

Radiant Wealth

*Put Your Money
Where Your Heart Is*

Letter from the Editor

Risk and Opportunity

It's easy to drift into pessimism as you take in the problems of the world—sovereign debt, catastrophic oil spills, housing weakness, sustained unemployment and dissension in the ranks. But within each of those areas are also opportunities for growth—personally and through our investments.

In *Shadow and Light*, we explore five areas of risk and the related opportunities. This article was recently featured at www.morningstar.com in a special week-long feature on risk. We look at longevity risk, bear market risks, interest-rate risk, under-recognized risks and risks that keep you and I up at night.

Next, in *Just Say No to Oil*, we reflect on the disaster in the Gulf. Many portfolios hold numerous oil stocks, and have for many years. But is it time to consider a proportional investment in alternative energy? It's not for the faint of heart, but perhaps it would help you take a step toward aligning your investments with your values.

One of my colleagues admitted to me and my staff this week that sometimes reading *Radiant Wealth* scares him. While I'm not completely sure what he meant by that, I hope it is thought provoking. And I hope there is a growing awareness that the way we choose to live our lives can also be reflected through how we use our money.

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This special edition of *Radiant Wealth* is brought to you by www.financial-happiness.com. Financial Happiness is all about finding joy in your life and creating a sound financial foundation. It's not just how many zeros are in your net worth, it's about how you use that money to create an inspirational life for yourself and others.

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*Financial & Investment Guidance
for Members of
Financial-Happiness.Com*

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PUT YOUR
MONEY
WHERE
YOUR
HEART IS

Simple, practical guidance
that can help transform
any financial situation

by Sue Stevens

available at » amazon.com

(tinyurl.com/money-heart)

Shadow and Light

By Sue Stevens

There can't be shadow without light. And so it is with risk and opportunity. Wherever you find risk, you'll also find opportunity. There's no problem finding risk right now—just look at Europe, the oil tragedy in the Gulf, the low interest rate environment, high unemployment, rising future tax rates, current deflation concerns, future inflation concerns. I could go on. But these risks also present a world of opportunities.

Morningstar recently asked me to answer five questions on risk and what follows are my responses.

1. *Longevity risk is a biggie for many of today's retirees and pre-retirees. What steps do you take to ensure that your clients don't outlive their assets?*

Sue: One of my greatest concerns for a broad swath of the population is that they are in denial—about housing prices, about salary ranges, about market volatility. Adaptability is key to surviving, and even profiting from, the current economic climate.

For example, if you were counting on selling your house for 30% more than you can realize now and your retirement plan hinges on it, you'd better adjust your strategy for the future to adapt to what's realistic now. It may mean you need to adjust your spending plans—current and future. At Stevens Wealth Management, we work with our clients to help identify the appropriate withdrawal rates to make sure their assets last as long as they do. If you need help defining how much is realistic to spend, you'll find a basic template in my book *Put Your Money Where Your Heart Is* available at www.amazon.com.

If you are in denial and continue to spend as you did in your best working years, you could be headed for disaster. When you combine that drop in housing value with less income from investments and the loss of a paycheck (whether you chose that path or not), there's a strong possibility that it translates into trimming back expenses and increasing savings. The risk is that you don't adapt in time.

The opportunity lies in controlling expenses, assessing multiple income streams, which may include a ladder of inflation-adjusted immediate annuities, as well as watching for tax advantages that will unfold over time. Keeping more of your money, by controlling expenses and taxes, and locking in an income stream may be even more important than building in opportunities for growth.

I've created a new way of building a spending plan based on Abraham Maslow's Hierarchy of Needs. It considers five levels of basic human needs and offers suggestions on how much you may want to allocate to each area. It's detailed in my book and an electronic template is free at www.financial-happiness.com.

2. *During the bear market of 2008 through early 2009, the correlations of many different asset classes converged at once. What are the key lessons you learned from that experience? Have they influenced how you manage portfolios today?*

The first step to an inspired financial life begins with understanding what's most important to you, appreciating what you already have, and setting your intention to financially support a life you love.

Sue: The bear market of 2008 through early 2009 may only be part of a larger secular bear pattern that started in 2000. We had a secular bull market in the twenty years prior to 2000. Secular bear markets last on average sixteen years. You do the math.

