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*Wealth Management from a Biblical World View since 1978*

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## What's the Best Sector for Investors Right Now?

Now that the first quarter is over, we thought it would be a good time to take a broad look at a few asset classes, specifically equities, fixed income, and alternative investments.

**D**uring the first quarter and the past 12 months, equities provided significantly higher returns than bonds or alternative investments. In the three-year time frame, fixed-income came out a little higher than equities with alternatives trailing a distant third<sup>1</sup>.

That probably isn't a surprise if you've been paying any attention to the markets. But the picture gets more interesting when you look at fund flows. For the 12-month period ending with February, investors pulled \$142 billion out of equity funds<sup>2</sup>, roughly the same time period that these funds posted a 20% return<sup>3</sup>.

It's just one more example of investors zigging when they should zag. It appears that equities have been throwing a great party, but almost nobody showed up.

**S**o what should you do now? There may be as many answers to this question as there are people. However, we believe that all answers can be summarized by the word **DIVERSIFICATION**. While, diversification is not a magical formula that guarantees against loss or that you will be profitable, it does help to manage the risk of negative market performance in any one sector.

**H**istory provides several great illustrations of **the wisdom of diversification**. **Gold:** In the late 70's, Gold was providing amazing returns. Inflation was out of control and it seemed like everyone was buying the yellow metal. It seemed a whole lot safer than other investments at the time and yet gold suffered a huge loss in value during 1980. **Dot Com:** In the late 90's,

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<sup>1</sup> <http://corporate.morningstar.com/us/documents/FundFlows/FundFlowsMar2011.pdf>

<sup>2</sup> Ibid.

<sup>3</sup> <http://www.google.com/finance/historical?cid=626307&startdate=Mar+1%2C+2010&enddate=Feb+28%2C+2011&num=30> March 1, 2010 the S&P opened at 1,105.36. On Feb 28, 2011, it closed at 1,327.22. That is a 221.86 point difference or 20.07%.

Dot Com companies were all the rage. They were doubling almost every month it seemed. Yet we all know that many of them went out of business and investors lost everything. **Real Estate:** In the mid to late 2000's, it seemed like everyone was trying to make a quick buck in real estate. Some people mortgaged their homes in order to buy additional properties that have since dropped 50% in value and now they are filing bankruptcy.

Diversification means investing in many segments of the market. As mentioned above, this includes stocks, bonds, and alternative investments. Let's take a look at what diversification looks like across all 3 categories.

**S** **tocks:** For those investing in stocks we recommend that you not be greedy and chase after the hottest stock or sector. Small companies and emerging markets have recently produced strong returns. However, it would be foolish to put all your money in just one or two sectors. Be broad-based in your investments.

**B** **onds:** This applies even to Bonds. As we see inflation grow, we will likely see longer term bond prices drop. For this reason, we encourage our clients to consider using a combination of short term bonds, global bonds, inflation protected bonds (TIPs), high yield bonds, floating rate funds and convertible bonds<sup>4</sup>. As a reminder, bond prices and interest rates have an inverse relationship. As interest rates rise, bond prices generally decline.

**A** **lternatives**<sup>5</sup>: Oil, natural gas, gold, and real estate often move in a direction that is not directly related to the overall market. That is why they are sometimes referred to as Non-corollary Assets. It can make a great deal of sense for many investors to add such alternatives to their portfolio as they meet certain net worth and income requirements. For some, there is a great temptation to abandon stocks and bonds for investments (such as gold & oil) that they perceive as having more "safety". **We are convinced that this is a fool's errand and that someday those who abandoned proper diversification will be sorry that they did.**

Sincerely,

Roy, Tim, Jeremy and Mark

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<sup>4</sup> <http://www.morningstaradvisor.com/articles/printfriendly.asp?s=&docId=20175&print=yes>

<sup>5</sup> Alternative investments involve specific risks that may be greater than those associated with traditional investments and may have specific suitability requirements. Investors should consider the special risks with alternative investments including limited liquidity, tax considerations, increased expenses, potentially speculative investment strategies, such as leverage and commodity price volatility and different regulatory and reporting requirements.