

The Retirement Advisor

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Summary: Our model portfolios continue to meet our objectives with market beating returns over a very difficult period in history.

The Retirement Advisor Portfolios	Dollar Value on 7/31/2011	Change
Model Portfolio 1	\$247,393	23.7%
Model Portfolio 2	\$251,386	25.7%
Model Portfolio 3	\$258,814	29.4%
DJIA 12,501.52 on 1/1/2007	\$12,143	(2.9%)
S&P500 1,418.30 on 1/1/2007	\$1,292	(8.9%)

The Retirement Advisor Model Portfolios all began with \$200,000 on 1/1/2007. Returns by year shown at bottom of page 10.

Looking Forward and Back

In the summer of 2006, as we discussed the idea of beginning a new newsletter service, each of the three original editors wrote newsletters where we used different talents to achieve market beating returns. One of us had a talent at market timing that had helped his subscribers out-perform the market. Another used individual stock selection to achieve superior returns while the third believed a macro-outlook on global economies and efforts to identify changes in economic conditions would result in the best chance of success going forward.

We spent many hours considering how to approach our **Model Portfolios**. In the end; we decided to do something totally different and we believe was not being offered elsewhere. The simple premise and guiding mission behind **The Retirement Advisor Model Portfolios** is to offer what we would be comfortable recommending to our parents, grandparents and ourselves. Our goal was to create a simple, easy to understand strategy with simple model portfolios that allow investors in or near retirement the ability to sleep well at night not worrying about their investments.

The context for this decision bears upon the events transpiring of late. At the end of 2006, the market was staging an enormous rally that resulted in an all-time bull market being reached in the fall of 2007. The appetite for generating tremendous returns in equities was high, and there was certainly plenty of interest in going that route. At the same time, interest rates were producing solid returns with FDIC-insured CDs yielding 6% in many cases.

The one thing that all of the editors had in common was our interest in market and economic history. We had and continue to have many discussions about the one thing that is certain, the uncertainty in the market. For investors approaching or in retirement, we decided to construct our **Model Portfolios** such that they would not only be able to generate enough returns in the good times, but more importantly be able to weather the bad times.

“Looking Forward and Back” continues on page 2.



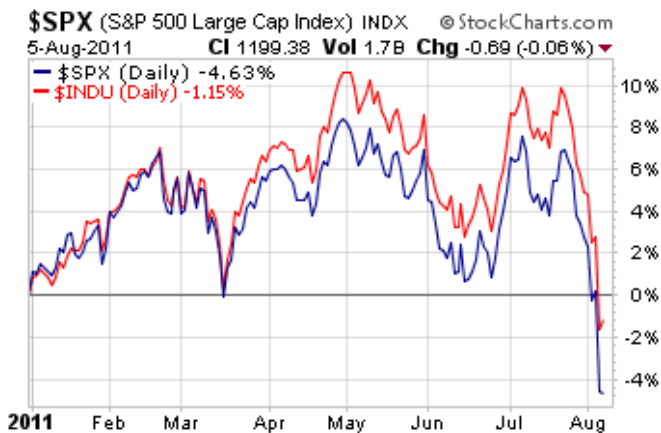
Charts courtesy of StockCharts.com
MA(50) & MA(200) are 500 & 200 day moving averages

Looking Forward and Back Continued

In 2008-2009, our country and the world underwent a significant financial crisis. Our portfolios with their conservative investments endured and thrived. Beginning in March 2009, the stock market went on a tremendous bull run, and interest rates fell out of bed. Our portfolios continued to perform well and we resisted the temptation to chase the latest fads.

This past week, stock market investors were shaken once again with a sharp decline in equities. The S&P 500 has now fallen more than 10% in a short time, including two incredibly volatile back-to-back sessions on Thursday and Friday of last week. These are the kinds of moves that can shake an investor's confidence, make them sell out of the market, or diminish the quality of their life because of the despondency a significant loss in their portfolio can produce. This is precisely the kind of event we are prepared for and have our subscribers positioned to come through without worry.

A look at the chart of the S&P 500 – which comprises approximately 75% of the total market capitalization of publicly traded stocks in the United States, shows the kind of volatility this year has already produced. The market had already produced gains in excess of 10% by May, only to give them all back and then almost another 5% since then.