If we know we're in that type of longer-term pattern, we may choose to invest our money in a different way than we would if we expected the stock market to continue to trend upward for a long period. The key in navigating this type of environment is being very clear on what to expect from each asset class you choose to hold. At Stevens Wealth Management, we hold eighteen different asset classes overall and we have a very particular reason for each. Not every asset class is held in every portfolio. Each portfolio is customized depending on many factors.

My concern about the risks in this climate is that people sometimes choose extremes—they want to stock pile gold, they don't want to own any stocks, they don't want to own any bonds because they've heard they will get "killed" when interest rates increase. Despite the fact that many asset classes decreased at the same time in 2008 and early 2009, that doesn't mean holding a portfolio of diversified assets—each chosen for a specific purpose—won't help manage the risk over a very challenging period of time. I see greater risks in extremes than I do spreading risks over a variety of asset classes.

The opportunity is to carefully re-examine what you are invested in and be realistic about the risks and rewards. You want to be prepared to capture the perhaps once-in-a-lifetime investment opportunities that wait just around the corner.

3. *Are you concerned about the risks of a rising-interest rate environment? If not, why not? If so, would you take any steps to hedge client portfolios?*

Sue: A rising interest rate environment can be managed—unless you're impatient or greedy. It takes patience to hold assets that are earning pretty much nothing. It's tempting to reach for yield. But that could be a painful mistake.

Duration is basically a time-weighted measure of a bond's maturity. The rule of thumb is that for every 1% increase in interest rates, the value of a bond drops by its duration. So, for example, if you have a bond fund with a duration of 4.5, like the Vanguard Total Bond Market fund, and we have a 3% rise in interest rates (probably over at least a one year period), you could lose 13.5%. If that seems like too great a risk, you might choose a bond fund with a shorter duration. Vanguard has them. PIMCO has a Low Duration fund that our firm often uses in client portfolios too.

Eventually after interest rates rise, the bond fund manager buys bonds paying higher interest and the yield of the fund will rise. So for those of you willing to ride out the rise in rates, you may recover over time. At Stevens Wealth Management, we're staying on the shorter, higher credit quality end of the yield curve. There is some thought that since we have a steep yield curve, the shorter end will come up faster than further out on the curve. That may be true, but if duration is at 1, the potential loss should be significantly less than on a longer duration bond. The hardest part is having the patience to hold the low yielding bond while rates are not yet rising. That takes a willingness to put preservation ahead of short-term income.

CDs can also play a role in hedging during a rising rate environment. Again, they aren't paying much if you stay in a short maturity, but as long as the FDIC remains solvent, you should get your principal back even if the bank defaults. Once rates have stabilized at a higher level, you'll be ready to move into higher yielding fixed income investments.

4. *What risks do investors face that you think are under-discussed/under-recognized?*

Sue: There are two risks that come to mind that are not discussed as widely as perhaps they should be: muni bond risks and defined benefit pension plan risks.

Many states are in deep financial trouble—Illinois is clearly one of them. Those state-wide problems have the potential to result in more and more defaults of municipal bonds over time if we don't address the fiscal problems of those states. What can we do as investors? First, understand which states are having the worst problems and consider minimizing your exposure to those bonds. Second, choose bonds or bond funds that have higher credit quality. That's still no guarantee that the credit ratings are truly representative of the underlying risk or that the information on which they are based is timely. But paying attention to what you own with whatever information is available may help you sidestep some of the risk. That could decrease the risk of holding bonds that default and provide some peace of mind. Longer term we need better ways to assess the ongoing risks of municipal bonds.

Many traditional pension plans—defined benefit plans—have used assumptions about future returns that are unrealistic. If those faulty assumptions have led to underfunding the plan, that could easily lead to a situation where much larger company contributions are necessary to meet the plan funding requirements. With a weak economy, that may not always be possible and we could see more plans needing bail outs from the PBGC. That organization has been crying for years that it doesn't have enough money to bail everyone out. Sound familiar?

The risk is that we could see more pension plans fail. Think of what happened at Delta. Enron. GM. Chrysler. When it comes time for companies to next fund their plans or pay out benefits, we could see some disastrous outcomes. If the assumptions used were too high, then the investment results may not be enough to cover the promised benefits. As an aging population retires, or loses their jobs, the strain on the assets in the plan could cause defaults.

The reality we all need to accept is that we have to save more personally. That doesn't mean we can't have what we want in life. But we may need to adjust our expectations. Most people retiring in the future won't have traditional defined benefit pension plans. And for those with 401(k) or other defined contribution plans, that alone may not be enough to cover retirement expenses.

