

# OMi

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## IFR and VFR.

Old Mission Investment Company

### Partner's Note.

I started flying when I was 16 years old. My father had been a pilot and what son doesn't want to follow in his father's footsteps. Needless to say, I had *few* friends that had taken to flying at a young age and it taught me some very valuable lessons that carry over to my personal and professional life.

In this day, practically everyone has flown in a plane. We buy our tickets, pack our bags, and head to the airport expecting to kiss our loved ones goodbye and magically appear at a destination without worrying about exactly how we got there. We don't worry about the fuel levels, oil pressure, or the degree of the flaps during takeoff or landing. Those items are left up to the pilot using his or her best judgement and experience.

VFR stands for Visual Flight Rules. This is the default rule set for private pilots in daylight flight. Navigational instruments are not used as the primary basis of direction and visual cues from the ground are used to find one's way through the sky. During VFR, pilots are required to be aware and look around for other aircraft. A mid-air collision would be a bad day for anyone.

Instrument Flight Rules are generally referred to as 'IFR' flight. Instrument flight is more complicated and involves an additional rating that private pilots can train to receive. For general aviation, IFR is used at night or in unfavorable weather conditions, not normally during the day in clear conditions unless you are at higher altitude. IFR uses beacons on the ground, each transmitting its own frequency. The FAA will issue a pilot on an IFR Flight Plan a series of beacons to fly between and an assigned altitude to fly. After dialing in the frequency of the beacon on the navigational radio, the flight instrument will provide necessary directional information. In a nutshell, flying in IFR conditions involves filing a definite flight plan with the FAA and using only your instruments and communication and navigation radios to fly. Some people have referred to IFR flight as 'flying blind' since you aren't able to see your intended target. Flying in the clouds or in unfavorable conditions where sight is limited can be an interesting experience for all pilots regardless of their experience.

Are there common traits between investing and flying? Most certainly. As with an IFR rated pilot a professional wealth advisor is expected to provide a comprehensive framework for measuring, monitoring and managing risk. This model is designed to provide a forward looking view as it relates to asset class performance and includes the ability to identify macro trends in the market. There are times where the turbulent market conditions can make the passenger feel like they want to strap on the parachute and jump for the hard-deck. But, as with the vast majority of flights that take off and land each day, the best course of action is to stay in your seat with your seat belt fastened. We've been blessed with a tremendous recovery. But, we would prefer to constantly be aware that a little turbulence is always a part of any flight.

Thank you for flying with us! ▶



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# The Dollar.

## Commentary

This has been a hot debate for the past few years. What is the fate of the Dollar? Is it doomed? Have we damaged our reputation to a point where owning the dollar is no longer something to behold? What does the world think of the dollar, people ask. 'It's not good,' you would frequently hear.

We agree on a few things. The Federal Reserve had to flood the system with liquidity. They didn't do this with reckless abandon, but rather with the goal of stabilizing the monetary system following a significant 'shock' due to the severe correction in the housing and real estate markets. In the past, the Federal Reserve made it a point to maintain their balance sheet with minimal growth in monetary supply in efforts to constrain inflationary pressures - something that is still a goal as it exists today.

What is the doomsday scenario for the dollar? That we have printed so many dollars that inflation is inevitable? The more dollars that exist within our system, the more they chase the scarce resources such as labor and raw materials and bid up the prices of those resources to a point where the consumer is forced to pay more for the goods and services we produce as an economy. We can't disagree with the fact that our system has more liquidity (i.e. dollars) than it had in quite some time; however, the assumption that those dollars have made their way into the hands of the consumer is completely false at the moment. Banks, while they have a significant base of deposits at the moment, have yet to lend those funds to consumers and businesses and lending remains at a snail's pace at the present.