When our newsletter was published last month, the United States stock market was trading almost at its very high for the year and we wrote the following:

"While we don't engage in market timing, we like to bring to our subscribers attention when the stock market is at or near its highs to suggest to them that if they have been looking to rebalance and lighten up on equities, it always makes sense to sell into strength when you can make rational decisions, rather than selling into weakness when fear usually leads to irrational decisions. You don't have to wait for the year end to rebalance back to 50:50 when we do, you can use periods of strength when your allocation exceeds a target by 2% to 52% equities and 48% fixed income, for example."

With the stock market now down almost 13% since our last publication, we now take the opposite approach. For subscribers who are light on equities and felt they were "missing out" when the markets were making new highs,

now is the time to consider adding to the equity side of your portfolios. We like buying stocks during periods of market weakness where intense fear can present attractive bargains in equities.

Our preference is never to do an all or nothing move, but rather to adopt a measured approach to putting new money to work. Consider an accelerated dollar cost average approach where, for example, you make purchases once a week, instead of once a month. We have done this with our own personal portfolios.

Also, for investors approaching or in retirement, we avoid the risk inherent in selecting individual companies. Rather, we recommend going with a diversified low cost index fund or exchange-traded fund. In the bond market, the news dominating the last month and this weekend is the credit worthiness of the United States government debt. We were disappointed our elected politicians did not enact a well thought out and considered approach to reducing the deficit while leaving the issue of the debt ceiling to literally the last minute. After the market's close on Friday, we were not surprised when Standard & Poor's removed its triple-A rating the U.S. has held for 70 years, saying the budget deal didn't do enough to address problematic outlook for America's finances. It downgraded long-term U.S. debt to AA+, a score that ranks below more than a dozen foreign governments and put the new grade on "negative outlook," meaning the U.S. has little chance of regaining the top rating in the near term.

Ironically, even as the world has been watching the problems in Washington and discounting the likelihood of the credit downgrade, investors flocked to Treasuries as a safe haven this week. Slowing economic growth in Europe and worries about possible default in Italy and Spain made the U.S. currency look good.

The widely accepted definition of the term "recession" is period of economic decline during which trade and industrial activity are reduced, generally identified by a fall in GDP in two successive quarters. Using this definition, we stand by our view that a NEW recession (too many positive growth quarters for a double-dip) is not on the horizon. Even this past week, amongst the turmoil in the markets, there was some good economic data, including strong motor vehicles sales and consumer credit. The employment data came in better than expected, although we continue to believe that high unemployment will plague any meaningful recovery for the foreseeable future.

At **The Retirement Advisor**, we recommend a very conservative approach to the fixed income side of a portfolio, believing that maintaining principal is paramount and that investors should not chase yield. It is a difficult goal to adhere to when interest rates are at historic lows and investors are struggling to generate income from CDs and other fixed income instruments. However, our approach is to take risk on the equity side of our portfolios and keep the fixed income side relatively safe.

SOCIAL SECURITY

Despite the problems in Washington, the Social Security Administration announced this week that Social Security payments for August including payment dates of August 10th, 17th, and 24th will be made as scheduled. People still receiving paper checks from Social Security should consider signing up for Direct Deposit, the secure and convenient way to receive Social Security payments. All current beneficiaries must switch to electronic payments by March 1, 2013.

MEDICARE

Keeping your immune system strong is a lifelong, life-protecting job. Your Medicare preventive benefits include three shots:

- 1: Flu Shots: Covered once a flu season in the fall or winter.
- 2: Hepatitis B Shots: Covered for people at high or medium risk for Hepatitis B (usually a series of three shots).
- 3: Pneumococcal Shot: Covered to help prevent pneumococcal infections (like certain types of pneumonia). Most people only need this shot once in their lifetime.

Getting your shots has never been easier. As we approach the fall season, you will see these shots offered in many places, such as your local pharmacy, so make sure you take advantage of them. As long as the supplier or doctor accepts assignment for giving the shot, you pay nothing.