5. *What risks are your clients most attuned to? How are the risks they're worried about different from the risks that keep you up at night?*

Sue: Oftentimes my clients are worried about whatever they've heard most recently on the news. That could be the EU sovereign debt problems, the volatility in the stock market, the Gulf oil spill and so forth. These are all valid concerns and need to be addressed through our portfolio strategy.

What keeps me up are more of the Black Swan type of potential scenarios that we can't really anticipate. I worry about some type of catastrophic

environmental disaster that sets off a series of related tragedies. The Gulf oil spill could be the beginning of that type of scenario or it could be related to earthquakes or floods or volcanoes or something else. I worry about escalating violence in the world—through terrorism or war—and how that could change everything overnight. The financial aspects of this would be the least of our problems.

What allows me to sleep most nights is the faith that what I do, on however small a level, makes a difference in the world. The struggles we face every day reflect what is going on in the broader world and each decision we make affects the whole.



Just Say No to Oil

What's it going to take for you to finally take action?

By Sue Stevens and Jack Wilson

You turn off the TV because you just can't bear to see those pelicans and dolphins covered in oil. The wildlife experts say they can't be "herded" somewhere else because there won't be enough food supply for the population already there. So the reality is most of those animals will die. *But you still drive your oil-burning car just as much as you always have.*

Your anger mounts as the leadership of BP enjoys an afternoon of yachting as more and more oil pollutes our waters and our food streams. "They" aren't doing enough. "They" aren't moving fast enough. *But how many oil stocks are in your portfolio?*

What's it going to take for you and I to realize we have to take action to change our lifestyles and our investments to reflect what's already in our hearts?

Put Your Money Where Your Heart Is™

You don't have to be a "New Ager" to want to do your part to make the world better. Your motivation might be your kids or grandkids. Do you really want the legacy that we've made the world worse than we found it?

In my experience, people can talk the talk about wanting to see change. But all that goes out the window when it comes to their *money* or their *time*. If your heart tells you our dependence on oil is unacceptable if it causes the damage we're seeing in the Gulf, then you need to take the next step and vote with the way you invest your money if you want to see real change. And you may need to slow down your life enough to find alternatives to driving everywhere whenever the spirit moves you.

There is a disconnect when it comes to consciousness and money. You may embrace yoga and meditation and recycling, but until you really apply what you know to your money, nothing will really change. That's a large part of why I wrote *Put Your Money Where Your Heart is™*.

Know What You Own

If you are finally ready to make a change, then you have to start by looking at what you already own through your investments. What's in your brokerage account? What's in your 401(k)? Just because you own a socially conscious mutual fund doesn't mean that you still don't own a stock that may be offensive to what you value most in the world. I've seen social activists who owned companies that produced weapons of mass destruction. *But they never bothered to really understand where their money was invested.*

You may be thinking "I just don't know where to start!" Here's what you need to do:

1. Get out your investment statements that list everything you own.

Because money is a form of energy, you need to give it enough attention to stay organized, focused and balanced.

2. Go to www.morningstar.com and look up exactly what those things are. At the top of the page is a Quote box. Type in each holding and read the results. Make sure you click on the Portfolio tab for each mutual fund and then view the Holdings. Guess what the top holding is in the Vanguard Total Stock Market Index? I won't ruin the surprise—go and see for yourself. Depending on your social values, this may or may not impact your decision to hold the fund. If you own a stock and don't know what it does, read the Company Profile after you enter the ticker or stock name in the Quote box.
3. Once you've done your research, you may have some decisions to make—what to sell and then what to buy.

Know Your Alternatives

Part of the reason people haven't insisted on cleaner energy alternatives is that investing in oil stocks is safe and comfortable. And let's face it—many of the people with money to invest want security. Dividends often represent that security. But now that BP may have to suspend dividends, it raises the question of why shareholders own the stock.

There are alternative energy mutual funds and exchange-traded funds out there. There are companies that are making strides in the alternative energy arena. This is not what I'd call a "safe" investment. There is plenty of volatility. And yet if we don't pursue some of these options, we're doomed to a life of continued oil spills and excuses about what should have been done and wasn't.

So if it's not oil, what is it?

