Investor Insights & Outlook

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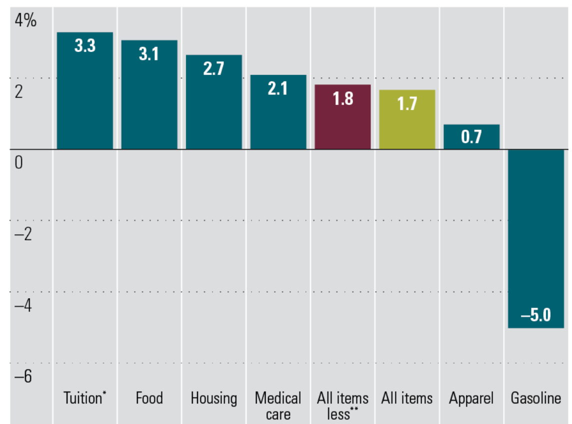
Inflation Can Vary by Category

The general inflation number (the "All items" category) may be a good measure for the economy at large, but the cost of certain goods and services could rise much faster than the average cost of living.

For the past year, tuition, food, housing, and medical care have all experienced much higher inflation rates than the headline number. Gasoline prices, on the other hand, have been declining and are now near four -year lows.

People who need to focus on savings for college or medical care may be left short, as the cost for such items often tends to rise at a faster rate than the average cost of living. Those investors might not be able to keep pace with rising costs if they do not take their real inflation rate into account when planning their investment goals.

Consumer Price Index Components, Year-Over-Year Change



*other school fees and child care **less food and energy

Source: Bureau of Labor Statistics, Morningstar calculations.
Data as of October 2014.

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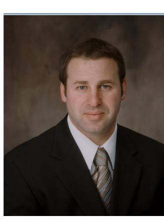

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Jason is Senior Partner and Fixed Income Securities Specialists with Kerntke Otto McGlone Wealth Management Group. He is a Certified Financial Planner (TM) professional and a Registered Investment Advisor Representative.
He holds a Bachelor of Science Degree in Economics from Northern Michigan University, and earned his Master of Science in Financial Services (MSFS) degree from the Richard D. Irwin Graduate School at The American College in Bryn Mawr, Pennsylvania. This commitment to higher education and professionalism puts Jason in a select group who has reached this level of academic achievement in financial services, and puts him in a position to address a broad range of issues when working with clients.
Jason worked as an independent financial advisor for Ameriprise Financial for 9 years. He was a member of their Advanced Advisor Group until 2007 when he became a founding partner at Kerntke Otto McGlone Wealth Management Group.

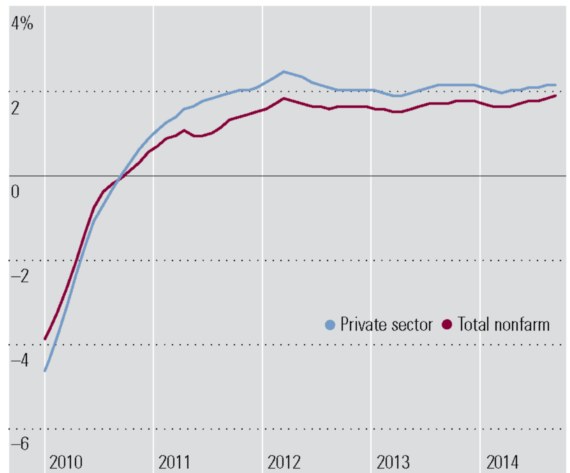
Employment Continues to Grow at a Slow, Steady Pace

Media and financial news sources often report that the economy added an "x" number of jobs for a particular month. These monthly payroll numbers are polled by the Bureau of Labor Statistics and are published in a report called "Employment Situation" that is typically released on the first Friday of each month. The monthly headline numbers tend to be quite volatile and are often difficult to interpret. In the past two years alone, the number of jobs added varied between as few as 88,000 jobs in June of 2012 to as many as 280,000 in February of 2013. Wide fluctuations in the monthly payroll data occur because the monthly hiring and firing process itself tends to be unpredictable, and seasonal factors that aim to stabilize the data are extremely difficult to measure accurately.

Looking at these figures can usually create more confusion than insight, and that is why Morningstar's Department of Economic Analysis looks at employment growth through a slightly different lens. When the same volatile monthly jobs data is analyzed not as a monthly net job addition or loss but as a year-over-year 3-month moving average growth rate, a different picture emerges. All of a sudden, it becomes clear that the U.S. jobs market has been incredibly stable despite its monthly ups and downs. As the chart shows, total nonfarm employment has been growing at around 1.7% since early 2011 and has picked up modestly to 1.9% in recent months. Excluding the poorly performing government sector, which constitutes around 16% of total employment, private-sector jobs have been growing at an even higher 2.0–2.1% rate. Combine these results with efficiency and productivity gains and it should come as no surprise that the U.S. economy, on average, grew 2.2% since 2011 based on full-year estimates.

Despite the rock steady growth, the pace of employment recovery has been slow and disappointing to say the least. Considering that the U.S. economy lost over 8.5 million jobs between 2008 and 2010, most economists expected a much faster recovery of the labor market. Instead, it took more than four years to get back the number of jobs lost during the crisis. Seeing those numbers bounce back to their pre-recession level is great news, but it is important to point out that the make-up of the new post-recovery labor force has drastically changed. Unfortunately, the growth in high-paying, long-hours jobs such as construction and manufacturing has been all but robust, and due to efficiency improvements, especially in manufacturing, many of these jobs may never come back. A majority of the labor market recovery has been made in the lower-paying sectors such as retail and leisure and hospitality, which has certainly contributed to slower consumption growth and to the near-anemic pace of the economic recovery in general.

