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Market Updates, Asset Allocation and Investment Education for Plan Participants and Individuals

Market Volatility: Looking for Opportunity

In Chinese, the word "crisis" is composed of two parts. One symbolizes "danger;" the other represents "opportunity." If you can keep your head while those around you are losing theirs, you may be able to take advantage of remarkable opportunities.

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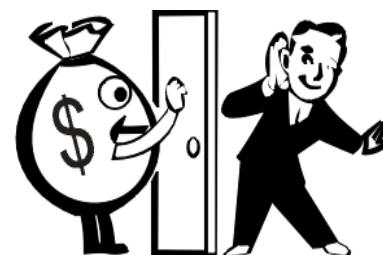
(See page 3 for more details)

Congratulations to our
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Rosa G. of
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Rebalancing at a Discount

If you rebalance your portfolio periodically to try to maintain a certain percentage of your assets in a variety of investment types, market volatility might offer a good opportunity to consider your level of diversification. Rather than abandoning a single asset class entirely, you might look at adjusting your portfolio in a way that spreads your bets across a wider range of asset classes. The silver lining to indiscriminate broad-based market turmoil is that depending on the types of investments you want to add to your portfolio, you may be able to acquire them at a discount.



Being Willing to Make Use of Tough Times

Anyone can look good during bull markets, but being able to learn from a volatile market can better prepare you for the future. Sometimes the best strategy is to take a tax loss if it's a possibility, learn from the experience, and apply the lesson to future decisions. Also, a bit of sound research might turn up buying opportunities on investments whose prices are down for reasons that have nothing to do with the fundamentals.

If you've been considering whether to convert a tax-deferred plan whose value has dropped dramatically to a Roth IRA, a lower account balance might make a conversion more attractive. Though the conversion would trigger federal income taxes, that tax would be based on the reduced value of your account. A financial professional can suggest whether and when a conversion might be advantageous.

Playing Defense

During volatile periods in the stock market, many investors re-examine their allocation to such defensive sectors as consumer staples or utilities, which tend to experience relatively stable demand for their goods and services whether the economy is doing well or poorly. Businesses in defensive sectors aren't immune from economic hard times, overall market movements, or problems within individual companies, but the ups and downs of stocks considered "defensive" have generally been a bit less dramatic than in sectors where revenues are heavily affected by the economic climate. Dividends also can help cushion the impact of price swings. Dividend income has represented roughly one-third of the average monthly total return on the Standard & Poor's 500 stocks since 1926.

Using Cash to Help Manage Your Mindset

A cash position coupled with a disciplined investing strategy can change your perspective on market volatility. Knowing that you're positioned to take advantage of a downturn by picking up bargains may increase your ability to be patient.

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Visit
thecommc.com/quiz
for the answer to last
issue's question.



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Market Update

Through September 30, 2011

		Trailing Returns			
		3 mos.	12 mos.	5 yrs.	10 yrs.
Blue Chip U.S. Stocks	Dow Jones Industrial Average	-11.49%	3.83%	1.37%	4.67%
Large-Company U.S. Stocks	S&P 500	-13.87%	1.14%	-1.18%	2.82%
Non-U.S. Stocks	MSCI EAFE US\$ (Gross Div)	-18.95%	-8.94%	-3.00%	5.48%
Small-Company U.S. Stocks	Russell 2000	-21.87%	-3.53%	-1.02%	6.12%
U.S. Bonds	Barclay's Capital US Aggregate	3.82%	5.26%	6.52%	5.66%
Cash Alternatives	Citi 3 Month US Treasury Bill	0.01%	0.10%	1.62%	1.92%

Indexes are unmanaged and cannot be invested in directly. Past results are not predictive of future results. Individual results will vary. The trailing returns shown include dividends.

Source:
Raymond James Financial Services

Economic Outlook

Gross Domestic Product: 4Q11
Estimates 1.0% to 2.0% GDP growth.