Wind

Wind power, created in various ways, is emerging as a very viable source of energy. Wind power creates no greenhouse gas emissions and incurs extremely low variable cost after a plant has been constructed. You have probably seen these wind farms while driving down the highway. Opponents criticize the farms' visual appeal; but with far more disturbing images surfacing from the Gulf, you may want to keep an open mind. Initial construction requires a large area of land and a high construction cost. Government funding and support should lead to innovations to decrease these fixed costs, and in turn lead to profits for companies pursuing energy alternatives in the form of wind power. There are a couple ETFs available, such as First Trust ISE Global Wind Energy Index Fund (FAN) and PowerShares Global Wind Energy Portfolio (PWND), which invest in wind energy specifically.

Electricity

Whether it be based on outrage from the recent crisis in the Gulf or fear of rising gas prices, decisions by consumers to invest in electric transportation would directly decrease dependence on oil. Through the implementation of tax credits and funding, the government has greatly increased incentives for buyers and producers of electric automobiles. Electric automobiles have long been thought of as the future of the automobile industry, but direct exposure to the market has been difficult. A major advancement is set to take place the week of June 28: the week Tesla Motors has its IPO. Tesla currently produces one electric model, the Roadster. Although the \$100,000 price tag seems steep, the sports car's acceleration is superior to many gas automobiles currently on the market. Tesla is also planning the addition of a sedan in 2012, which is expected to be in the \$50,000 price range. The company's returns have been less than ideal lately, but this could be perfect timing for the IPO.

This is not only a market for startup companies, however. Getting quality electric automobiles to the market quickly is very much on the mind of existing car makers, as companies like Chevrolet and Nissan have announced the production of electric automobiles and have lofty expectations for the future of the industry. Although the demand for electric cars is growing, there is still plenty of room for improvement, which means opportunity for you as an investor. The big question in this sector is who will emerge with the best solution. Competition is growing rapidly in the industry, and advancements in efficiency, such as longer battery life, could be the determining factor in who captures a majority of this growing market. One ETF that specializes in this area is First Trust NASDAQ® Clean Edge® Smart Grid Infrastructure Index Fund (GRID).

Water

Water is necessary for sustained life. As the population continues to grow rapidly, and the number of developing countries increases, solutions to a diminishing water supply should be on your mind. First Trust ISE Water Index (FIW) devotes a large portion of its portfolio to companies pursuing research and development in water filtration. We often fail to recognize this need, as most of us are fortunate enough to have clean water readily available. However, even developed countries like China are searching for solutions as the rapidly growing population will make it harder for demand to be met. Other ETFs focusing on water solutions are Claymore S&P Global Water (CGW), PowerShares Global Water (PIO) and PowerShares Water Resources (PHO).

Solar

Solar power seems to get the most attention as an alternative source of energy, and perhaps rightfully so. Solar power has the capability of providing a large amount of energy to the world given the proper developments. Although a large area and high fixed costs are necessary for the generation of electricity through solar power, variable costs are low. Due to the implementation of tax credits, these costs have decreased significantly. Assuming these tax credits remain in effect and funding increases, these costs could be even further decreased, making solar power an even more intriguing option. There are several funds with direct exposure to this energy source including Claymore/MAC Global Solar Energy (TAN) and Market Vectors Solar Energy (KWT).

Nuclear

Most people cringe just hearing the word nuclear. However, nuclear power already accounts for a sizable portion of the world's electricity, and further advancements could make it a very viable option for the future. Nuclear power plant construction has dramatically increased globally, but has been stagnant in the U.S. This may begin to change as the Obama administration offers loan guarantees that could facilitate the production of new plants. A major stumbling block could be the safety of nuclear power. If improvements can be made in nuclear waste disposal and/or storage, perhaps we will see greater inroads in this area. Funds like iShares S&P Global Nuclear Energy Index (NUCL), Market Vectors Nuclear Energy ETF (NLR) or PowerShares Global Nuclear Energy (PKN), have holdings in companies pursuing advancements in the nuclear power sector.

What about a nice mix of these?

Alternative energy funds

Most of you will probably want exposure to a broader range of alternative energy sources. There are several funds available that offer this approach (see the chart on the following page). They vary in what they hold, their performance track record and expense ratios. Just like any other volatile area of the stock market, you need to do your homework before you buy.

Summary

Just to be clear, you need to understand that these investments are more risky than your traditional blue chip stocks. Look at the chart on the following page to see returns from year-to-year. If you decide to invest in these areas, prepare to hold on for at least three-to-five years and expect to have losses a good part of that time. Newer companies are going to be more vulnerable to market downturns. But that doesn't mean you can't devote a portion of your overall portfolio to making a difference to something that can no longer be ignored.