MORTGAGE RATES

The rate on the 15-year loan, a popular refinancing option, dropped to 3.54 percent this week from 3.66 percent last week, Freddie Mac said Thursday. That's the lowest since the mortgage buyer began tracking it in 1991. Analysts say they believe it is lowest rate of all time. If you have the ability to lock in a 15-year mortgage rate right now, you will be borrowing at a "real" cost (adjusted for inflation) for about as low a rate as you will ever find for borrowing on a home.

Mortgage Overnight Averages

Product	Rate	Last week
30 yr fixed	4.31%	4.51%
15 yr fixed	3.48%	3.64%
5/1 ARM	2.86%	2.98%
30 yr fixed refi	4.39%	4.60%

*Mortgage rate data from Bankrate.com as of 8/6/2011

Subscribers should always consider that the "real cost of money" you borrow is your mortgage rate less the rate of inflation. We consider 3% typical and anything under 2% as outstanding. If you are in a 33% combined Federal and State tax bracket, then you reduce your cost of money by a third such that a 5.5% mortgage is effectively only 3.7% after the deduction before subtracting inflation.

SAVINGS TIP OF THE MONTH

At *The Retirement Advisor*, we are focused on helping our subscribers design and maintain optimum retirement portfolios. But part of retirement is maximizing the cash you have and so we also address the topic of how to save money.

Did you know that you could receive "freebies" one day of the year that would cover the cost of a subscription to this newsletter? That day is your birthday, and with a new web site, you can search by state every offering given to those who are celebrating their birth. It used to be the best you might get would be a free ice cream cone. These days, you can get complete dinners, discounts on hotel rooms, free car washes, treats for pets, admissions to museums, just to name a few. Why not treat yourself to true savings on that special day? Here is the URL to the best web site for this purpose. The name says it all:

<http://www.freebirthdaytreats.com/>

TAX HOLIDAY

August is the most popular month for states to offer tax "holidays" each year. We are pleased to see more States offering these tax holidays and increasing the items being tax exempt.

This year, seventeen states and the District of Columbia have tax holidays in place. All of these States designate specific dates (most frequently in August) where consumers can purchase various items without paying sales tax.

Typically, the tax holiday applies to items such as clothing, school supplies, and computers. For many consumers, waiting to purchase these items until a tax holiday represents a significant savings, although most states do place a cap on the amount you can purchase during the tax holiday. You can find information about each State's tax holiday at the following URL:

<http://tinyurl.com/rd724>

GUIDANCE ON FEDERAL DEBT

On Friday Standard & Poor's rating agency lowered the long-term rating of the U.S. government and federal agencies from AAA to AA+. With regard to this action, the federal banking agencies provided guidance to banks, savings associations, credit unions, and bank and savings and loan holding companies stating that for risk-based capital purposes, the risk weights for Treasury securities and other securities issued or guaranteed by the U.S. government, government agencies, and government-sponsored entities will not change. The treatment of Treasury securities and other securities issued or guaranteed by the U.S. government, government agencies, and government-sponsored entities under other federal banking agency regulations, including, for example, the Federal Reserve Board's Regulation W, will also be unaffected.

CERTIFICATES OF DEPOSIT

Rates on the 1-year maturity in Certificates of Deposit (CDs) continue to stay below 50 basis points with the average yield at 0.44% for the eighth straight week. We remain cautiously optimistic that this is a bottom area for CD rates and that is one of the reasons we recently avoided a CD for our model portfolios, opting instead for the high yield savings account.

The average 5-year CD is 1.61%, the same as last month. For jumbo CDs that require a significant deposit (over \$100,000), the rates are also the same as last month. The average one-year jumbo CD is 0.48% and the average 5-year jumbo CD is 1.62%.

Do not settle for an average yielding CD. Each month, we search for the top yielding CDs offered nationwide and include them in the chart at the bottom of this page. We also encourage our subscribers to search their newspapers for competitive rates that are only offered to local markets.