Employment Growth Since 2010



This article contains certain forward-looking statements which involve known and unknown risks, uncertainties, and other factors that may cause the actual results to differ materially from any future results expressed or implied by those projected statements. Past performance does not guarantee future results.

Source: Bureau of Labor Statistics. Data through September 2014. Growth calculated on a year-over-year, 3-month average basis.

Major Stock Market Indexes

There are a number of stock market indexes that are frequently mentioned on television and cited in financial newspapers and magazines. They measure various slices of the stock market and can be used as performance benchmarks for both investment vehicles (such as mutual funds) and one's own portfolio returns. Here are three of the most popular and referenced indexes.

Dow Jones Industrial Average

The Dow Jones Industrial Average was first unveiled by Charles H. Dow on May 26, 1896, and consisted of 12 stocks. In 1916, the industrial average expanded to 20 stocks and in 1928 was subsequently bumped to 30, where it currently stands. The index constituents are 30 of the world's largest, most influential and well-known companies. Whenever you hear someone referring to what "the market" did in any given day, they are most likely referring to the Dow. Changes to the index are rare and usually take place, according to Dow Jones Indexes (www.djaverages.com), "when a current component is going through a major change, such as a shift in its main line of business, acquisition by another company, or bankruptcy. There is no review schedule."

Standard & Poor's 500 Stock Index

When you hear that a portfolio has "beaten the market" it is most likely being compared with the S&P 500, which was first published in 1957. The index is composed of 500 leading companies in leading industries of the U.S. economy, focusing on the large-cap segment of the market but also serving as a proxy for the total market—covering approximately 75% of the U.S. equities market. The S&P Index Committee follows a set of published guidelines for maintaining the index (complete details of these guidelines are available at www.indices.standardandpoors.com). Some of the criteria for addition include a market capitalization (share price multiplied by shares outstanding) in excess of $4 billion, adequate liquidity (how easy it is to buy and sell shares) and reasonable price and financial viability. Those that substantially violate the criteria are dropped.

NASDAQ Composite Index

Launched in 1971, the NASDAQ Composite Index measures all NASDAQ domestic- and international-based common type stocks listed on the NASDAQ Stock Market. The index includes roughly 2,700 securities. While it is best known for its large portion of technology stocks, it also contains stocks in other industries. To be eligible for inclusion in this index, securities must be listed on the NASDAQ Stock Market and they need to be of a specific type. For more information, visit www.nasdaq.com.

Please keep in mind that a company can be a member of more than one of the three indexes described above. Microsoft is an example of a company that has a place in all three.

Stock Market Index Comparison

Stock Index	Dow	S&P 500	NASDAQ
Year Introduced	1896	1957	1971
Constituents	30	500	2,701*
Types of Companies	Large, well-known, influential.	Leading companies in all industries. Focuses on large-cap segment.	Large number of technology stocks. Also includes stocks in other industries.
Index Modifications/ Eligibility	Companies undergoing a major change can lead to a modification.	Market cap in excess of $4 billion, adequate liquidity/ reasonable price, financial viability.	Listed on NASDAQ Stock Market and needs to be specific security type.
Examples of Current Constituents*	Walt Disney, Johnson & Johnson, Coca-Cola, McDonald's, Walmart	AT&T, Boeing, General Mills, Procter & Gamble, Google	Apple, eBay, Cisco, Dell, Yahoo!

*As of 11/13/2012

Stocks are not guaranteed and are more volatile than other asset classes. The information above is provided for illustrative and information purposes only. The indexes noted are unmanaged and can not be directly invested in. References to specific securities should not be viewed as a recommendation to buy or sell the mentioned security.

Retirement Distribution Pitfalls: Not Accounting for Market Fluctuations

Accumulation is a key facet of reaching your retirement goals. However, we tend to see far less about portfolio drawdown, or decumulation—the logistics of managing a portfolio from which you're simultaneously extracting living expenses during retirement. This can be even more complicated than accumulating assets.

Pitfall: One of the big mistakes of retirement distribution can be not adjusting withdrawals to account for market fluctuations. So-called sequencing risk—the chance that retirees may encounter a harsh bear market early in the life of their withdrawal program—can have a big effect on a portfolio's longevity. Taking fixed distributions from a shrinking pool means that a retirement portfolio could suffer losses from which it would be impossible to recover.

Workaround: Maintaining a well-diversified asset mix may be a retiree's best weapon for protecting his or her portfolio from a bear market. For example, holding assets in high-quality bonds and cash may allow a retiree to meet desired living expenses without having to withdraw from equity holdings during periods of market weakness. That said, the smartest retirement-distribution plans also make adjustments during times of market duress, possibly reducing withdrawals or, at a minimum, forgoing upward inflation adjustments.

All investments involve risk, including the loss of principal. There can be no assurance that any financial strategy will be successful. Asset allocation and diversification are methods used to help managed risk. They do not ensure a profit or protect against a loss. This is for informational purposes only and should not be considered tax or financial planning advice. Please consult a tax and/or financial professional for advice specific to your individual circumstances.

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