Making An Investment in Alternative Energy									
Fund Name (Ticker)	Annual Return			Fund Statistics					
	YTD*	2009	2008	Exp Ratio	P/E Ratio	12 Mo Yield	Pot. Cap Gain Exposure	% Asia	% Eur.
First Trust Global Wind Energy (FAN)	-28.23	22.55	N/A	0.60	14.60	2.99	-112.00	12.00	68.10
PowerShares Global Wind Energy (PWND)	-31.11	31.88	N/A	0.75	17.50	0.00	-65.00	18.80	70.10
First Trust NASDAQ Cln Edge Smrt Grd Inf (GRID)	-9.97	N/A	N/A	0.70	17.20	N/A	N/A	8.20	31.20
Claymore S&P Global Water (CGW)	-9.55	31.54	-40.51	0.65	19.60	1.19	-50.00	10.60	45.80
First Trust ISE Water Idx (FIW)	0.11	19.80	-29.38	0.60	22.20	1.04	-27.00	0.00	4.70
PowerShares Global Water (PIO)	-8.76	39.02	-45.79	0.75	16.60	1.40	-44.00	19.20	40.30
PowerShares Water Resources (PHO)	-3.50	18.01	-32.43	0.60	21.20	0.70	18.00	0.00	4.40
Claymore/MAC Global Solar Energy (TAN)	-35.02	16.88	N/A	0.65	13.20	0.00	-202.00	29.50	38.10
Market Vectors Solar Energy (KWT)	-35.29	10.14	N/A	0.65	14.60	0.86	-141.00	40.40	25.20
iShares S&P Global Nuclear Energy Index (NUCL)	-14.22	37.28	N/A	0.48	10.60	1.75	-2.00	25.70	31.00
Market Vectors Nuclear Energy (NLR)	-13.49	17.33	-44.75	0.62	7.50	2.13	-79.00	31.10	13.10
PowerShares Global Nuclear Energy (PKN)	-7.07	27.06	N/A	0.75	14.30	2.70	-51.00	37.60	16.00
Calvert Global Alternative Energy (ACGAEX)	-24.10	23.04	-58.18	1.85	20.40	0.00	-93.00	16.70	53.60
First Trust NASDAQ Clean Edg Green En Idx (QCLN)	-12.06	42.34	-65.79	0.60	29.30	0.00	-68.00	11.40	0.40
Guinness Atkinson Alternative Energy (GAAEX)	-26.44	33.42	-66.05	1.85	14.70	4.87	-204.00	20.20	42.70
iShares S&P Global Clean Energy Index (ICLN)	-31.67	5.40	N/A	0.48	11.80	1.91	-43.00	24.60	32.50
Market Vectors Global Alternatve Energy (GEX)	-23.00	7.12	-60.82	0.62	19.90	0.06	-169.00	20.30	35.80
PowerShares Cleantech (PZD)	-11.08	35.58	-49.19	0.60	23.60	0.23	10.00	9.50	33.50
PowerShares Global Clean Energy (PBD)	-25.09	31.84	-60.02	0.75	18.70	0.13	-97.00	28.50	39.00

* As of 5/31/2010

About Radiant Wealth™

“Radiant Wealth” is a state of mind. When you know you have everything you truly need and you can extend that sense of fulfillment to enrich the lives of others, you will find financial happiness. We invite you to be a part of that process and think beyond the traditional measures of wealth. Join us at www.financial-happiness.com. Membership is free. Subscription to the complete version of *Radiant Wealth* is only \$36 a year.

Stevens Wealth Management is an independent fee-only asset management and strategic planning firm located on Chicago’s North Shore in Deerfield, IL. Our mission is to proactively act in our client’s best interest as a fiduciary. Our goal is to help clients attain peace of mind through a process of visionary, comprehensive investment management and retirement strategies. Contact us at 847-580-4240, www.stevenswealth.com, or info@stevenswealth.com.

Sue Stevens, CFP®, CFA, CPA/PFS, MBA, MS is editor of Radiant Wealth, author of the award-winning book *Put Your Money Where Your Heart Is™*, and owner of Financial Happiness LLC and Stevens Wealth Management LLC. She has twenty years experience working with individual clients on personal finance issues and has been recognized by Forbes/Goldline Research, Bloomberg, Worth and others as a leading wealth manager. Sue was Director of Financial Planning at Morningstar, a senior executive at The Vanguard Group and Arthur Andersen. Sue is also a professional cellist and plays in the Chicago area.

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Thanks to everyone else who makes this newsletter possible.

