

Janney Update

President's Message to Clients



It is always refreshing to begin the summer months. Although summertime can certainly be relaxing, I can assure you that we remain focused at Janney on you and the business of helping you reach your goals.

We have been monitoring what has been happening in Washington D.C. with respect to financial regulatory reform. We continue to work with others in our industry to ensure that any changes to regulations are made with your best interests in mind. We want to make sure that we bring about responsible reform that brings greater stability and transparency to the financial system.

We continue to study the market and the economy's movements and while still very volatile at times, we remain optimistic. We certainly understand the concerns of investors who are inundated with news that speaks of the unsettling events taking place around the world. Meanwhile, being overshadowed by these messages is accumulating evidence that the global economic outlook is brightening. Collectively, there are data points suggesting that the economy is moving from a repair and restore mode to a sustainable expansion. We continue to recommend adherence to a well crafted investment strategy as a discipline to weather the turbulence and enable you to reach your goals. Please be sure to read the commentary from our strategists included in this edition for their perspectives on these issues.

Because of the continued economic uncertainty, we have seen investors reevaluate their risk tolerance as part of their investment strategy. In addition, we have seen many either establish or revise their comprehensive financial plan. We encourage you to have those important conversations with your Financial Consultant in addition to discussing any life changes that might have recently occurred so that they can help you make any adjustments to your strategy.

We encourage you to also consider long-term planning aspects in addition to your securities investments. Life insurance or long-term care insurance and trusts can make certain that your loved ones are provided for. You may also want to consider a plan specifically for retirement income. This edition of *Janney Update* features part one of an in-depth two part article on the importance of retirement income planning. Our next issue will continue the topic with additional ideas and suggestions to help you plan for this very important phase of life. We remain committed to ensuring our Financial Consultants are well educated on these topics and encourage you to discuss any of them with your Financial Consultant. He or she can ensure that you have a well-diversified, risk tolerant approach and help you manage your long-term goals with planning and investment strategies.

I'd like to extend special congratulations to seven Janney equity analysts who were recently named Top Analysts of 2010 for the U.S. as rated by *The Financial Times* and StarMine. The analysts recognized as top stock pickers include: **Heike Doerr** (First place, Utilities—Water); **Debra Coy** (Second place, Utilities—Water); **Ryan Connors** (Third place, Utilities—Water); **Mitch Pinheiro** (Second place, Consumer—Food Products); and **Rick Weiss** (Second place, Financials—Thrift and Mortgage Finance). Mitch Pinheiro was previously recognized by StarMine as a top analyst in 2001, 2002, 2003, 2006 and 2008. Additionally, Mr. Pinheiro was named for the 12th time to *The Wall Street Journal's* list of analysts in their annual *Best on the Street* report published in May. He ranked in the top five again this year in the industry of Food & Tobacco. He was inducted into *The Wall Street Journal's* Analysts Hall of Fame in 2005. Finally, recognized by StarMine in the earnings accuracy category are: **Larry Greenberg** (First place, Financials—Insurance); and **Bill Fearnley** (Second place, Technology—Computers and Peripherals). I believe that the acknowledgement of multiple analysts on these highly prestigious lists points to Janney's ongoing focus to improve the quality and depth of our research offering to our clients. We congratulate them for their work and dedication to quality reporting.

In addition to these seven analysts receiving accolades, Janney's investment strategists and research analysts continue to be relied upon by the media for their thoughtful commentary and industry-leading points of view. Several of our Janney strategists and analysts, including Mark Luschini and Guy LeBas who are featured in this edition, have been profiled and quoted in many media outlets including: CNBC, Bloomberg News, CNN Money, *The Wall Street Journal* and *The New York Times* for their industry expertise. Congratulations to all of our analysts and strategists for receiving this well-deserved recognition.

