



The Life Financial Group, Inc.

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Wealth Management from a Biblical World View since 1978

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The LIFE Financial Group, Inc 2010 Year in Review

2 Lessons Learned from 2010

Every year offers new twists and turns for our clients to navigate. And each year provides new lessons that, if properly understood, can help make us better investors in the future. We believe that there are at least three important lessons that we can learn from last year.



1) Don't Fight the Fed

Many very smart people have noticed a trend over the past months that have them alarmed. Prices have been going down! While this may seem like a good thing, if this trend continues unchecked we would be looking at debilitating deflation. In order to avoid this danger, the Fed (Federal Reserve Bank) has been pumping money into the economy through something known as quantitative easing (see our recent article on [Quantitative Easing](#)). They also coaxed the government into keeping the stimulus funds flowing, including the latest tax breaks that just passed Congress. This has undeniably helped the economy continue to rebound from the Great Recession. And the stock market came along for the ride. Gladly, most signs point to an improving economy and stock market into 2011.

The cost of these moves is a VERY large debt burden for the US government and ultimately paid for by the US taxpayer. Amazingly, international investors are still willing to buy our government bonds (debt) at extremely low interest rates. One of the challenges for 2011 and beyond is how to keep these creditors satisfied with low rates. We either need to show great economic improvement that leads to a hefty increase in tax revenue for the government, and/or austerity measures that don't cripple the economy. Indeed this is a vital area to watch in 2011.

2) Tune out the Noise and turn off the TV

Doomsayers tried their hardest to convince other investors of our coming demise. This was most prevalent in July and August when the Dow took a couple scary turns under 10,000. Gladly, investors took advantage of the cheaper stock prices, realizing that the economy was recovering and that a double dip recession was unlikely, and this led to the best September stock market rally in more than 70 years¹. And we have been coasting higher since.

¹<http://www.businessweek.com/news/2010-09-30/u-s-stocks-fall-as-s-p-500-completes-best-september-since-1939.html>

Long story short: Fear Sells - it may make for larger advertising revenues for the media, but it rarely helps investors. We must make our choices based on facts and evidence rather than fear. While there is no telling what the market will do in 2011, we feel that the signs are pointing towards an improving economy and potentially higher equity prices. We need to stay focused on the big picture and not give in to extreme bullish or bearish sentiment.

So what can we expect in 2011? There will surely be more surprises but this is what we see for the markets and economy:

1. **Stock Market:** We believe it should do well this year. That's great news to most of us. There's a lot of reasons to be optimistic but yet still cautious.
2. **Bond Market:** If inflation becomes a problem we could see bonds suffer. However, if rates stay at their current low level, bonds will likely do well again this year.
3. **Commodities Markets:** Hard Asset prices may continue to rise in the near-term. However, we expect to see a sell-off in gold and silver which could badly hurt folks who bought in at high prices. The trick is knowing when to sell.
4. **Real Estate Market:** We see Housing Prices remaining under pressure, due to high default rates and foreclosures. We still believe that this sector is a good long-term investment, and we are beginning to see prices stabilize in many areas.
5. **Job Market:** We think unemployment rates will remain high much as it did in the early 1980's, but we have seen some improvement and believe it will continue.
6. **Wars and Rumors of Wars:** A Wild Card is still the rising tension in the Middle East and the Korean peninsula. This could destabilize democracies and impact economies around the world.
7. **Overall:** We are encouraged by a positive economic outlook for 2011. The first quarter looks promising, but we are ready to play defense and make adjustments as needed. Fear and a pessimistic outlook will continue as long as we lack strong leadership in government. Learn to tune out the noise.

But What About Gold? The yellow metal has become highly prized by anxious and astute buyers alike. Gold reached it's all time high of \$1,431.10/troy ounce on December 7, 2010. This is nearly twice as much as gold sold for at its 2009 lows². It's possible that Gold could continue to grow in value; but, we must never forget the risks of investing in Gold. Too often, we see a market going up and get blinded by greed to the potential risks of a violent sell off. We saw this in many clients in the months leading up to the 2008 market crash.

Certainly at times there are reasons to own gold in a diversified portfolio. Yet gold isn't like a stock or a bond. It offers no income, no dividend, no earnings. It is considered a store of value, an alternative currency that's safe beyond reproach, but it is not cash in the bank, or even money under a mattress. Gold has no untapped intrinsic value; it is worth only what people are willing to pay for it. And lately, many people have been only too willing. *Gold is going up because people are buying it, and people are buying it because it's going up.* You might be convinced you have the Midas touch, but if you're buying gold at these prices, you're speculating, not investing.

²<http://www.wolframalpha.com/input/?i=gold+high+2008+to+2010>

Important Reminders-

- **Schedule your annual review:** February and March are a great time for this especially if you are coming in for your taxes. We would love to meet with you, but if that is not practical, we need to do a phone review.
- **Send us copies of your work retirement plans:** Adjustments may be necessary within your employer sponsored retirement plans.
- **TAXES** – Are we preparing them for you this year? If so, please call and make your appointment ASAP. If you are not using our service, we still need to review your return and request a copy of the first three pages.
- **Spread the word:** As the opportunity allows, please continue to tell your family and friends about how we have assisted you and how our service could benefit them.

Our entire staff hopes you have a happy, healthy, and prosperous New Year!

Sincerely yours –

Roy L. Russell, Tim Russell, Jeremy Ehst and Mark Magruder

P.S. You can access your account values securely from your home or work computer anytime day or night. Go to www.MainAccount.com/gwm and register for free access. Call us for your temporary password.

[1] MarketWatch.com 12/31/10