you either pay an insurance premium or you accept a reduced return on your money. Bank CDs and their pitiful yields are an obvious example. However, some types of risk, notably the risk of something bad happening to a specific company or industry, can be reduced simply by diversification. That means spreading your money around and not concentrating it in one or just a few companies' securities or in any single industry.

Keep in mind that no investment is completely risk-free. Even government guarantees are only good if Congress puts up the money to fund them. Lower-risk investments — meaning those that are less volatile — also are more vulnerable to inflation risk. Their low returns may not keep up with rising costs, which is why most of us should have at least some growth investments too. Just be sure the risks you take are right for you.

Bad Days, Good Buys

It's been an incredibly rough summer for the world's financial markets, battered and bruised by debt problems at home and abroad, weak consumer spending, high unemployment and a seemingly endless wave of foreclosures.

The Standard & Poor's 500 Index is down 12% since the end of June and higher risk assets have fared even worse — small caps off 21%, developed foreign markets down 18%, emerging markets down 22%. With fear ruling the day, high-quality, profitable companies have been taken down along with the rest of the market.

The safe haven has been high quality bonds, particularly U.S. government bonds and highly rated municipals, but investors who have gone that route are paying a price too. Yields on the 10-year Treasury note are less than 2%, while those on the 30-year have been hovering just above 3% and even dipped briefly below 3%.

While many fear a recession is in the wings, the numbers show the economy

has been growing in spite of its problems. Employers are adding jobs, just not fast enough to keep up with population growth or reduce the ranks of the unemployed.

The market drop isn't so much about what's already happened as it is about fears of what may happen in the future. Clearly, many people are worried that a default in Greece could lead to defaults in other countries with heavy debt loads, hurting the banks that hold the debt and making recovery in Europe more difficult. On our side of the Atlantic, the debt ceiling debate hurt confidence in the ability of our elected leaders to solve pressing problems — and the fight over spending cuts and tax increases has just begun. It's no wonder some people prefer to sell first and ask questions later.

At times like these, we need to shut out the background noise and focus on our long-term objectives. A down market is bad for sellers, but great for buyers who can hold on until things turn around.

Consider the Source

Financial news often refer to a "bull market" (when the market is doing well) or a "bear market" (when the market is doing not so well). These terms may have originated from the animals' styles of attack. A bear mauls (downward movement), while a bull thrusts its horns (upward movement).

Whether you're reading news about a bull market or a bear market, always be mindful of the source. There are many financial wizards out there who are ready to promise you 20% returns, so it's best to check the credentials and reliability of a financial professional or information source.



Government Health-Care Spending

It is a well-known fact that the United States spends much more than other developed countries on health care, both in absolute dollars and as a percentage of GDP. Two enormous, complicated programs, Medicare and Medicaid, account for the majority of government health-care spending in the U.S. Both programs have been growing rapidly, which is expected to continue in the coming years.

Medicare and Medicaid were both created in the mid-1960s as part of Lyndon Johnson’s Great Society agenda. As of 1970, 62% of total health-care spending was still private, with out-of-pocket spending the single most significant source. During the subsequent 40 years, however, Medicare and Medicaid each expanded by more than 11% annually due to benefit expansions and demographic change, pushing public-sector spending up to nearly 50% of total health-care expenditures. During the same time, private-sector spending also grew at a robust 8.7% annually, as employer-sponsored insurance

became the predominant conduit of health-care spending.

Looking forward, the Centers for Medicare & Medicaid Services (CMS) project 6.5% annual health-care spending growth over the next decade. Public sector growth is again expected to outpace private spending growth, with a 6.9% growth rate compared to 6% for the private sector. Combined, Medicare and Medicaid are expected to account for 39% of U.S. health-care spending in 2019, up from 37% in 2010 and 17% in 1970.

Medicare

Medicare is a federal government program that provides health insurance to people over age 65, and people with certain disabilities. In 2009, more than 43 million people received health insurance benefits through Medicare at a total cost of approximately \$510 billion. Medicare benefits are divided into three parts: Part A Hospital Insurance, Part B Medical Insurance, and Part D Prescription Drug Insurance. Part C created a private version of Medicare, now called Medicare Advantage. More details about these benefits can be found in the table at left.

Original Medicare’s relatively high cost-sharing provisions and lack of a limit on out-of-pocket spending can leave beneficiaries exposed to potentially devastating expenses in the case of a serious adverse health event. For this reason, most Medicare beneficiaries also carry supplemental insurance. Employer-sponsored retiree health plans, though becoming less common, still cover approximately 30% of the Medicare population. Twenty percent of Medicare beneficiaries purchase individual supplemental policies, also called Medigap policies. Medicaid helps pay Medicare’s premiums and cost-sharing for another 20% of the Medicare population. Only about 10% of Medicare beneficiaries are estimated to be completely without supplemental coverage.

Medicare Benefits Breakdown

Benefit	Approx. % of Spending	What Does It Cover?	What Does It Cost Beneficiaries?
Part A	39	Inpatient hospital care, skilled nursing facilities, and in some cases hospice or home care.	Generally no monthly premium as long as the beneficiary paid sufficient payroll taxes while working. Deductible and co-insurance for hospital stays exceeding 60 days.
Part B	26	Physician services, outpatient care, and in some cases physical or occupational therapy and home health care.	Monthly premium, deductible, and 20% co-insurance after the deductible is met.
Part C	23	Same benefits as Part A, Part B, and often Part D. Medicare Advantage plans are offered by private insurance companies as an alternative to original government-run Medicare.	Monthly premium, deductibles, co-pays, and co-insurance.
Part D	11	Prescription drugs.	Part D benefits are only offered through private insurance companies, which charge a premium in addition to deductibles, co-pays, and co-insurance.

