

## *Financially Speaking*

With Trisha Arndt, CFP®

### Reflecting on the Year Past

January is not typically my favorite time of year. Despite being a life long Wisconsin resident, I am not a fan of the cold or the snow. I'm always sad to contemplate the end of the football season (with this year's early exit by the Packers just adding to my grief) and I have to face my birthday – at this age no longer a cause for celebration.

But, with the bad also comes some good. A new year always holds the promise of something better and brighter. It is largely just psychological I know but I think many of us look at the turning of the calendar as a time to wash the slate clean and start fresh.

The investment world is no different. As the books close on 2011 they literally close for investment tracking purposes. Indexes that track the performance of various market sectors (see my prior column on indexes on my website) are, like most things, done on a calendar year basis. It is the calendar year return that is generally referred to when looking back at historical markets – which can sometimes be misleading. Taking a birds-eye view of things often obscures the important details.

Let's take a look at 2011 for example.

December 31<sup>st</sup> brought to a close a year that investing history will likely classify as unremarkable but that was in reality anything but. While the headlines have focused on the fact that large US based stocks (as measured by the S&P 500 index) ended the year slightly positive, the volatility experienced to get to that end point was dramatic. In the midst of what is being called a "flat" year stocks experienced periods of both double digit gains and losses.

For those with money invested 2011 felt much more like a rollercoaster than "flat". But, years from now when people look back at the history of the stock market, it will just be the end result that is evaluated – not the path taken to get there.

If you look beyond large, US based stocks however the story of 2011 is quite different – a story that seems to have been lost by many of the headlines. For global stocks as a whole, 2011 was a difficult year.

The Russell 2000, which tracks small and mid-sized US stocks, fell 4.18% for the year. The international stock market (as measured by the MSCI EAFE) ended the year with a 12.14% decline. Even harder hit were the emerging markets - which finished the year with a loss of 20.41% (as measured by the MSCI Emerging Markets index). The Dow Jones-UBS Commodity Index also saw significant losses for year, finishing 13.37% behind where it started.

The variance of returns across sectors was at times also quite startling - with financial

services, like banks, again suffering sizable declines.

While the Barclays Capital US Aggregate Bond index posted a nice annual gain of 7.84%, I consider that gain deceiving as it was again driven by Treasuries and bonds that don't mature for ten or more years.

Many fixed income analysts and money managers entered 2011 with an expectation of rising interest rates so had a smaller allocation in the sectors of the bond market that would most likely be negatively impacted by such an increase – namely treasuries and longer maturity bonds. The events of the year, coupled with the Federal Reserve's announcement of their intention to keep interest rates low, conspired against several other sectors of the bond market, resulting in a mixed year for bonds that history will likely judge as a "good" one.

As we move into 2012 it is extremely important to remember that the performance of the past has already happened and that sometimes the area of the market that did the worst one year can perform best the next year. For example, with interest rates still hovering at such historical lows it seems very unlikely that long term bonds will continue to appreciate at the pace they did in 2011.

If you find yourself tempted to look at the 2011 performance of the options in your 401k and move everything to the one that just did the best – don't. Having a well thought out, diversified strategy that you stick with through the ups and downs is key to achieving your long term goals. If you don't have a plan for your financial future, consider making 2012 the year you get one.

*Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties which are difficult to predict. Past performance is not indicative of future results. All indices are unmanaged and investors cannot invest directly into an index. Diversification does not ensure against market risk.*

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