Are we about to risk the Dollar's existence as reserve currency to the world? No. The definition of a 'reserve currency' is a currency that is widely-held by many governments and also lends itself as the principal pricing mechanism for goods and services traded around

the world. It can commonly be referred to as an 'anchor currency' as well. At present, the most widely-held currency is the US Dollar. We are a trading partner to the world, and have been long-regarded as a safe-haven for investors and other governments during times of crisis. For those who believe that the Dollar is going to be falling on hard times, we would urge them to think twice. Look at recent global crises for the answer. Have investors and governments used other currencies as a 'hedge' during those periods of time? The short answer is 'no,' they haven't. The US Dollar remains a stable part of global trade and before anything changes, there needs to be a suitable replacement. Will people flock to the Euro? Most likely not. The debt crisis of 2008 demonstrated the significant weakness found within a multi-country, single currency mechanism such as the Euro. What about the Chinese Yuan? Not a likely replacement since China still remains a 'closed' system for currency purposes, and let's not forget the existence of the communist government within China. It's doubtful that China, while becoming one of the largest economic powers in the world, will emerge as the currency of choice for global trade. People still believe, whether it's with their purchases or their investment, that the Dollar is the safest currency on earth. We operate as an open society, both economically and socially, and it's doubtful that will change any time soon. Even despite the large amount of liquidity within our system, we have managed it well. Until the excess reserves that banks maintain on their balance sheets makes its way into the system of the borrowers who need capital, don't expect much inflation at all. We think the dollar is here to stay, inflation will remain low, and that the demand for the US Dollar as a reserve currency will remain strong. ▶





ASSET CLASS PROFILE

# Junk Bonds.

Not just for aggressive investors.  
They can add balance, too.

Junk. No one wants to own it. But, as they say ‘the beauty is in the eye of the beholder.’

Junk bonds are also known more euphemistically as ‘high yield bonds.’ The words ‘high yield’ mean actually what they say - high yielding bonds. These are the darlings of the income investor when the economy begins to recover, and conversely, can also ring a bell of caution for investors during periods of uncertainty. They tend to be more volatile than most domestic bond investments since their principal will fluctuate more closely to the profitability of the underlying company

At present, the high yield bond market universe is defined as bonds having a rating of less than BBB-. There are a variety of different ratings agencies that all provide ratings for bond investments. They start at AAA and work all the way down to a ‘D.’ For all of us who can still remember going to school, A’s are good, and D’s weren’t so good. Typically, A-rated bonds are considered to be high quality. Their balance sheets and income statements are very high quality and they aren’t saddled with debt that they have trouble repaying. US Government Bonds, commonly referred to as ‘Treasury’s’ are considered to be risk-free from the standpoint of the interest payments and principal repayment at maturity.

High yield gained popularity in the early 1980’s when leveraged buyouts were the norm. Companies were created and solely funded with junk bond debt in order to gather enough cash to affect the purchase of another company, typically known as a ‘hostile takeover.’ The most famed takeover of this kind was done by Kohlberg Kravis and Roberts and involved the buyout of the RJR Tobacco Company. These types of transactions did, in fact, lend credibility to the high yield market as an effective tool in corporate finance. As time went on, companies with marginal credit were able to use the high yield debt market as a way to manage their own financial situation. During periods of corporate expansion, companies need to make a decision whether it is in their best interest to issue additional stock or issue debt in order to meet their operational needs. High yield has provided an integral part of this process that now extends well beyond the ‘go-go’ days of the 1980’s and the leveraged

buyout transactions that were rampant and fairly regular.

Why would we ever suggest owning high yield bonds as a part of a portfolio? They present two benefits to the investor.

The first benefit is that they pay a significant amount of income when compared to other investment options. Yes, additional returns come with additional risk, but the additional risk assumed is relative since we are talking about 1.) a bond, and 2.) an investment that is made across a few hundred bonds through a fund. A high yield investment can pay an income flow of roughly 4% to 6% more than a government bond, and up to another 3% to 5% more than a comparable corporate bond of investment-grade quality.