As we enter into the third quarter of the year, please remember that as your trusted advisors, we are here to serve you and your long-term goals. Thank you for your continued business and relationship. Enjoy the remainder of your summer. ■

Sincerely,

Timothy C. Scheve
President and Chief Executive Officer

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Trusted Advisors for Generations

Retirement Income—Defining the Issues

Many investors have spent years accumulating assets to use in retirement through a variety of vehicles including: 401(k) or 403(b) plans, IRAs, and traditional investment and savings accounts. Saving, also known as the accumulation phase before retirement, puts a great deal of focus on managing market risk through diversification and asset allocation. When an investor begins to receive payouts during retirement or spend their savings, it is referred to as the ‘distribution’ or ‘Retirement Income’ phase, and it may include risks that many investors have not considered. Some of these risks are outlined below:

Changes in Pension Coverage: In past generations, a pension was the central and most common source of a sound retirement plan. A pension generally took the form of a defined benefit plan in which an investor’s employer bore the risk of meeting the future cash flow requirements of the plan. But today, for most, traditional pension plans for employees are smaller, fewer and almost always a lesser piece of the overall retirement income picture.

Other programs have now taken the place of the traditional defined benefit plan. These alternatives shift the risks of meeting the plan’s obligations from the employer to the employee. In effect, the obligation to make assets last throughout retirement now rests almost entirely on the shoulders of the investor and, potentially, at the mercy of the markets.

Longevity and Health: One of the reasons for the shift in risk management responsibilities has been that employees are more commonly in good health and living longer lives in retirement. A 65-year-old man has a 25% chance of living to age 89 and a 10% chance of living to age 94. A 65-year-old woman has a 25% chance of living to age 92 and a 10% chance of living to age 97 (Source: Employee Benefits Research Institute, choosetosave.org). That means an investor needs to plan for a 25 to 30-year retirement. Pensions and Social Security are considered sources of income that are guaranteed for life, effectively eliminating the risk of longevity. However, 401(k) and IRA assets are frequently invested in securities with fluctuating values and income streams. Determining the proper amount of income an investor can safely take from investments without the risk of running out of assets isn’t an easy task.

Inflation: We haven’t heard a lot about rising inflation in today’s economy, but that doesn’t mean that it’s not impacting retirees. A lack of inflationary pressure on the broad economy can mask specific costs that are stealthily inflating by considerable amounts.

As an example, despite the generally lackluster inflation rates in the broadest economy, retiree health care costs have been climbing and are expected to climb even further. Median annual out-of-pocket costs are expected to grow from about \$2,600 in 2010 to \$6,200 in 2040, as expressed in constant 2008 dollars. About 10% of older adults with the most pressing medical needs will spend more than \$14,000 per year on health care in 2040, and that’s with Medicare coverage (Source: Will Health Care Costs Bankrupt Aging Boomers, 2010 Urban Institute). Even with the recently passed Patient Protection and Affordable Care Act, determining how much income an investor may need for their and their spouse’s future health care expenses can prove a real challenge for people entering retirement. These costs, by their nature, will continue to escalate over time.

Health care is one of the most expensive items in most retirees’ budgets and while these costs have grown, adjustments to ‘indexed’ sources of income, such as Social Security have been limited in recent years. For example, the Social Security Administration has not provided a cost of living adjustment to Social Security and SSI benefits since 2008 and will not provide one until 2011, at the earliest.

Note: Janney Montgomery Scott has produced a white paper about the recent health care reform legislation. If you are interested, please contact your Financial Consultant to request a copy.

Market & Economic Risks, Role of Volatility: Volatility has shaken investors’ confidence in the market and the overall economy. For pre-retirees, the most viable solution appears to be planning to delay their retirement. A recent study (2010 Retirement Confidence Survey), conducted by the Employee Benefits Research Institute and Mathew Greenwald and Associates, found that one-quarter of workers (24%) report that they have postponed their planned retirement age in the past year. Among the reasons cited for these decisions were the poor economy (29% of those postponing retirement), a change in their employment situation (22%), inadequate finances (16%) and the need to make up for losses in the stock market (12%).

