



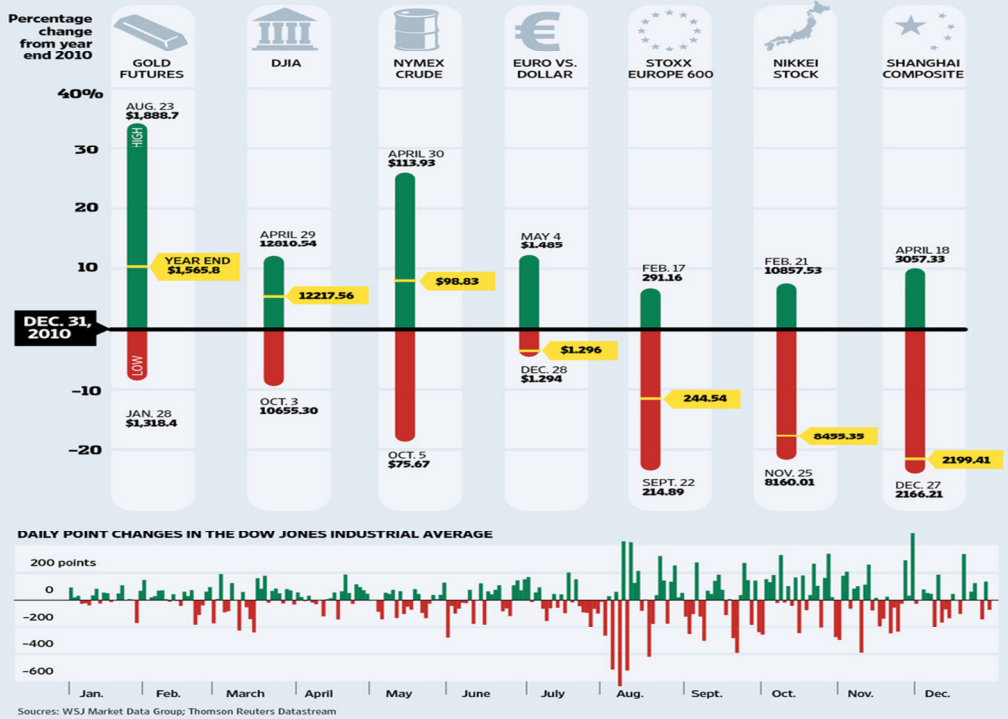
# FRONTIER

## 2011 Year-End Investment Newsletter

### 2011: The Year of Volatility

Between a U.S. credit rating downgrade and turmoil in Europe, investors in financial markets endured one of the most gut-wrenching years in recent history. While the Dow Jones Industrial Average ended the year with a respectable 5.5% gain, more indicative of the broader-market performance was the unchanged value of the Standard & Poor's 500-stock index. The final result certainly masked the market's sharp ups (8.4% in April) and downs (-13% in October). European stock prices were hammered amid the debt crisis with most indexes posting double digit losses for the year. Bond yields soared in Italy to Euro-era record levels driving their stock market down 25% for the year.

#### Swinging High and Swinging Low



From the very beginning of 2011 through the very end of December, the volatility tempted investors to look for defensive solutions.

### Tax Time is Upon Us

It is that time of year again to round up all of your tax documents and prepare to file with the IRS. We wanted to give clients a quick overview of when to expect Schwab's tax preparation forms:

- 1099-Composite: Late January to mid-February
- 1099-MISC/1099-R/1099-Q: Mid to late January
- 5498: Mid to late May (Reports IRA Contributions)

Please remember that you will only receive tax forms that are applicable to your financial situation.

### 2012 Qualified Limits

Please be aware of the following IRS guidelines for contributing to retirement accounts in 2012:

- 401(k) Maximum Contribution: \$17,000
- 401(k) Maximum Catch Up Contribution: \$5,500
- Roth/IRA Maximum Contribution: \$5,000
- Roth/IRA Maximum Catch Up Contribution: \$1,000

## Big Names, Big Losses: Gambling is a Bad Idea

In 2011, some of Wall Street's most celebrated experts made the wrong call. All in all, it was a tumultuous year for stock pickers, proving that even the best managers and analysts can be wrong. For example, bond guru Bill Gross of PIMCO failed to forecast the sustained rally in the Treasury market. Value investor Bill Miller simply surrendered, stepping down as manager of the \$2.8 billion Legg Mason Capital Management Value Trust after his latest bet on bank recovery failed to pay off. Meanwhile, analyst Meredith Whitney, known for predicting the subprime crisis, made waves in the municipal-bond market early in the year by predicting a series of municipal defaults which never developed.

Political uncertainty made it nearly impossible for large investment funds to predict which direction the market would move. Many funds increase their positions when markets move in certain directions counting on that momentum to increase their returns. The volatility in 2011 made it difficult for these large funds to capitalize on that strategy.