The second benefit may come in the form of protection from an increase in interest rates. Traditionally, as interest rates increased, bond values would fall. An investor would expect that their temporary loss would be offset by the income received. Since high yield bonds trade based on the underlying economic strength of the issuer, and the issuer is getting stronger from a financial standpoint, investments within a high yield bond portfolio may stand to provide a cushion against a rise in interest rates since they tend to pay higher yields. As such, they may provide that necessary ‘cushion’ against the any fall in principal value that keeps the returns potentially positive during periods where the bond market may fair negatively.

As a cautionary note, we do not suggest that any client own high-yield bonds on an individual bond basis. They are best owned through a fund where diversification is key. Owning the individual bond is ‘hit and miss,’ where owning a fund with adequate diversification is the way to go. ▶

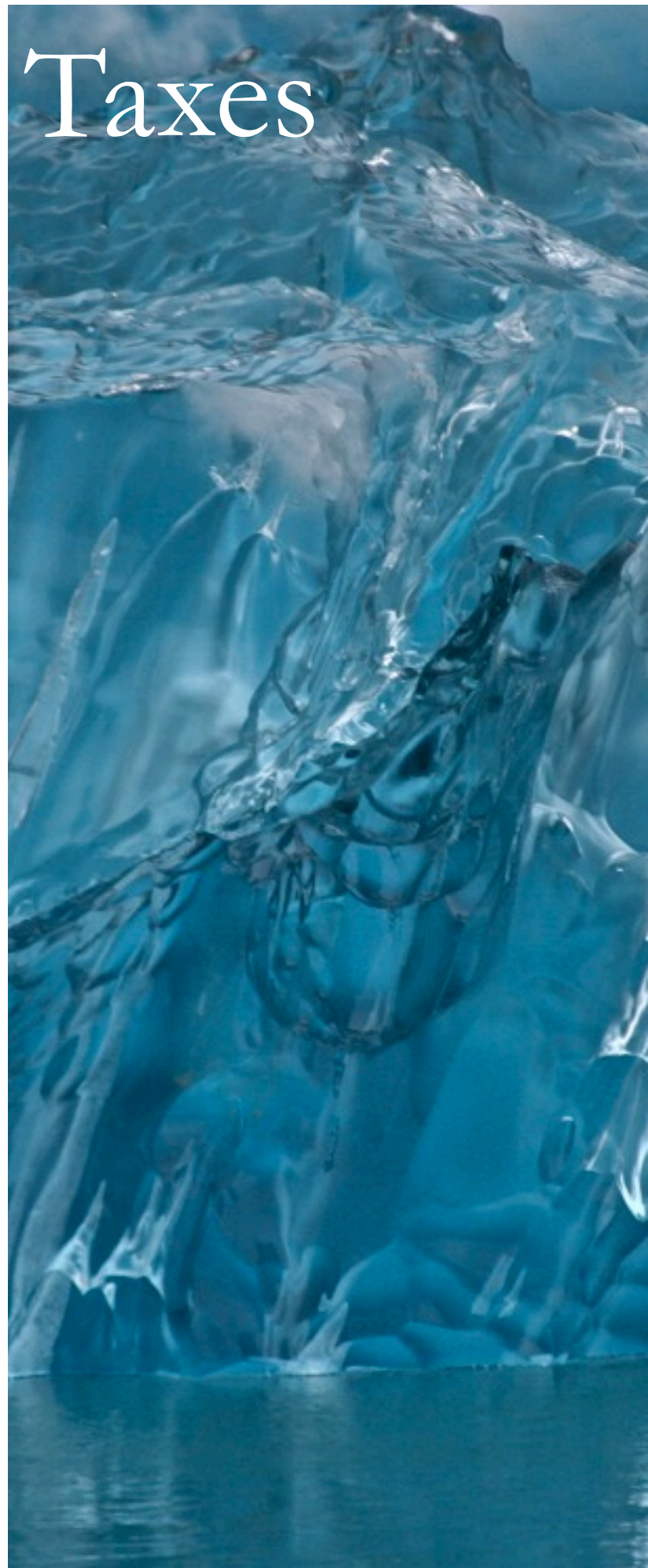
# Death *and* Taxes

When congress needed to take action they did. Waiting to the last minute, of course, but they still made some headway in getting a job done. Here are a few of the major changes that came as a result of this new Congressional action.

