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FALL 2011

Passing the Torch

I AM SO lucky to have been part of a business that has had so many loyal clients. I can't thank you all enough for sticking with us through thick and thin. Almost 25 years to the day, Raymond Rathka and John Shoemaker extended an offer to me to join them in building a money management firm. I couldn't wait to employ my mathematical training and my experience as an AT&T financial professional researching stocks and managing portfolios. I have instead spent the majority of my time managing a growing employee base that now numbers 57 and is heading higher, as well as nurturing our 5,500 client relationships and their \$2 billion of assets. My early work experience as an AT&T interviewer in the AT&T Shareowner Visitation Program left me with the indelible impression that the success of one of the world's best companies was dependent on satisfied customers, adequately compensated investors, and hard-working, loyal, and fairly compensated employees. At Advance Capital, we have never wavered from our commitment to these three stakeholder groups in our pursuit of excellence.

I am now passing the torch with complete confidence to our experienced management team led by Joseph Theisen and Chris Kostiz, just as my partners did when they passed the torch to me. Advance Capital has many capable planning professionals taking full-time responsibility for my clients and an expert problem-solving management team dedicated to moving our business forward. The Employee Stock Ownership

Plan is in place to transfer ownership over time to all employees, without whom we would have no business. The technological changes to our computer software and customer servicing systems deployed over the past few years place us at the cutting edge of technology, and our young, morally sound, and expertly qualified planners are positively engaged to meet the customer service challenge of the next 25 years.

My 25-year journey has left me a much more complete human being for the friendships I have made and the experiences that we have shared. I will be maintaining contact with the many who list me as a friend as well as an advisor; and my involvement with the business will continue in a number of ways over the next few years, primarily staying in touch with clients and attending many of the client meetings that we hold. To our current clients and future clients, I wish you continued sound financial advice and success.

Robert J. Cappelli

The Long View

IN THE PAST few issues of *Retirement Insights*, you have been reading Terry's questions and the responses to those questions from some of Advance Capital's advisors. Terry,

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Investors should carefully consider the investment objectives, risks, charges, and expenses of the Advance Capital I, Inc. mutual funds before investing. This and other important information is contained in the fund's prospectus, which can be obtained by calling (800) 345-4783. The prospectus should be read carefully before investing or sending money. Past results are not predictive of results in future periods. Current and future results may be lower or higher than those shown. Share prices and returns will vary, so you may lose money. Investments are not insured, and may lose money. Clients should be prepared to bear the risks associated with investing.

The Long View

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although not an actual client, gives us an opportunity to reflect on common questions that we encounter on a day-to-day basis in conversations with clients. This quarter, Michael Hohf, CFP® will address Terry's concern of the decrease in account value during the third quarter.

Terry: I recently received my third quarter statement and am concerned about the decrease in my account value. If I continue to lose value, I could be out of money soon.

Mike: First, I would like to address what happened in the quarter and the reason for the decrease in your account value. Back in early July, the stock market was still in the midst of a very robust run up that began in March 2009. In that period, the S&P 500 had increased by over 100 percent. These results, although welcome, should not be expected as normal. Stock investors had generated very nice returns and questioned how long the increase could last. The European debt problems that resurfaced in the early summer combined with the heated political debate of raising the debt ceiling here in the U.S. gave stock investors a reason to sell stocks in favor of stability, favoring cash and U.S. government bonds.

Receiving a statement that shows a sharp reduction in account value can be daunting. As difficult as it can be, it is important to not "compartmentalize" these investment results. As best as you can, understand that it should not be assumed that this drop in value will happen for an extended period of time. In fact, sharp declines in account values are normal. Looking back from 1946–2010, there is an average of one 10 percent (or more) decline in the S&P 500 each year. Furthermore, over that same time period, the average intrayear decline in the S&P 500 was 14.1 percent. Investors who have found the courage to remain committed to their long-term investment plan have been rewarded. The average annual return for the S&P 500 during the time period was 10.72 percent with dividends being reinvested (Source: American Funds).

Terry: It seems like the volatility in the market is here to stay. Should I make changes to my portfolio to

preserve what I have and wait until the wild swings stop?