Employment: Private-sector growth in payroll has been moderate, but below potential. Job losses remain low, but new hiring is limited. Government jobs continue to decline.

Prices: Higher food and energy prices boosted headline consumer price inflation in the first half of the year. Pipeline pressures have led firms to try to pass higher costs along, but it's unclear whether these will stick. There's little pressure in labor costs, and inflation expectations remain contained.

Consumers: Gasoline prices, a major factor in slowing consumer spending growth in the first half of the year, have declined, providing some relief for the consumer.

Housing/Construction: Sales and residential construction appear to be "bouncing around a bottom." Mortgage rates are at record lows, but a full recovery in housing will require much better job growth.

Manufacturing: Activity is mixed across industries, but generally moderate. Inventories are lean and likely to rise roughly in line with the pace of sales.

Stocks End Third Quarter On Down Note

- The third quarter proved to be eventful. Stocks fell broadly on increased fears of recession, the possibility of a Greek debt default, and general weakness in the U.S. economy. Those same fears sent precious metals and other commodity prices lower. Uneven economic data spurred volatile buying and selling, causing the major indices to decline this quarter.
- The broad-market S&P 500 lost 14.3% in the third quarter – the biggest quarterly drop since the three months ending December 31, 2008. The Dow dropped 12.1%, marked by swings of more than 100 points on most of the trading days in the third quarter.
- European news caused the markets to gyrate wildly this summer in some of the most volatile trading on record. There's speculation that Greece will default in the upcoming weeks or months. To deter that possibility, Greece's government held an emergency cabinet meeting to bring its budget deficit in line. Its lenders and neighbors are doing what they can to prevent a default from causing worldwide financial panic, but a lasting solution to Europe's debt crisis appears to be hindered by persistent squabbling over fiscal policy.
- Not all the economic news was negative. In recent weeks, 14 of the 18 weekly economic releases came in better than expected. For example, the National Association of Realtors reported sales of existing homes increased a greater-than-expected 7.7% in August. Initial jobless claims decreased by 9,000, while the four-week average edged up by 500.
- In late September, the Federal Reserve launched "Operation Twist," its latest program designed to help the U.S. economy. The U.S. central bank bought \$2.5 billion of U.S. government debt due between February 2036 and August 2041, causing longer-dated U.S. Treasuries' prices to reach session highs.

Continued from page 1...

That doesn't necessarily mean you should convert your entire portfolio into cash. A period of extreme market volatility can make it even more difficult than usual to pick the right time to make any large-scale move. Watching the market move up after you've abandoned it can be almost as painful as watching it go down. And are you sure you'll be able to pick the right time to move back into the market? Finally, an all-cash portfolio may not keep up with inflation over time; if you have long-term goals, consider the impact of a major change on your ability to achieve them. An appropriate asset allocation that takes into account your time horizon and risk tolerance should provide you with enough resources on hand to prevent having to sell stocks to meet ordinary expenses or, if you've used leverage, a margin call.

Staying on Track by Continuing to Save

Regularly adding to an account that's designed for a long-term goal may cushion the emotional impact of market swings. If losses are offset even in part by new savings, the bottom line number on your statement might not be quite so discouraging. If you're using dollar cost averaging (investing a specific amount regularly regardless of fluctuating price levels) you may be getting a bargain by continuing to buy when prices are down. However, you'll also need to consider your financial and psychological ability to continue purchases through periods of low price levels or economic distress; dollar-cost averaging loses much of its benefit if you stop just when prices are reduced.

If you just can't bring yourself to invest during a period of uncertainty, you could continue to save, but direct new savings into a cash equivalent investment until your comfort level rises. Though you might not be buying at a discount, you'd at least be creating a pool of money to invest when you're ready. The key is not to let short-term anxiety make you forget your long-term plan.

Accelerating Deductions And Postponing Income

If you'll be in a lower tax bracket next year, you may wish to accelerate your deductions into this year and postpone your income into the following year or later.