*Increased Estate Tax Exemption Amounts.* Congress has raised the 'unified credit' to a point where up to an amount of \$5 million will now be exempt for each individual as it passes to beneficiaries. In 2010, of course, the amount was unlimited that could pass to beneficiaries, and prior to that the government allowed \$3.5 million to pass without estate taxes. The \$5 million exemption is a significant change and took effect at the beginning of 2011.

*Portability.* This is a new measure adopted for the first time since the estate tax began in 1916. Prior to the existence of portability, individuals looking for the maximum protection from estate taxes had to create two trusts - one for themselves and another for their spouse. This allowed the spouse's 'credit shelter' to exist beyond their life so that upon the passing of the surviving spouse, they had the benefit of passing along the exempt amounts for *two* individuals. This led to complex financial and estate planning that can now be simplified. Beginning in 2011, individuals who die with an unused estate tax credit can pass this credit along to a surviving spouse. This means that individuals with estates totaling more than \$5 million can use their spouse's unused portion in order to fully maximize the \$10 million exemption amount. This is a significant departure from previous laws and does provide some clarification, going forward, for those looking to update or complete their estate plans. We view this as a significant step.

*Lifetime Gift Exemption.* This type of exemption is referred to as the amount you can presently give over and above the \$13,000 annual gift exclusion. The amount gifted over \$13,000 will be deducted from the amount you can leave at death free of estate taxes. At present, the amount free of estate taxes is \$5 million. Previously, your lifetime gift exclusion was limited to \$1 million. For those individuals with taxable estates, you now have the ability to give up to \$5 million while you are living to a present beneficiary. This amount is now equal to your estate tax exclusion amount and is free of gift taxes to the individual, or individuals of your choice. There is a little paperwork involved, but, this can serve as a wonderful strategy in order to make sure that any growth in your estate is exempt from future estate taxes. We would welcome any questions you may have concerning this strategy. ►





# The Municipal Market

## COMMENTARY

It is fair to say that the municipal bond market has taken a few lumps lately and we thought it was warranted to share our thoughts concerning what we see, and the thoughts of a few of the municipal bond managers that we've worked with over the past years.

The municipal bond market is generally comprised of conservative investors - both individuals and institutions alike - who look to municipal bonds as a way to generate a small return on their investment principal. The common characteristic among this type of bond investor is one based on the 'return *of* principal' rather than an aggressive 'return *on* principal' mentality. They seek modest levels of income on a tax-free basis generally backed by the tax base of the entity that borrowed the funds - usually a municipality to fund something that we all need such as a sewer or other water system. Without much doubt, conservative investors use the municipal market for their conservative investments since municipal bonds are generally the next step above Treasury securities in terms of their predictability and safety if held until maturity.

The past quarter has generated a bit of a shock to the municipal system. With the revenue and budgetary shortfalls caused by the most recent recession, it has caused many to voice their concern over the viability of the municipal market. Will municipalities have a difficult time paying back their debt? Will municipalities have to default in droves in order to 'get out' from underneath the levels of debt they presently hold? These are just a few questions we would like to address for our clients.

Most municipal securities are backed by the taxing authority of the underlying municipality. Meaning, if they have the need to raise revenues in order to meet a budgetary shortfall, that's what they'll most likely do. Additionally, there have been less defaults within the past year than there originally were in 2008 and 2009 leading us to believe that municipalities are doing what they need to do in order to remain 'in good standing' with the overall market. It is our belief that the default rates of 'hundreds of billions of dollars,' as mentioned in the various news organizations, is greatly exaggerated.

While the municipal bond market has taken a small hit as of late, this was largely due to the expiration of the 'Build America Bond Program,' that caused an excess supply of municipal securities to be issued prior to the end of the year. As with any security, an added supply can cause prices to temporarily fall. We do not believe that this type of operational risk will lead to a systemic failure of the bond market.