Investing in the stock or bond market will always have an element of risk. As an investor approaches retirement, it’s important to understand the risks they will face so retirement plans can stay on track. But avoiding appropriate risks can be as harmful to an investor’s future retirement as taking too much risk. Seeking competent and professional advice in managing an investment portfolio can be a way to ensure that an investor’s portfolio is suitable to their present and future needs.

What can be done to help address these risks?

- **Time the transition into retirement.** Delaying retirement by just a few years can significantly extend the lifespan of

an investor's assets, as can lowering expenses and income distributions in earlier retirement years. Other alternatives to managing a transition to retirement for an investor may include either working part-time or consulting in a specific field to lessen the burden on an investor's retirement portfolio.

- **Look at health and family history.** It's impossible to determine any investor's exact life expectancy, but many individuals may be able to gauge the probability of being on the longer end of their life expectancy by looking at their medical history and the health and longevity of close family members. Having realistic expectations about how long assets may need to last will help investors make informed decisions about how and when to retire. Planning for retirement is important, but part of the planning process is planning for illness or premature death which can disrupt savings programs (including plan contributions), provide unexpected expenses and impact the investor's family's ability to meet its long-term needs. Investors also might want to consider adding a long-term care or life insurance policy to their portfolio to help provide for their spouse and/or heirs after they are gone.
- **Consider spending behavior during retirement.** No one plans a frugal retirement, but many investors underestimate how much money they actually need. Travel, indulging grandchildren and maintaining lifestyles can be more expensive than most think. Adjusting spending habits based on market conditions by spending more during good markets and less during poor markets can help reduce the strain of retirement distributions on assets and extend the lifespan of savings. Standard planning practice estimates the post-retirement income needs are generally between 80–105% of pre-retirement income, but often pre-retirees underestimate this need. The impact of underestimating long-term needs may not be felt for many years to come, with the brunt of the impact felt only in a retiree's later years.
- **Ensure professional guidance of retirement portfolios.** Taking the time to concentrate on retirement income is an important step in an investor's overall financial plan. Creating retirement income requires the coordination and integration of several sources, like pensions and Social Security with income from a diversified investment portfolio. As an investor, your Janney Financial Consultant plays a key role by helping you focus on your retirement income plan. They can help determine your retirement income needs, consider future tax consequences and develop an appropriate investment strategy.

Contact your Janney Financial Consultant to discuss how they can help with your retirement income. ■

Economic Outlook

Mark Luschni, Chief Investment Strategist

Market participants have been dealt a growth scare recently. Ongoing fiscal issues emanating from the Euro zone, and May's employment report showing underwhelming job creation in the private sector, have served to dent expectations for economic growth. Tensions are elevated by the increasing risk that the U.S. economic cycle has peaked and that the insulin shot from the policy stimulus is fading. In fact, the economy may have encountered a soft patch which could linger. However, we still believe that any nearer-term weakness in economic data will be within the context of a sustained economic and profit recovery and does not necessarily herald a double-dip recession.

Measures of household spending are growing, consumer confidence continues to improve, the housing market seems to be stabilizing and readings on the manufacturing and services sectors of the economy are indicative of increased business activity. Important as any, particularly for those without one, is the fact that the job market has begun to improve, albeit more gradually than many would like, with further gains expected in the coming months. Collectively, these data points suggest that the economy is moving from a repair and restore mode to a sustainable expansion.

Consensus estimates for earnings growth across S&P 500 companies point to a 19% increase in 2010, the most in 15 years, and double-digit gains in 2011. Even if these expectations turn out to be ambitious, the equity market can advance on the general presumption of increased global activity. On that front, forecasters from the International Monetary Fund, the OECD, and the notable publication *The Economist*, are in concert with their prediction of global growth this year and next. The U.S. economic recovery is still very much on track, but the pace of the expansion going forward could be slower than some had projected. This is quite typical as a mid-cycle slowdown often occurs after a period of high-rate expansion such as we had late last year.

