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**Capital Portfolio
Advisors, Inc.**
Financial Success - Step by Step



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Economic Review

The first quarter of 2011 had some ups and downs but finished strongly up. The markets showed amazing resilience in the face of more Middle East unrest, continued debt problems of both the U.S. and most of Europe and the earthquake and tsunami that hit Japan.

Here is what the trailing 12 months look like with the S&P 500 stock market index:



It has been incredible to see the video footage of the tsunami and to see the heroic efforts of some very brave Japanese workers probably shortening their lifespans by going into the crippled nuclear power plant to try to bring that situation under control. It's been very nice to see the Japanese people pull together in this crisis.

The markets have shrugged off the tsunami for the most part. The price of gold didn't soar, interest rates didn't soar, and the U.S. stock market only went down a little. If anything, investors seem to be focused on the rebuilding of Japan and what that could mean for many stocks.

The price of oil rose in reaction to the unrest in Libya. It's difficult to tell if these prices are a temporary event or the start of a larger trend. The stock market doesn't seem to mind gradually rising oil prices but a sharp rise is more unsettling. Should these prices continue to rise from here, inflation could begin to show up across the economy. We are already seeing higher food prices.

Inflation: According to TradingEconomic.com, The U.S. Inflation Rate as measured by the annual change in the Consumer Price Index, rose from 1.6% annualized for January to 2.1% in February. Rising inflation is generally not a good thing. In the big picture, it means that our future cost of living in retirement could be higher than we expected which also means that the size of your retirement nest egg needs to be larger to compensate for it. If you are currently retired, it means more financial demands may be placed on your nest egg to maintain your lifestyle over the long run.

It could also cause problems with fixed rate bonds as the price of bonds and interest rates have an inverse relationship. However, there are bonds that have variable dividends that rise with interest rates and lower rated high yield bonds sometimes are not as affected by it. Variable rate bonds can be found in a fairly unknown asset class called floating rate bonds.

Inflation could cause all kinds of headaches for Ben Bernanke and the Federal Reserve. The Fed will often raise interest rates to combat high inflation. The problem is now that higher interest rates mean that the U.S. gov't would

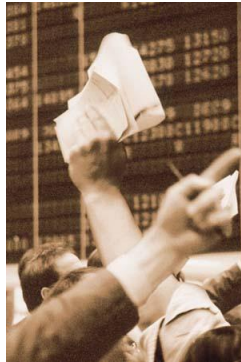
have to pay higher interest on bonds it will be issuing soon. In addition, higher interest rates usually have a slowing effect on the economy.

It looks like the Federal Reserve would really like to stop the “quantitative easing” which has been intended to keep the economy growing. Rising inflation will more likely force their hand to possibly even begin raising rates sooner than they would like.

Year-to-Date Asset Classes

Here are some selected mutual fund classes and indexes in descending performance order through the 1st quarter of 2011 according to Morningstar. The categories in **red** are negative year-to-date.

1. Small Cap Growth
2. Mid Cap Growth
3. Natural Resources
4. Dow Jones Industrial
5. Mid Cap Value
6. Small Cap Value
7. Real Estate
8. Large Cap Value
9. Technology Sector
10. S&P 500 Index
11. Europe Stock
12. Large Cap Growth
13. NASDAQ Composite
14. High Yield Bond
15. Inflation-Protected Bond
16. Gold
17. Long-Term Bond
18. Muni National Long
19. Diversified Emerging Markets
20. 6 Month Certificate of Deposit
21. Money Market



22. Latin America Stock
23. Diversified Pacific/Asia
24. Long-term gov't bond
25. Equity Precious Metals
26. Japan Stock
27. Bear Market

As always, remember that **past performance does not guarantee future results**. Also, looking at short-term performance can be quite misleading. The biggest surprise so far is how badly emerging markets have been doing, especially Latin America.

So far this year, investors haven't had to look beyond our borders to find excellent returns. So far, the rising stock market has been pretty broadly based. In the above list, the gap between the top performing Small Cap Growth category and the NASDAQ Composite index is slightly less than 5%.

I absolutely love “broad” stock markets where lots of asset classes do well. When markets get “narrow,” investors are tempted to put all their eggs in the hottest asset class, often just in time for the hottest thing to become the latest bubble.

World Economic Stats

According to TradingEconomics.com, the unemployment rate is showing a good trend; 9.8% in November, 9.4% in December, 9.0% in January, 8.9% in February and 8.8% in March. It's slow progress but at least it's in the right direction. Our 8.8% unemployment rate is better than the 9.9% in the Euro Area, 9.6% in France, and 9.4% in India. China currently enjoys a 4.1% unemployment rate.

In addition, based on 4th quarter data of the major economies, China leads the world with a 9.8% growth rate followed by India at 8.2%, the U.S. at 3.1%, Canada at 0.8%, Germany at 0.4%, France at 0.3%, Euro Area at 0.3%, Japan at -0.3% and United Kingdom at -0.5%. However, India is experiencing 8.82% inflation, China 4.9%, and the United Kingdom 4.4%. Tough times in the United Kingdom.

The once red hot Brazil economy is barely growing at a 0.7% annualized growth rate with 6.3% inflation.

Venezuela is experiencing 29.6% inflation right now.

Millionaires in America

According to CNNMoney, the number of millionaires in the U.S. jumped to 8.4 million in 2010, an increase of 8%. A millionaire is someone whose “net worth” is at least \$1m. Your net worth is your assets minus your debt.

I have recently redesigned a **Net Worth Worksheet** which you can download from my website at www.capitalportadv.com if you click on Financial Tools. It is an excel file that you may download onto your computer for you to use.

Your net worth is one of those things that you should keep track of from time to time. You don't need to recalculate it every day but once or twice a year.

I also redesigned the classifications for your assets to make it more useful in your financial planning. There is a place for you to put in your future savings goals so you can assess your progress over time and help stay focused on your plans.

Being a millionaire isn't what it used to be. A million dollar retirement nest egg would give a retiree a \$40,000 per year income if they withdraw 4% of the portfolio every year. Not exactly Yacht-ville. And with social security a major question mark for future retirees, the importance of having an adequate retirement nest egg is critical.

Many current retirees are also enjoying a company pension. But these types of plans are now rare. Future retirees have more burdens on them to create their future financial security than ever before. Managing debt, budgeting, developing a consistent savings plan based on your goals is now a necessity.



Have a great Spring!

Dennis



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