We still view the municipal bond market as an appropriate 'safe haven' for conservative investors. Certainly any type of volatility will catch the radar screens of all investors, especially when it is out of character for any asset class. We view the financial position of the municipal market as improving, not deteriorating, and still remain confident in their ability, in general, to pay their obligations to their debt holders. Municipalities have no vested interest in defaulting on their debt, as this would bite the hand of the primary funding mechanism for large-scale projects when needed.

While the municipal market doesn't deserve an 'A+' for its recent performance, we have little reason to *not* regard the recent pullback as an opportunity to purchase rather than an opportunity to run for shelter. ►

# To Float, or *not* to Float.

If interest rates rise, where can you begin to see increased dividends for the investor? We examine this interesting asset class - *floating rate securities*.

Each asset class will always have a variation. Stocks have sizes that range from large, medium and small. Bonds will have high quality, low quality and something right in the middle. With interest rates set to eventually rise, what other options do investors have in order to capitalize on investments that can provide additional income as interest rates increase?

Floating rate bonds aren't anything new. They've been around for quite some time and allowed companies to issue a debt offering that wouldn't have only a fixed rate of return. 'Floating rate' securities have a mechanism that allows the investor to benefit from an increase in rates. Much like an adjustable rate mortgage, floating rate securities have built-in 'resets' that adjust the income payment to the investor - either up or down - depending on the interest rate environment.

Certainly with interest rates very low, the level of attractiveness for this type of investment isn't very high. Most traditional bond investments with fixed coupons will produce a more consistent and level amount of income. But, we aren't concerned about 'traditional' market environments for the fixed income or bond investor at this specific time.

Floating rate securities have a distribution yield that is generally tied to the London Interbank Offered Rate, commonly known as

LIBOR (pronounced 'lie-bore'). This rate typically moves in line with the more commonly known Federal Funds Rate, and since the distribution yields on floating rate securities reset on a 90-day basis, they are closely tied to any appreciable increase (and decrease, for that matter) in interest rates. Additionally, since the average maturity of the bank loan portfolio is relatively short, there aren't the normal risks affiliated with traditional bond ownership. Due to this lack of longevity concerning the average maturity of the bond or loan portfolio, the 'interest rates up, bond price down' relationship is very muted.

This might sound good to most people, but there is no freebie in the investment world. It's generally all about a trade off. While you take one type of risk off the table, you have to assume another. Since most floating rate securities are issued through corporations, you can find that they contain a healthy dose of 'credit risk', that can be similarly found within the high-yield or junk bond market. Is this a bad thing? Not in our opinion. But, it is important to note that by trying to reduce the risk of having a bond portfolio go down in response to higher rates, you are then assuming the credit risk of owning a different type of bond. But, depending on the level of exposure to each portfolio, we do believe that it should be a part of all fixed income portfolios. ▶

ASSET CLASS PROFILE



# Investing in our education

Congratulations to Dan and Christopher on their trust advisory certification.  
What does it all mean?

We work with a variety of different types of clients ranging from pension plans, to retirement accounts, education accounts, and trusts. Our firm has made it a point to continually educate our members based on the type of business we have and the size and scope of the relationships we maintain. In many cases they are unique based on a family need, and in other situations there are other conditions that warrant more in-depth knowledge on a variety of different topics. Regardless of the situation, we strive to continually update our knowledge and invest our resources prudently in efforts to enhance the professionalism of our total relationship.

We write this note to shed some light on the efforts of two members of our firm - Christopher Lamb and Daniel McNamara who have recently graduated from the American Banker's Association National Trust School in Atlanta, Georgia. We are also proud to announce that they have obtained the Certified Trust and Financial Advisor (CTFA) designation following an examination administered through the Institute of Certified Bankers in October of 2010. But why are we focused on obtaining additional knowledge concerning trusts?