Mike: There are certainly macroeconomic concerns present in the marketplace. The fact that the solutions to some of the issues need to be addressed by governments all around the world adds to the uncertainty. It is important to understand that we are not investing in governments. For the most part, you own stocks and bonds of corporations. At this point, corporations have put themselves in very good shape to prosper when these global problems are worked out. Corporate earnings are solid, dividends are growing, and stocks appear to be attractively valued. We find these underlying fundamentals of the marketplace encouraging.

To relate those principles to your investments, client portfolios are constructed with your needs in mind. Given the fact that a majority of clients are retired, by default, your portfolio is designed to weather stock market volatility by having a large portion of the portfolio invested in more conservative investments, like bonds. Bonds along with dividend-paying stocks are utilized in your portfolio to generate stable dividend income, which are used for withdrawals.

The alternative to this strategy is to use cash investments — CDs and money market accounts. This achieves the need for stability but does not accommodate the second need of generating income. With CD rates and money market yields extremely low, an investor needing income from their assets will be drawing down the principal of their retirement assets and will increase the likelihood of eventually running out of money.

It would be nice if there were an investment that paid income, provided stability and increased in value over time. Unfortunately, this investment does not exist without taking well-calculated risks. *Over time*, history has shown that a well-diversified portfolio allocated to meet your objectives works to provide these traits. As much as you can, ignore the day-to-day reactions in the financial markets. Focus on your investment results over time, and you will be well served. ✓✓✓



GATT Me Outta Here!

N EWSFLASH! INTEREST RATES are low. Very, very low. If you are saving money, that's lousy news. If you are borrowing money, it's terrific news. If you are retiring from AT&T and plan to elect the lump-sum pension, things couldn't be better. As this article is being written, the current yield of the 30-year Treasury bond is roughly 1 percent lower than the 2011 rate (4.19 percent) for bargained-for employees. That translates into as much as a 10 percent increase in a lump sum! It's settled then! Get ready to retire in 2012!

Not so fast. As always, there is a little more to it than that. First and foremost, you should decide if any of this matters. Ask yourself, "Am I ready to retire?" and then, "Can I afford to retire?" If you cannot answer "yes" to both of these questions, then put the GATT rate out of your mind until you can. The bottom line is, if you are not emotionally and financially prepared to stop working, then don't do it. That being said, the GATT rate changes coming in 2012 have already created a fair amount of confusion. Let's set the record straight so you can have all the facts in order to make one of the most important decisions of your life.

While it is true that beginning in 2012, the GATT rate will begin phasing in a corporate bond interest rate

over the next four years, the 2009 CWA/IBEW contract allows employees who retire by March 31 to take advantage of a "special pension window." Essentially what this means is, during the first three months of 2012, a retiree can still use the GATT rate as it is currently calculated (100 percent based on the yield of the 30-year Treasury bond for November 2011). Once the calendar turns to April 1, the only option will be the new, blended rate. Is it the worst thing in the world, then, to work past March 31? Absolutely not. There is little doubt that the blended rate will be higher than the non-blended one. However, the combination of historically low interest rates across the board, as well as the fact that only 25 percent of the new GATT rate will be based on corporate bonds translates into only a modest impact. It is impossible to quantify at this time, but you can rest assured the difference will not be enough to retire over.

The GATT rate is always worth monitoring and plays an important role in deciding exactly when to retire, particularly early next year. However, it should **never** be the sole reason for leaving. There are many factors to consider when making such an important decision. Consider all of them. Most important, get your information from the people you can trust and have **your** best interests at heart. Give your local Advance Capital office a call today.

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Hello?...I Think We've Been Disconnected

T he third quarter of 2011 was filled with concerning events. From the discussions centering on raising our nation's debt ceiling (again) to the slowing economic numbers and continuing problems in Europe, there were no shortage of issues to worry about. Every day it seemed as though the bad news kept coming with no end in sight. Investors, worried about these events, moved assets out of the market, which pushed the S&P 500 down almost 14 percent.

Despite all of the negativity and fears about another recession around the corner, many of the very important fundamentals concerning the markets and economy were overlooked within the quarter. Along with the news of the economy slowing in its recovery were continued earnings and profit announcements from companies. These remained at near record-level highs. Companies are continuing to build cash, strengthen their balance sheets, and remain competitive. As consumer sentiment declined,

durable goods orders and overall gross domestic product increased. As fear over the situation in Greece and other debt-saddled European countries pushed the price of gold to record highs, before falling almost \$300, the unemployment rate and jobless claims remained steady. Consumer spending, especially retail spending, is rising and interest rates remain low.