You can accelerate your deductions into this year by:

- Making next year's charitable contributions this year instead
- Prepaying deductible interest
- Paying estimated tax installments in December instead of January
- Accelerating capital losses
- Taking advantage of flexible spending accounts, Archer MSAs, and cafeteria plans
- Making January's alimony payment in December
- Prepaying next spring's college costs in December (if it qualifies you for added Hope/Lifetime Learning credit)

You can postpone your income into a future year by:

- Delaying the collection of any debts that you are owed
- Deferring compensation or year-end bonuses
- Delaying the exercise of incentive stock options (ISOs)
- Transferring funds to bank certificates and Treasury bills in order to delay tax on the interest
- Setting up a tax-deferred annuity or retirement account
- Deferring the sale of capital gain property, or taking installment payments rather than a lump-sum payment
- Increasing your contributions to your company's 401(k) plan or other tax-deferred plans

To be entered into a drawing to win a **\$25 GIFT CARD**, email free@thecommmco.com with the answer to this question:

Historically, dividend income has represented roughly what fraction of the total return on S&P 500 stocks?

Dollar cost averaging cannot guarantee a profit or protect against a loss.

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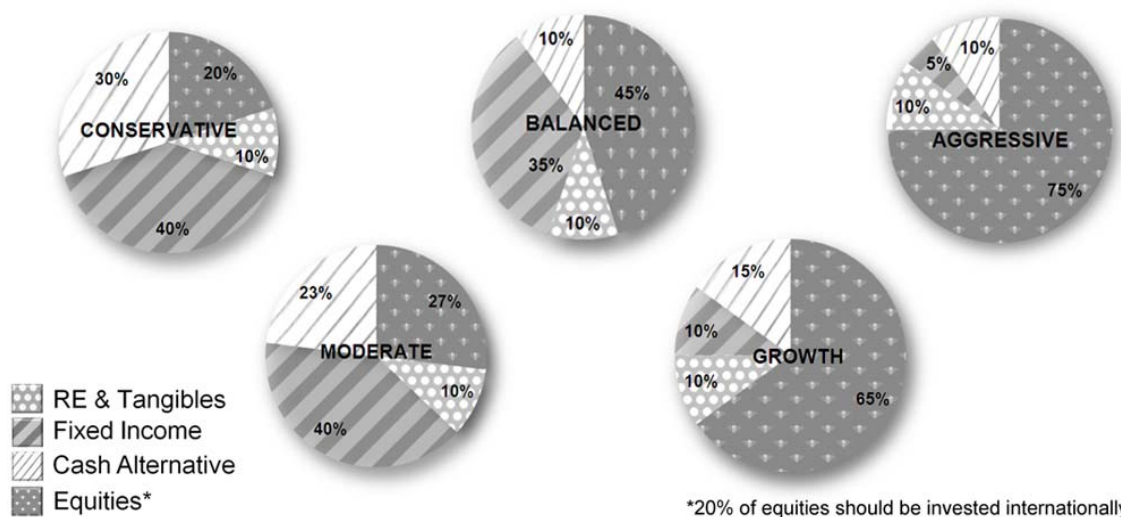
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Asset Allocation *Our suggested allocations reflect:*

- Equity positions are being decreased by 5% in all models except Balanced. Given the market's volatility and uncertainty, we believe it prudent to increase cash by the same amount.
- The outlook for businesses remains mixed. Corporate profits are at record highs and cash positions are strong, but smaller companies remain credit-constrained and those with good credit do not necessarily want to take on additional obligations until they see a sustained increase in consumer demand.
- Investors in most developed countries remain frustrated with recent equity performance and the uncertainties that lay ahead. In the U.S., investors face high volatility, signs of weakening economic growth, high unemployment, and slowed earnings growth.
- More and more countries are successfully implementing complex fiscal policy reforms that would have been near impossible to pass in better economic times. Over time, these new policies should allow for better growth as the global economy improves.