Source: Kaiser Family Foundation and Medicare.gov

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Medicaid

Medicaid is a joint federal-state program that provides health insurance to low-income people. Each state runs its own program and has discretion over benefits and eligibility within federal guidelines. A related program, the State Children’s Health Insurance Program (SCHIP or CHIP), covers children from families who make too much to qualify for Medicaid but not enough to afford private insurance.

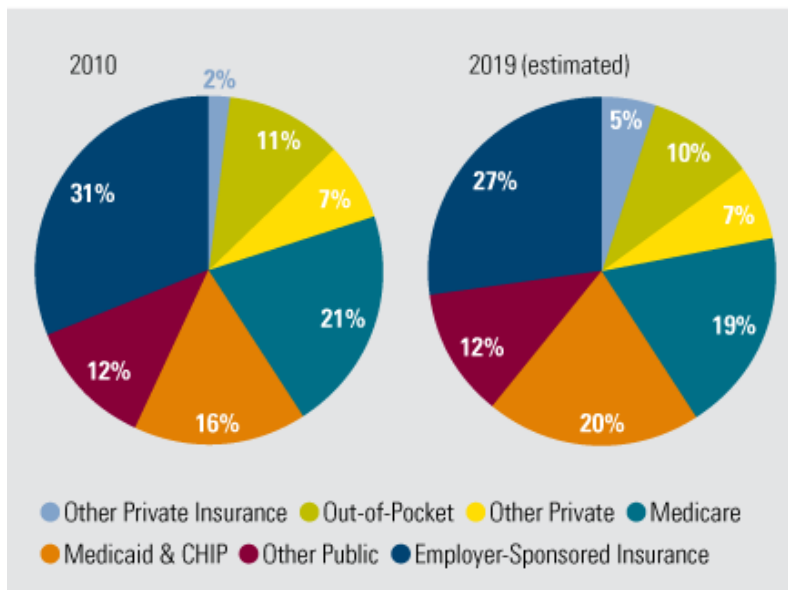
In 2007, on average 49.1 million people received health benefits from Medicaid. However, 61.9 million people received benefits at some point during the year, as varying economic circumstances led people to transition into or out of Medicaid. Medicaid cost \$390 billion in 2009, with about two-thirds of that money coming from the federal government and the remainder from the states. The federal share of costs — called

the Federal Medical Assistance Percentage (FMAP) — depends on income levels in the states but is at least 50%. As part of the 2009 stimulus package (the American Recovery and Reinvestment Act), the FMAP was temporarily increased on condition that states accepting the increase could not reduce their Medicaid eligibility levels.

Medicaid beneficiaries are very diverse with widely varying health-care needs. Although children, their parents, and pregnant women accounted for around 75% of Medicaid enrollees in 2007, they only accounted for 32% of Medicaid spending. Aged, blind, and disabled members are generally much more expensive. Approximately 8-million Medicaid enrollees also receive Medicare benefits and are known as “dual eligibles.” Medicaid does not require beneficiaries to pay premiums, and cost sharing is generally very limited, making Medicaid the nation’s most important payer of long-term care services.

Medicaid will experience some of the most radical changes under the Patient Protection and Affordable Care Act. Starting in 2014, the program will be expanded to cover nearly anyone under age 65 with income up to 133% of the federal poverty level, including adults without dependent children. This is expected to result in 16 million new Medicaid beneficiaries, representing half of the health-reform-related increase in the number of people with insurance. The federal government will pay for 100% of the costs of newly-eligible Medicaid beneficiaries from 2014-2016, phasing down to 90% by 2020.

U.S. Health-care Spending by Source in 2010 and 2019



Source: CMS National Health Expenditure Data

What's Happening at Holifield Huntley

Say Hello to Helen Huntley, CFP®

In September, Helen celebrated her third year as a financial planner and completed her final requirement to use the CERTIFIED FINANCIAL PLANNER™ designation. To become a CFP® professional, a candidate must have a broad knowledge of financial planning and investment topics, pass a national exam testing his/her ability to apply his/knowledge and spend three years working in the field of personal financial planning. Helen finished her coursework in 1999 and passed the exam in 2009.

It's Our Third Anniversary

Holifield Huntley celebrated its third year in business on September 1. We appreciate the support of our clients, friends and family. We couldn't have done it without you.

Schwab Upgrades Service

Holifield Huntley's assets under management have grown so much that we've been moved up to Schwab's Regional Service Team in Orlando. Our new team serves a smaller group of advisers, which should result in more personalized and proactive service from Schwab.

HHFA okayed to buy DFA Funds

Holifield Huntley is now authorized to buy Dimensional funds for its clients. Dimensional believes that markets are fairly priced and that differences in average portfolio returns are explained by differences in average risk – not by individual stock selection or predicting market trends. Dimensional offers an array of passive-strategy funds targeted to specific risk/return goals, so investors can more clearly see their risk exposure and their potential long-term reward, based on historical averages. Dimensional strongly advocates a buy-and-hold philosophy, so it distributes its funds through advisers who educate the clients and place them in an appropriate asset mix for their risk tolerance and goals. Advisers must qualify with Dimensional. As part of that process, Rhonda attended its two-day educational seminar in July.

Holiday Closings

Holifield Huntley will be closed:

- Thursday, November 24, and Friday, November 25 (Thanksgiving holiday)
- Monday, December 26 (Christmas, observed)
- Monday, January 2 (New Year's, observed)

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