The positives that the economy and businesses have been experiencing were largely ignored last quarter. The data generally does not support the fears associated with another recession, however, investor sentiment is a driver of the market in the short run. Over the long term, the fundamentals of business and economies drive the markets. One of the lesser-known sayings attributed to the market goes like this: *Investors must accept short-term volatility in order to meet their long-term objectives.*

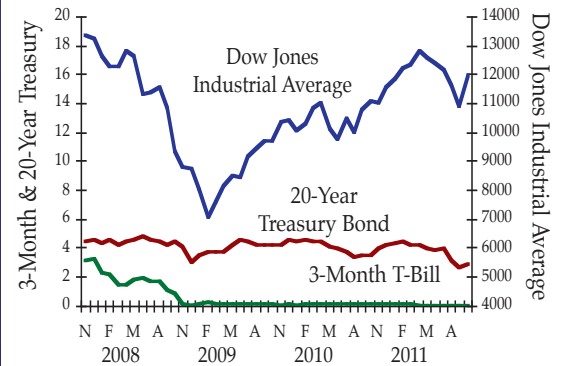
Even though there is still a great deal of concern and

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Market Data	Month End			% Change	
	Oct 11	Sep 11	Aug 11	YTD	12 Mon
Dow Jones Ind.	11955.01	10913.38	11613.53	3.3%	7.5%
S&P 500	1253.30	1131.42	1218.89	-0.3	5.9
Nasdaq Comp.	2684.41	2415.40	2579.46	1.2	7.1
Wilshire 5000	13123.82	11771.86	12792.55	-1.3	5.7
Gold	1722.00	1620.00	1813.50	22.5	27.9
Silver	34.46	30.25	41.77	13.4	42.2
				Dec 10	Oct 10
Prime rate	3.25	3.25	3.25	3.25	3.25
Money market rate	0.50	0.54	0.57	0.00	0.02
3-month T-bill rate	0.01	0.02	0.02	0.18	0.13
20-yr. T-bond rate	2.92	2.68	3.13	4.23	3.56
Dow Jones Corp.	3.67	3.69	3.60	3.89	3.46
Bond Buyer Muni	5.02	4.92	5.08	5.51	4.93

Sources: *Barron's, Wall Street Journal* Past performance is not a guarantee of future results.

4-Year Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield November 2007 to October 2011



Sources: *Barron's, Wall Street Journal*

Disconnected

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uncertainty in the world, there are also bright spots. The 2007–2009 recession is still fresh in everyone’s mind, however, we are not in the same situation today. Since the recession was longer and deeper, the recovery will likely take longer as well and will be fraught with both positives and negatives. Allowing the market gyrations and short-term losses to derail you from your long-term objectives and strategy is a recipe for diminished success, or worse.

Each recovery period is different, but it is not uncommon for the third year to be marked by a negative return

for the market. The retirement portfolios we construct for clients are less volatile due to their diversified nature and rely upon interest and dividend returns as well as stock market returns. Interest and dividends do not generally fluctuate with the market and can be counted on to provide income and reduce volatility. Things will get better with time; we, unfortunately, never know how much is needed.

Already the fourth quarter seems more positive with the market recovering from its lows and the fears centered in Europe subsiding some. ✓✓✓

It is not possible to eliminate all risk through diversification. Diversified portfolios can still lose money and are not insured.

Did You Know?

- ✓ Advance Capital recently hired two new analysts to perform research and analysis for the Advance Capital I mutual funds:
 - **Luis Cely** is a Wayne State University graduate with a Bachelor of Science degree in Mathematics and a Master of Business Administration in Finance. He recently passed the Level 3 exam for the Chartered Financial Analyst program. Prior to joining Advance Capital, Luis worked as a credit analyst for LaSalle Bank, a research analyst for Cross Industrial Research, and as a performance analyst for an investment consultant in Auburn Hills.
 - **Vince Vitale** is a graduate of Michigan State University, where he earned a Bachelor of Arts degree in Finance. He also attended Walsh College, where he earned a Master of Science degree in Finance with a specialization in Financial Planning. He earned his Chartered Financial Analyst designation in 2010. Prior to joining Advance Capital, he worked at Duff & Phelps, an investment banking and consulting firm, as a senior financial analyst where he specialized in valuation consulting for Fortune 500 companies. ✓✓✓

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