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In The News

Global “contagion” and what it means for you

We’ve heard a lot about Greece and its debt crisis – but what does that mean to us as American investors, and why should we be concerned? After all, we don’t own Greek bonds, so why should we care?

Well, in this increasingly global economy, it does matter. Which brings us to our financial term of the month, “contagion.” Contagion is defined by Webster’s as “1) a contagious disease and 2) the transmission of a disease by direct or indirect contact.” Clearly, people get interested when it’s used to describe financial markets.

Contagion refers to small shocks that initially affect a single or a few financial institutions or particular sectors of the economy but then spread. Put another way, it’s when

some shocking event affects one company or country, scaring investors enough to lower their expectations in an otherwise unrelated company or country. For example, when Lehman Brothers declared bankruptcy in 2008, everyone quickly sold off all other financial institution securities, which then spread to all stocks, even outside the financial sectors.

In Greece’s case, investors and financial leaders were concerned that if Greece failed to pay its debt payments it could cause a panic that other countries could have the same issues, causing investors to ask for more interest in return for their perceived risk of a country. This puts even more pressure on an already fragile world economy.

Even America’s economy, an ocean away, could be affected by the ripple effects. Usually, and arguably with Greece, the concern and sell-off is unfounded when looking at the countries or companies on their own merit, but if enough people in the market get concerned at the same time, then individual merits don’t count for much.

As always, please contact us if you’d like to discuss how global events could impact your financial future.

– Patrick Carroll

(More about dealing with global events in Joel’s Corner, page 3)

Contact Us

Office hours: Monday -Thursday | 8 a.m. - 5 p.m.
 Friday | 8 a.m. - noon

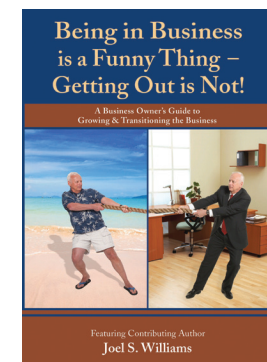
- Beth Ashe | betha@joelwilliams.com
- Joel Williams | info@joelwilliams.com
- Mike Jones | mikej@joelwilliams.com
- David Harder | davidh@joelwilliams.com
- Sara Bohn | sarab@joelwilliams.com
- Robin Hoback | robinh@joelwilliams.com
- Patrick Carroll | patrickc@joelwilliams.com
- Kristen Kopanda | kristenk@joelwilliams.com

Farewell Amanda and welcome Kristen

Amanda LaHaie has left JSW Financial to join a financial planning firm in Dallas. We thank her for her commitment to our clients – we wish her all the best for a bright future. At the same time, we welcome Kristen Kopanda, a financial planning student at Virginia Tech who will help us continue to provide the service you have come to expect.

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New book tackles challenges of business ownership



Joel is a contributing author of a new book focused on business owners. “Being in Business is a Funny Thing – Getting Out is Not!” is a

business owner’s guide to growing and transitioning a business. Published by Collaborative Press, it focuses

on growing a business and then maximizing its value for possible sale or transition so the owner can properly plan for retirement.

“Entrepreneurs are often the last to consider their financial futures and so much of their wealth is tied up in their business,” Joel says. “This book is a guide to help them accelerate a business so they can enjoy the fruits of their hard work and sacrifice.”

The book is available in early August. Please contact us for a copy.

JSW has 3 CFPs®

With Joel, Mike and now Sara on the team, JSW Financial has three Certified Financial Planners™ – the most of any independent firm in Virginia west of Richmond.

Save the date

Please make plans to join us on Saturday, Nov. 19 for our next Client Appreciation movie at the Lyric in Blacksburg. Details to come.

Insurance plays key role in financial planning

First, a “thank you” to our JSW Financial clients for warmly welcoming me to the family as one of your trusted advisors. It has been a whirlwind introduction to this fantastic firm, and I have enjoyed every minute of it.

One of my core competencies is insurance, retirement and estate planning so I will routinely share with you information about life insurance, long-term disability insurance, long-term care insurance and annuities. This article is the first of many focusing on these types of insurance products.

Life insurance is often a misunderstood financial product. And yet explaining it starts out simply. The life insurance industry is founded on the fact that life insurance can only be sold if a death benefit is needed. This is relatively clear and understandable. This is where the clarity ends because many people may interpret “needs” differently (we’ll discuss more in future articles).

Long-term disability insurance is probably one of the most misunderstood insurances. Fundamentally, the purpose of getting disability insurance is to protect you and your loved ones from loss of income. If you become ill and unable to work (or if you have to work reduced hours due to your illness) and you don’t have long-term

disability insurance, it’s highly likely your income may stop. If that happens what will you live on?

Long-term care insurance (LTCi) is yet another insurance that’s sometimes difficult to understand. I often suggest to my clients that “when you are old and grey, and you fall and break a hip, and your spouse is around your age, who will take care of you?” One of the biggest needs for long-term care is Alzheimer’s and dementia. Elderly can be physically well, it’s just that they can’t take care of themselves safely. LTCi can also be used to protect an estate from being spent down if care is needed.

Annuities are primarily used for accumulating wealth in a tax-deferred manner, and having the options that allow you to “not run out of money” in retirement.