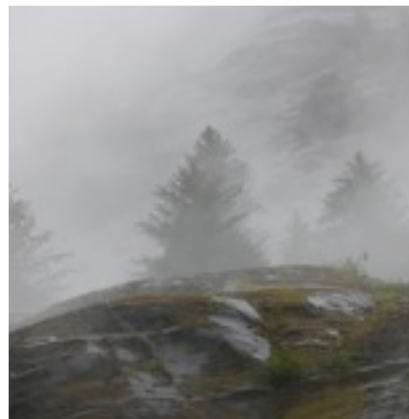
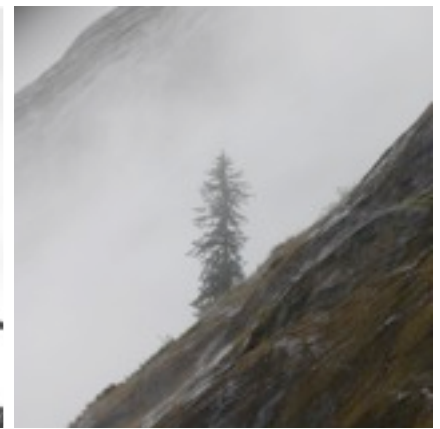
Our firm has been fortunate to work with almost 450 individual client relationships since our start in 2006, something we are very proud of. We have found that many of our clients have a working

relationship with our firm that also includes a trust of some sort. Some have trusts on behalf of a deceased spouse, others have trusts created for the benefit of their children, and some have trusts that are meant for their personal benefit at the present time. But, we have come to the conclusion that trusts and the estate planning process have been a significant 'value add' to the relationships with our clients.

Does this mean that we will prepare trust documents? No. We have worked with a number of your attorneys over the years, and will continue to function as we always have - as an advisory component to the wealth management process. This type of certification provides our firm with the necessary credentials demonstrating our commitment to our clients and the type of business they have brought us.

There will be much more to this service in the future, and should you have any question concerning your trusts, or the intentions behind how to best execute your estate planning wishes, please let us know. We aren't legal advisors, but have a substantial knowledge base concerning the application, management and details regarding trusts and their appropriate uses.

Stay tuned for more details, and certainly ask any questions you may have. ▶



# 'Boxing' historical returns.

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
REITs 26.4%	REITs 13.9%	Commodities 23.9%	Emerging Markets 56.3%	REITs 31.6%	Emerging Markets 34.5%	REITs 35.1%	Emerging Markets 39.8%	Bonds 5.2%	Emerging Markets 79.0%	REITs 28.0%
Commodities 24.2%	Bonds 8.4%	Bonds 10.3%	Russell 2000 47.3%	Emerging Markets 26.0%	Commodities 17.6%	Emerging Markets 32.6%	International Stocks 11.6%	Asset Allocation -23.8%	High Yield Bonds 46.7%	Russell 2000 26.9%
Bonds 11.6%	Russell 2000 2.5%	REITs 3.8%	International Stocks 39.2%	International Stocks 20.7%	International Stocks 14.0%	International Stocks 26.9%	Commodities 11.1%	High Yield Bonds -26.4%	International Stocks 32.5%	Emerging Markets 19.2%
Asset Allocation 0.6%	High Yield Bonds 2.4%	High Yield Bonds -1.5%	REITs 37.1%	Russell 2000 18.3%	REITs 12.2%	Russell 2000 18.4%	Asset Allocation 7.3%	Russell 2000 -33.8%	REITs 28.0%	Commodities 16.7%
Russell 2000 -3.0%	Emerging Markets -2.4%	Asset Allocation -5.4%	S&P 500 28.7%	Asset Allocation 12.5%	Asset Allocation 8.0%	S&P 500 15.8%	Bonds 7.0%	Commodities -36.6%	Russell 2000 27.2%	S&P 500 15.1%
High Yield Bonds -7.2%	Asset Allocation -3.4%	Emerging Markets -6.0%	Asset Allocation 25.2%	S&P 500 10.9%	S&P 500 4.9%	Asset Allocation 14.9%	S&P 500 5.5%	S&P 500 -37.0%	S&P 500 26.5%	High Yield Bonds 14.2%
S&P 500 -9.1%	S&P 500 -11.9%	International Stocks -15.7%	High Yield Bonds 24.5%	High Yield Bonds 10.0%	Russell 2000 4.9%	High Yield Bonds 10.1%	High Yield Bonds 1.5%	REITs -37.7%	Asset Allocation 22.5%	Asset Allocation 12.7%
International Stocks -14.0%	International Stocks -21.2%	Russell 2000 20.5%	Commodities 22.7%	Commodities 7.6%	High Yield Bonds 2.6%	Bonds 4.3%	Russell 2000 -1.6%	International Stocks -43.1%	Commodities 18.7%	International Stocks 8.2%
Emerging Markets -30.6%	Commodities -22.3%	S&P 500 22.1%	Bonds 4.1%	Bonds 4.3%	Bonds 2.4%	Commodities -2.7%	REITs -15.7%	Emerging Markets -53.2%	Bonds 5.9%	Bonds 6.5%

