



Guide the Journey

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A publication for Miller Gesko

Benefits of Active Management Acknowledged

The last few months have seen the publication of several studies that are restoring a bit of sanity to what passes for investing knowledge. For years, investors have been told that they can't beat the market so there is no use in trying. *The "right" investment is an index based mutual fund with the lowest expense ratios*" maintained many investment "authorities."

To many of us, this seemed equivalent to saying all education/cars/etc. are the same, so there's no reason to purchase anything but the very cheapest. Now recognition is beginning to filter out that perhaps there is a difference in

the results of the truly good investors.

From the New York University Stern School of Business comes a study released in November 2009 finding that "fund managers who invest based on macroeconomic trends — and are willing to adjust their portfolios as those trends change — are the managers most likely to add value for investors."¹

The study identified the top 25% of actively managed equity mutual funds by analyzing data from January 1980 through December 2008. This group showed proficiency in their ability to select stocks during expansionary economic periods as well as recessions.

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Paying for a College Education

One of the big reasons for saving is to enable your children, or your grandchildren, to attend college. The caution is that **you should never** finance your children's higher education at the expense of funding your retirement. There are a lot of ways to finance a college education from loans to scholarships, work study programs and more. Your resources for retirement are very limited. There are no loans, grants or scholarships to retire. With that said...what are some of your options when it comes to paying for a college education?

You have five primary resources:
1. Savings; 2. Student loans; 3. Grants/ Financial aid; 4. Scholarships; 5. Work study programs.

Which of these resources you will have access to is going to depend to a degree on your family's financial status. The more money you have, the fewer the resources for which you will be eligible.

This article looks at vehicles for college savings. Very informative web sites on the other four resources include <http://www.college.gov/> and <http://studentaid.ed.gov> are great starting points for student loan information; <https://studentaid2.ed.gov/get-money/scholarship/> for scholarships by area of study; <http://www.ed.gov/programs/fws/> federal work study programs that offer part-time employment to offset post-secondary education costs.

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Make Dollar Cost Averaging Work for You

Ideally, you are continuing to make contributions to your retirement plans and setting aside money to achieve your long-term goals, whether an education for your children, a new business venture, vacation home, or just the ability to relax in the sun. The problem is what do you do with those assets when the market is falling?

The common advice is to keep investing in equities or your favorite mutual funds in a dollar cost averaging approach regardless of the market's direction. We beg to differ. There is nothing wrong with cash as an asset class if your alternatives are falling in value.

Declining markets are not the time to stop saving, but they are the time to pull back on new investments. Your goal should be to invest only in assets that are increasing in value. And, you should have an exit plan if they stop increasing in value, particularly if they start declining. Buy low and sell high only works if you sell when values are high so that you have the funds to buy when values are low.

Winners in a bear market are those who lose the least. That demands an active strategy. We welcome the opportunity to discuss our investment programs and how they have performed in the 2008 market decline with you and with any family members and friends who can benefit from an investment approach that recognizes the benefit of losing the least in bear markets and finding opportunities for profit in the carnage.

Paying for a College Education *continued from page 1*

529 plans are state-run with assets professionally managed either by the state treasurer's office or by an outside investment company hired as the program manager. Although contributions are not tax deductible, investments grow tax-deferred, and distributions to pay for the beneficiary's college costs are federally tax-free. Many states offer incentives to their residents to use the state's plan, but you can invest across state lines in plans offered through other states. Just make certain you understand how those plans will be treated with respect to your state income taxes.

Contributions to **Coverdell Education Savings accounts** are limited to \$2,000 a year and are not deductible. But earnings are tax free if used to pay college costs or expenses for elementary and secondary school education including private and parochial schools. To contribute to a Coverdell your adjusted gross income must be under \$110,000 single or \$220,000 married.

Roth IRA. Direct contributions to a Roth IRA (not including rollovers) may be withdrawn at any time with no tax or penalty, since they have already been taxed. Over ten years, for example, parents could contribute up

to \$100,000 (\$5,000 each annually) to Roth IRAs, and then withdraw the principal to pay college bills. Earnings grow tax free and are eligible for tax

free withdrawal after a minimum five years **and** when the account holder reaches age 59 ½.

Benefits of Active Management *continued from page 1*

D. Bruce Johnsen, a professor of law at George Mason University in Arlington, Va., has published a recent study, *Myths About Mutual Fund Fees: Economic Insights on Jones v. Harris* in which he concludes: "Lower advisory fees don't necessarily benefit investors." What matters is not how much the fees are, but how the fund performs.²

A study conducted by Robert Isbitts, chief investment officer with Emerald Asset Advisors, of 34 categories of mutual funds found that the ten best performers were also among the most expensive. The results of the study are summarized as follows:

1. Of the 34 mutual fund categories studied, the 10 that produced the highest 10-year alpha had an average expense ratio rank of 28, placing them among the most expensive.

2. The top 10 alpha rankings (alpha is a measurement of the value added by the manager beyond the gains of the market) were dominated by small and midcap fund categories. These managers in general were able to maneuver better than their large-cap competitors, who could not distinguish themselves from investing in an index.
3. World allocation funds ranked eighth in alpha (and 29th in cost). This is likely due to a combination of manager skill in this area and the long slide in the U.S. dollar, which has lifted non-U.S. investments.
4. The long-short category of mutual funds ranked seventh in alpha, despite being the highest-cost fund group by a wide margin.³

"If you want skill, don't be afraid to pay for it," concludes Isbitts.

[1] "Market timing trumps buy-and-hold strategies during market swings, says NYU study," David Hoffman, InvestmentNews, Nov. 10, 2009.

[2] "Mutual fund fees fight may be much ado about nothing," Sheryl Nance-Nash, Daily Finance, an AOL money and investing site. Nov. 5, 2009. <http://www.dailyfinance.com/2009/11/05/mutual-fund-fees-fight-may-be-much-ado-about-nothing/>

[3] "Dispel the low-cost mutual fund mixup," Boomer Market Adviser, Published Nov. 1, 2008, <http://www.boomermarketadviser.com/issues/2008/11/Pages/Dispel-the-low-cost-mutual-fund-mixup.aspx>

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