With all of these products, there are different aspects of them that may (or may not) apply to you and your life plans. That is one of the reasons we are here. We are financial professionals who listen to you. We want to make sense of the financial services world for your particular situation.

If you are interested in more information about these topics, please call and ask to speak to me.

– Sara Bohn

Is your estate plan healthy?

Is your estate plan up to date? Is it still a secret to your family? A recent study of affluent families by U.S.Trust found that there are some deficiencies in their estate planning and in communicating their wishes. Some highlights (lowlights?):

- Only 61% believe their estate planning is comprehensive.
- More than half (54%) stated they don’t understand some aspect of their plan.
- 60% have not discussed details of their estate plan with their spouse during the past year.
- In many cases, a large majority (72-88%) aren’t making use of advanced estate-planning tools that could better protect their assets and help them meet their goals.
- Fewer than half have a personal balance sheet documenting the value of their assets and possessions. Less than half have documented how they want their personal property distributed and only a third stated their heirs understood their wishes on how personal property should be divided.
- Only 61% have a plan that factors in the impact of long-term care costs.
- Only 54% have discussed their long-term care plans/wishes with their spouse in the past year.

• An astounding 97% of business owners don’t have a business succession plan.

Some conclusions: First, many of you are in much better shape from an estate planning perspective than your peers. We have reviewed your estate plans with you and regularly discuss them to make sure they stay up to date and that you understand them.

Some of you may still have some questions about your estate plan or have had a change in your life that may impact your plan. In that case, let’s go over your plan again to make sure it still meets your needs.

Third, if you are a business owner or know someone who is, typically a significant amount of wealth is tied up in the business. These situations usually require additional planning which, as the study points out, is not being done in many cases. We can help there as well.

Finally, you probably know people you care about who have some gaps in their plan or in the communication of that plan to their family. We’d be happy to sit down with them to discuss their plan and uncover those gaps. Remember, proper estate planning is needed at all stages of life.

– Mike Jones

Cliff notes for investors

Focus, flexibility and patience

To be sure, these are some serious times and investors are justifiably stressful about the state of the global economy. With Greece, the debt ceiling and budget deficit, what’s an average investor to do to maintain sanity?

First, the situation is not as scary as the media or politicians make it sound. The United States has been in a severe financial crisis before, as have other countries throughout history. We’ll get through this, even if the politicians screw it up initially.

You say, “Stellar advice. Am I supposed to sit on my retirement plan and wait for the politicians to get it right?” No, not exactly. Here are the Cliff Notes version of a suggested investment approach.

Don’t try to time (move in and out) this market going into the next phase of the market. The market may be too high short term but in the long run we may be in for another 20,000 Dow. Focus, flexibility and patience are the key components of a successful strategy, particularly in this period. Here’s why:

Global commerce capacity is expanding, as is global demand for goods and services. We are talking about the longer-term trend beyond these blips of crisis along the way. Technology has set the direction and basically changed the rules for domestic economic expansion in many countries.

This means that overnight markets can change economies, not just to geo-political surprises, but an increasing influence of growing affluence among the middle classes.

Therefore there is going to continue to be an increasing demand for goods and services globally AND someone is going to meet those needs. The stock markets are simply a reflection of increasing goods/services being exchanged over the longer term. Bottom line: The stock markets will continue move up over the next 3-5 years, albeit in fits and starts – and that will drive investment managers nuts.

As investors, we need to understand that the data do not exist today to design an asset allocation strategy that cannot be expected to change over the next 6-18 months, much less 1-5 years. That is why it is important to use “absolute return” managers/strategies for any investments that may need to be consumed within the next 10 years.

Beyond 10-year time horizons, alternative investments need to be used and generally those that are illiquid in that timeframe will, in my opinion, provide a greater stability of performance.

Investment summary: While the global economies continue within a range of instability, the following asset allocation should be considered:

- Cash for 3 years of income needs.
- Cash flow needed for 3-10 years should be placed in “absolute return strategies.” These are defined as a portfolio that can invest in any traded (private or public) asset class, including cash within a very short period.

This strategy is liquid, and liquidity is the name of the game. Most investors do not have the experience

or discipline to enter and exit ALL the asset classes. Besides stocks, bonds and cash, these classes include international bonds, commodities, hedge funds, special ETFs, real estate (public and private, but liquid), gold, silver and currencies, again with a liquid character to the strategy.

Using professional money managers with differing strategies is the most prudent in my opinion. Let the managers worry about entry/exits of the many different market classes. Diversify on the different strategies (managers), rather than asset classes.

To reiterate, in my opinion, investors can get through these turbulent times with less stress, by exercising some prudence and common sense based on historical facts about the development of economies.

One must stay focused on the reality of the situation; it is not hopeless and economies have experienced such serious times before. However, flexibility is a key characteristic of any investment strategy during these rapidly changing times, caused by all kinds of geo-political issues. Finally, patience is still a virtue, which is different than doing nothing. Focus, flexibility and patience: your Cliff Notes for the next decade.

Markets

July 20 , 2011

DOW | 12,571.91

Nasdaq | 2,814.23

S&P 500 | 1,325.84

Stay tuned,
– Joel

“The situation is not as scary as the media or politicians make it sound.”