Data Sources: JP Morgan and Morningstar

*Not first, but not last. Take a look at the various boxes titled 'asset allocation.' While it never rises to the absolute top, it has yet to arrive at the absolute bottom. Asset allocation is the process of using a variety of different asset classes for diversification purposes. It is a process not a product and can give investors peace of mind during times of volatility. While it's no assurance against loss, it can have the impact of mitigating volatility.*

Why not just pick the asset class that did the best *last* year? It's bound to continue to do well, right? Not really.

The above chart is referred to as a 'Callan Chart,' demonstrating the returns of a variety of different asset classes, or investments over the past several years. You can see the returns for each asset class, ranging from small company stocks (Russell 2000, as noted on the chart), to Real Estate Investment Trusts (referred to as 'REITs, on the chart.) You can see that no one individual asset class was responsible for continuing consistent growth year after year.

While we don't have the ability to show returns for the past 100 years, the past 10 years can still prove useful. There is no period of time where any single asset class was the top performer for more than a 2-year period of time. While you might spot a period of time where bonds were bottom performers for three years in a row for 2003 to 2005, they still managed to produce positive returns during that specific time period.

Why are we providing this type of data? It's very important to learn that you can't be invested 100% in every asset class at all times. We've all heard of the sector fund that made money 'hand over fist' in the late 1990's, only to fall on hard times during the 'tech-wreck' of 2000 through 2002. The returns of 1996 through 1999 caused many people to look to the best performer of recent in order to make up for lost ground. But the real story really leads us back to asset allocation and the process of diversification.

The diverse portfolio gives your account the ability to participate in the vast majority of asset classes. At the least, this ensures that no one portion of your portfolio leads your returns around by the nose. Additionally, appropriate asset allocation decisions also assure you of participation in the best performing asset class, while limiting your exposure to the worst performer.

While we have discussed the topic on the previous pages, the market for junk bonds or high yield was terrible in 2008, serving investors a loss of roughly 26%. Not many investors wanted to own high yield after that missing out on the best performance of all asset classes with a total return of just under 50% for 2009. ▶

# A focus on *The Next Ten.*

Portfolio

	1928 - 1937	1929 - 1938	1930-1940	1931-1940	1937-1946	1965-1974	1966-1974	1968-1977	1969-1978	1999-2008	2000-2009
Period Return	-0.2%	-1.7%	-0.1%	2.7%	4.8%	1.2%	3.3%	3.6%	3.2%	-1.4%	-1.0%
Following 10 Year Returns	9.3%	6.6%	8.5%	12.1%	17.6%	14.8%	14.3%	15.3%	16.3%	?	?

Data Sources: Davis Funds, Morningstar

Have investors lost their appetite for long-term investing? Many would think that the answer would be a solid 'yes,' even despite the recovery in the markets within the past 18 months.