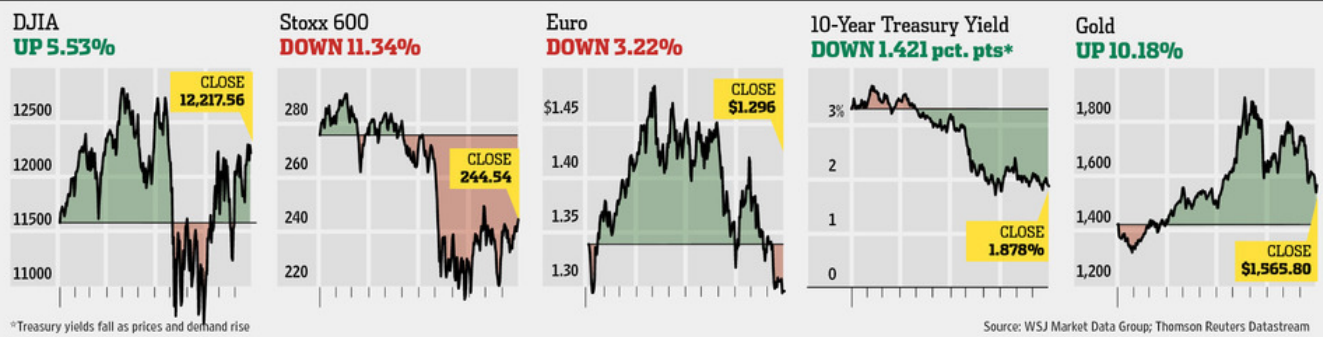
Hedge funds on average lost 5% for the year, according to Hedge Fund Research Inc. The funds that focus on stock picking did even worse, suffering losses of 7.2%. U.S. Treasury bonds significantly outperformed the major domestic stock indexes. The biggest winner was the 30-year Treasury bond which increased by 35%. The 10-year Note returned 17% forcing the yield downward towards 2% for the first time since 1977. To a certain extent, U.S. Fixed Income largely owes its performance to the massive debt crisis in Europe as investors worldwide found a safe harbor in buying U.S. Treasuries.

## What Lies Ahead?

Investors very much remain uncomfortable with the degree to which the direction of the market continues to be influenced by government officials. Domestically, a partisan politics and vacuum in leadership has already roiled markets, causing the first-ever credit rating downgrade. The economic and financial instability also means that policy makers are expected to keep interest rates near zero for years. Further magnifying the uncertainty for the coming year will be the presidential elections in the U.S. and France. The result is that many investors are becoming more and more defensive, gravitating toward higher-quality, dividend-paying names as well as government bonds.

It has become quite clear that Europe's sovereign-debt problems are far from being resolved. Greece is still floating on the brink of default, and the contagion has seriously spread to Italy and, more recently, France. Efforts by European authorities to address the crisis repeatedly fell short of promises, deepening investor frustration. It is now very probable that Europe is on the edge of a painful and prolonged recession. European banks will continue reducing their lending volume in an effort to further deleverage. Specifically, to offset losses from deteriorating quality of sovereign debt, banks are desperate to strengthen balance sheets by selling bonds and other assets in the open market. European governments are radically reducing their spending, further decreasing their tax revenues, causing slower economic growth. This gloom hanging over the developed international markets is overshadowing the more optimistic views about emerging markets. Based on new market data in our latest review and optimization, we have added Emerging Markets Fixed Income to our Core allocation portfolios while modifying the exposure to Domestic Fixed Income. We believe this latest adjustment delivers better diversification to our clients given current global opportunities, making our portfolios even more robust and efficient.

### Volatile Investing | U.S. stocks survive, Europe slides, Treasuries draw buyers, gold's rally ebbs





## What to Do in the Face of Uncertainty? Discipline is Key

All this volatility and uncertainty calls for something that should always be the foundation of any investment management philosophy: Discipline. As Wall Street has shown us multiple times, emotional decisions frequently turn irrational, and making investment bets simply puts one's long-term financial goals at risk. The market is simply too complex and irrational in the short term for anyone

to reliably forecast its movements. This is truer now more than ever.

The unfortunate reality is that most investors, even the professionals, fall prey to the very human temptation to try and time the market, their investment strategy, and the individual stocks in their portfolio. Yet, all the data indicates that this is a loser's game mainly because the vast majority of gains tend to come on just a few trading days during the year.

The tendency of people to abandon good strategies at exactly the wrong times is most evident when considering how famed investor, Peter Lynch, once claimed that more investors lost money than made money investing in his Fidelity Magellan fund. This was despite

the fact that it returned an average of 29.2% from 1990-1997 (compared to 15.8% by the S&P). The reason? Investors tended to leave the fund during tough times and reinvested when the fund was at the top again (most of the gains had already been realized).



## What this Means for Frontier Clients

The lesson is clear. Don't avoid the market, an investment strategy, or a stock simply because things have underperformed in the short term. Instead pick an investment approach that has consistently worked over multiple periods. Historically, over short periods the market is nearly impossible to predict, but over time it will appreciate in value. Consider this: if you analyze the 50 worst rolling 10 year periods in stock market history, there is not a single instance where the market failed to rise the following 10 years.

At Frontier, we rely on this discipline to construct and manage all of our portfolios, and we believe that over the long run it is precisely this approach that will allow our clients to navigate periods of uncertainty and still realize their long term financial goals.

## Frontier Welcomes New Team Members

### Frontier-Wichita Branch

We are proud to announce that Frontier has opened a branch office in Wichita, KS with a superb group of team members. The Wichita branch both expands the Frontier brand and brings a wealth of experience in both financial planning and wealth management. Please join us in welcoming Glenn Rappard, Shawn Sokolosky, Rob Richardson, Darty Dole and Lori Albertson to the Frontier team.

### Matthew C. Taylor

Our newest Frontier team member is Matthew Taylor. Matt joined the Frontier team in mid-December. He previously worked growing his business at Merrill Lynch for six years. Matt brings even more comprehensive, specialized ability to work with high net worth individuals and businesses to Frontier.