



Clients First Transparent Accessible

Quarterly Newsletter

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Market Overview

The U.S. equity market continued to advance in the first quarter of 2011 (see table below). Improving corporate earnings, additional positive economic data, continued quantitative easing by the Federal Reserve and new money flows into equities all combined to support higher stock prices. Stocks rose despite rising commodity prices, interest rates hikes in China, renewed fears of sovereign defaults in Europe, social upheavals and war in the Middle-East, and an earthquake disaster in Japan. Energy stocks led this quarter's advance as the price of crude oil rose above \$105 per barrel on fears of potential supply disruptions due to unrest in the Middle-East. All ten economic sectors represented in the S&P 500 Index participated in the advance.

The Federal Reserve continued to provide monetary stimulus to the economy over the quarter as employment remained weak. Nevertheless, the rise in longer-term interest rates remains uninterrupted from the lows seen in October as market participants have become more optimistic about the economic recovery (see table below).

The U.S. dollar declined over the quarter, and while many global commodities priced in U.S. dollars, such as gold, silver, oil, corn and cotton, rose. However, the prices of copper, palladium, sugar and oats fell this quarter. This mixed performance in commodities supports the Federal Reserve's view that the rise in commodity prices is transitory and reflects demand and supply imbalances rather than an indicator that inflation is rising.

Both developed international equity markets and emerging equity markets participated in the global advance in stocks over the quarter. However, U.S. stock indices out-performed foreign stocks because interest rate hikes in faster growing economies provided a headwind to stocks in emerging markets, while slower growth and the earthquake disaster muted the advance in Europe and Japan respectively.

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U.S. Equity Returns Table

Source: Thompson Reuters

Index	Q1 2011 Returns	2010 Returns
Dow Jones	7.0%	13.5%
S&P 500	5.9%	14.8%
NASDAQ	5.0%	17.7%
Russell 2000	7.9%	26.5%

U.S. Treasury Yield Table

Source: Bloomberg

	4/2011	10/2010	12/2009
3 month	0.04%	0.15%	0.06%
2 year	0.76%	0.41%	1.02%
5 year	2.18%	1.22%	2.57%
10 year	3.41%	2.47%	3.77%
30 year	4.47%	3.70%	4.62%

Broad Indices Table

Source: Thompson Reuters

	Q1 2011 Returns	2010 Returns
Gold (GLD)	0.8%	29.3%
Crude Oil	16.8%	15.1%
U.S. Dollar Index	-3.7%	1.4%
International Equity Markets (EFA)	3.2%	7.8%
Emerging Equity Markets (EEM)	2.2%	16.3%

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Social Security, To Wait or Not To Wait?

When Should You Start Taking Social Security Benefits?

In 2009, 42% of 62 year olds chose to claim their social security benefits according to the Brookings Institution. Two years earlier, just 38% of 62 year olds chose to claim their benefits as early as they could. The conventional wisdom has always been to delay taking benefits as long as possible because by doing so, you can boost your payment by 7% to 8% each year until you reach age 70. However, many individuals, apart from economic reasons, are choosing to take their benefits as soon as they can. In order to determine if this makes sense, we first have to answer a basic question.

Will Social Security Still Be There When You Retire?

While some individuals are tapping their social security benefits early out of necessity, many others are choosing to take their benefits early out of fear that there will be no social security when they retire. Most advisors and experts believe that these fears are overblown.

According to the National Academy of Social Science (NASI), a non-profit, non-partisan group made up of social insurance and social security experts, social security reserves will continue to grow until 2023. From 2024 to 2036, the reserves will be drawn down to pay benefits. By 2037, new revenues coming into social security will only cover about 75 percent of scheduled benefits. The NASI believes that only small legislative changes would be needed to ensure the long term viability of social security.

What are the Benefits of Waiting to Take Social Security?

Assuming that social security continues to pay when you plan to retire, the benefit to waiting is that you can increase your benefit amount. A top-earner retiring at age 62 would get \$1,803 per month according to Rande Spiegelman, vice president of financial planning at the Schwab Center for Financial Research. At age 66 the amount would increase to \$2,442. At age 70 the amount would be \$3,256. According to the NASI, if you wait until age 66, your benefit would be 33% higher than if you had started taking benefits at age 62. However, by waiting until age 70 to claim Social Security, your benefit will be about 76 percent higher than if you had taken it at age 62.

Social security also has some inherent advantages over other sources of retirement income which makes waiting advantageous.

Social security is guaranteed to last as long as you live. The average 65 year old man is expected to live until 83 and the average 65 year old woman is expected to live until 85 but many of us will live much longer than that. The longer you live the more you will collect in social security benefits over your lifetime by waiting to take social security.

Social security has an annual cost of living adjustment which is particularly important in an inflationary environment. This cost of living adjustment compounds the advantage of waiting by having the inflation adjustment apply to a larger base.

Assuming you are married and you die first, your spouse will receive the larger of your benefit or your spouse's for as long as he or she lives. This is important because 48 percent of married couples aged 65 can expect to have at least one spouse live to be 90 or older.

In addition, if you continue to work, you may be able to increase your social security benefits due to the fact that your benefits are based on your average earnings over your highest 35 years of earnings.

What are the Benefits of Taking Social Security Early?

The main advantage to taking Social Security is illustrated by the saying "A bird in the hand is worth two in the bush." At least you are receiving something now, even if it is a lesser amount, because who knows how long you are going to live.

Conclusion

If you are in poor health and/ or have a shorter than average life expectancy, it may be prudent to take your benefits early. However, for the majority of individuals, it probably makes sense to wait.

Daniel S. Flack, CFP, CFA

13th Annual Client Appreciation Event

PacWest's 13th Annual Client Appreciation Event was held at the Paradise Valley County Club on March 19th. The event featured guest speakers Steven Seleznow, President & CEO of the Arizona Community Foundation, and Sharon Lechter, founder of Pay Your Family First, a financial education organization and author of "Think and Grow Rich—Three Feet From Gold", as well as musical entertainment by Bill Rowe. This year's event was well attended with over 130 clients and friends.