The recent correction in the equity markets has presented a valuable opportunity to select high-quality large capitalization stocks in both the U.S. and Europe for their similar benefit of being positioned to gain from faster growth in the developing markets. For balanced portfolios, yields on fixed income instruments such as corporate bonds, Build America Bonds, and select tax-free municipal securities offer value over cash and Treasuries. Unstable financial conditions in Europe and other events linked to oil spills and political confrontations mean the path could be rough and unpredictable at times. However, accumulating evidence of stabilizing economic forces should eventually win out to reward patient investors. ■

Ladders & Barbells

Guy LeBas, Chief Fixed Income Strategist

In today's market, there's such a tremendous focus on the creditworthiness of bond issuers that many investors have left behind the emphasis on the basic facets of bond portfolio construction including, especially, cash flow. One of the primary goals of any investment portfolio is to provide security, whether, as an investor, you need the security of greater cash flow tomorrow or whether you can wait for years down the road.

Constructing portfolios with both security and cash flow in mind is a key first step in the development of a limited-risk investment strategy that helps to meet investors' needs. There are two common strategies that form the foundations of a stable portfolio: ladders and barbells. Each strategy offers a way to meet an investor's requirements with a combination of shorter and longer maturity securities.

Climbing Ladders

A ladder portfolio is a name for a bond strategy that includes a range of investments maturing in sequential years. Typically, ladders have the same par value of securities set to mature in each year, such that each maturity represents a "rung." As a bond matures, the investor has the ability to either reinvest the proceeds and extend the ladder or use the cash flow for non-investment needs, such as living expenses. Ladders commonly "stretch out" and include bonds with maturities from one year to as long as 10 years or more, depending on investors' risk tolerance and income needs.

Lifting Barbells

A barbelled portfolio is similar to a ladder portfolio, with the major difference being that, instead of purchasing securities that mature sequentially, an investor purchases a portion of the portfolio in shorter-term investments (say, 60% with an average maturity of two years), and a portion in longer-term investments (for example, 40% with an average maturity of 14 years). The advantage of a barbell is that, so long as the yield curve is upward sloping, the yield on a barbell portfolio will be more attractive than the yield on a ladder. Functionally, the allocation to short maturity bonds can cover cash flow needs, which frees up the longer portion of the portfolio to provide higher yields. If longer maturity yields are higher than shorter maturity yields, the longer portion of the barbell will earn higher yields than if the longer portion had been

invested in purely sequential maturities. That greater yield also brings with it greater interest rate risk.

While these two structures offer a basic overview of two ways of constructing a portfolio, the specific design of either a ladder or a barbell will vary by investor needs. Yet some of the most important factors to consider include:

- Cash flow needs, which determine the range of maturities in a ladder or proportion of the barbell devoted to shorter-term investments
- Income needs, which determine whether higher coupon or lower coupon securities are most appropriate
- Market conditions, such as the shape of the yield curve, which will define the benefits from purchasing shorter or longer-term securities

Typically, we recommend that investors use a combination of CDs, Treasuries, agency bonds, corporate bonds, and tax-exempt municipals for ladders and barbells. While each category has its own merits and drawbacks, we recommend that the longest maturities of a ladder or barbell be devoted to securities with stronger credit quality. Since there's more reason to be confident of conditions three years from now than 30 years from now, it typically makes more sense to focus longer purchases on bonds with higher credit ratings in more stable sectors and rely on interest rate risk rather than credit risk to provide income on longer maturity bonds. ■

Account Information Verification

Janney is required by the Securities and Exchange Commission (SEC) to verify certain critical account information such as client name, address, investment objective, income and net worth. This information helps us keep our records up to date.

You are receiving this communication via an additional page at the end of your enclosed June 2010 account statement. Please be sure to review the account information provided, make any necessary changes and return the updated form to the Janney New Accounts Department at the address provided.

If your information is correct, you are not required to send the form back. If you have any questions, please contact your Financial Consultant. ■



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