Regardless of the opinion of the equity investor, the markets *will* exist for the next 100 years and will most likely still reward investors for the risks taken. They've provided an excellent mechanism to allow investors to essentially own a piece of a business through small capital investments. Businesses have found it an easy way to raise capital when necessary, while providing a share of the profits to investors. Has the gloom and doom concerning corporate profitability become so short-sighted that the long-term investor has no confidence in the future? That may be the case, sadly.

While the market system has been around for almost 400 years (shares of stock were originally sold in international markets prior to the founding of the New York Stock Exchange.), it has weathered through market swoons, collapses, depressions and the like. Much like Americans, it has shown a resiliency toward bouncing back just at the time when people think it's down for the count.

We have just gone through, without much argument, one of the worst 10-year periods for stock investors since the 1930's. In looking back, it's interesting to note that on a 'rolling' 10-year period, the market has seen the worst annualized returns of -1.7% during the 1929 to 1938 period. Some of the best returns were achieved between 1947 and 1956, with annualized returns better than 17.6% following a modest 4.8% annualized return during the period of 1937 to 1946.

In examining rolling period investment returns it's interesting to note that when you have unusually poor investment performance over a decade, it's worth looking at the following decade to determine whether it was best to remain invested. This, of course, would mean that an investor would be invested over a 20-year time period, but either way, after receiving a bit of 'bad medicine,' you did get to wash it down with a little sugar.

We've provided the graph at the top of this page as a way to familiarize yourself with the various time periods that have all seen poor returns for a previous decade. How did the investor fare if they remained invested for the *following* ten-year period of time? From what we can see, it was worth sticking around. As *investors*, you don't like to lose money – especially over long periods of time. As *business owners*, you always do what you can to shore up your balance sheet and get back to a profitable position.

There may be little predictive qualities to rolling periods. But, you can always understand that a pendulum swings in both directions – back and forth. To that end, the markets have always seemed to 'over-correct' themselves to a point where it only makes sense to see a reversal of a negative trend. As for the past ten-year period of time, it will go down as the second worst in terms of returns for investors only to be shadowed by the 10 years during the Great Depression. It doesn't come as a great surprise since the 2007 to 2009 markets were faced with their own 'Great Depression Part II,' of which never came to fruition. But, as with any market or business, we learn from our experience and our mistakes. In this case, the markets clearly sold off further than anticipated, and we can only wait to see what the next 10-year period of time will bring. We don't believe that the markets have lost their direction, and certainly don't believe that the ship has lost its righting moment. But as history has indicated, abandoning a strategy that involves stocks following a bad period of time may not be a winning strategy for the long-term. ▶

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## Cost Basis Reporting for 2011

Cost basis reporting just got a shot in the arm. Effective with the 2011 reporting period, all investment companies must report to the IRS the cumulative gains or losses from the sales of securities purchased at their firms starting in 2011.

What does this mean for investors?

It now means that the IRS will have a concrete answer on what you paid for those securities from 2011 and beyond. While maintaining cost basis data in the past was very 'hit and miss' for investors, and the IRS had very little information to back up claims made by investors, it was tough for the IRS to actually prove information to the contrary. As a result, this led many investors to come to their own conclusion concerning the cost basis used on their securities at the time they were sold.

Now it is the responsibility of the investment firms to properly report the gains and losses to the IRS. Until now, this information was largely contained on the tax documents you received from Fidelity and other institutions as an assist to you in the preparation of your tax records at the end of the year. Until now, this information has only been provided to you, and not the IRS.

Starting in 2011, this information will be provided to the IRS concerning the securities that were purchased from 2011 and beyond. You may be able to personally account for the sales of those securities through a different method, such as FIFO (first in, first out), or LIFO (last in, first out), but no matter what method you choose, the IRS will now have a way to confirm what you are putting on your 1040. The default option for stocks is FIFO, and 'average basis' for mutual funds. In the event you want to designate a different method, this generally needs to be done at the time of sale or through a small dialogue on your 1040. Either way, they are now looking a bit further in your taxable trading activity. For IRA and retirement plan holders, this does not apply to you. Happy trading! ▶