Ally Bank is offering a promotional "No Penalty 11-Month CD" with an annual percentage yield of 1.13%. The most attractive thing about this promotion is that Ally will return to you your full balance and interest any time after the first 6 days of funding your CD. In addition, you can open this account with \$0, so it makes it a good candidate to create a CD for a child or grandchild with a small amount. It is insured by the FDIC and accrues interest compounded on a daily basis. Learn more about it at this URL:

<http://tinyurl.com/3fh5yhr>

MAXIMIZING YOUR CASH

There is no reason to hold a significant amount of cash in your local bank's checking or savings account. Many local branches offer miniscule interest on such accounts. After fees and expenses, in some instances you end up making zero return on your money. Beyond having enough cash to cover your bills and regular spending needs, with the ease and speed of electronic transfer of funds, you can earn a much higher yield on your cash holding it in a high yield saving account, a high yield checking account or a money market account. While rates have come down significantly in all of these categories, making something is better than nothing.

Best CD Rates as of 8/6/2011

CD Term	FDIC Bank / Institution	Rate %	APY %	Minimum	Web Site for More Information
6-month	Ascencia Bank	1.02	1.02	\$500	http://www.ascenciabank.com
1-year	Melrose Credit Union	1.30	1.31	\$5,000	http://www.melrosecu.org
2-year	Melrose Credit Union	1.55	1.56	\$10,000	http://www.melrosecu.org
3-year	Melrose Credit Union	2.05	2.07	\$5,000	http://www.melrosecu.org
4-year	Melrose Credit Union	2.30	2.32	\$5,000	http://www.melrosecu.org
5-year	Melrose Credit Union	2.80	2.83	\$5,000	http://www.melrosecu.org/

Money Market Account

"My Banking Direct" is offering a money market account with a 1.25% APY. It requires a \$5,000 minimum deposit. Learn more about it at this URL:

<http://tinyurl.com/4yrowys>

Savings Account

Bank of Internet USA has introduced a new internet division called UFB Direct which offers new checking and savings accounts that earn airline miles. The most noteworthy feature of these accounts is the savings account yield of 1.30% APY. This is now one of the top savings account rates offered nationwide. Learn more about it at this URL:

<https://www.ufbdirect.com>

We continue to recommend the high yield savings account offered by American Express. We don't think it is worth the bother of switching banks every few months to get less than 0.3% extra income on \$100,000. We chose American Express because it paid the top rate at the time and it is a reputable company that has consistently offered quality products and excellent customer service. American Express currently offers a high yield savings account with a 1.00% APY. It is FDIC-insured up to the applicable limit with 24x7 access to the account by phone or online. American Express is a trusted institution and we like that there are no fees or minimum balance requirements for this High-Yield Savings Account. Learn more about it at this URL:

<http://tinyurl.com/o2tuf2>

Checking Account

Most people's checking accounts pay little to nothing in interest. First National Bank in Ohio is offering a nationwide reward checking account with a yield of 2.25% APY for balances up to \$25,000. You can learn more at this URL:

<http://tinyurl.com/3lo34zh>

ECONOMIC UPDATE

Economic Cycle Research Institute (ECRI): At *The Retirement Advisor*, we track ECRI's US Weekly Leading Index and Future Inflation Gauge, WLI and US-FIG, respectively. See: <http://www.businesscycle.com>

Inflation: The Consumer Price Index for All Urban Consumers (CPI-U) decreased 0.2% in June on a seasonally adjusted basis. Over the last 12 months, the all items index increased 3.6% before seasonal adjustment. The 12-month increase in the index for all items less food and energy (core inflation) was 1.6% compared to 1.5% in May.

As of August 5, ECRI's US-FIG [page 8], fell again to 98.5 after setting a 31-month high of 104.7 in March. According to ECRI, "With the USFIG falling to a nine-month low, U.S. inflation pressures remain in a clear cyclical downturn.

Consumer Spending or "Personal consumption expenditures" (PCE) decreased \$21.9 billion, or 0.2% in June. The decline was mostly due to falling food and energy prices. Excluding food and energy, Core PCE was flat in June.

The price index for PCE decreased 0.2% in June, in contrast to an increase of 0.2% in May. The PCE price index, excluding food and energy, increased 0.1%.

A healthy economy should have a moderate amount of inflation with the Fed's target for annual core PCE between 1.8 and 2.0%. Too much inflation is bad because it erodes buying power and discourages saving and investment. Inflation pressure is down as the global economy slows and consumers save for a "rainy day" should they lose their jobs in a new recession or through government layoffs to lower government spending.

Employment

On Aug. 5, the Labor Department announced 117,000 nonfarm payroll jobs were added in June after only adding 18,000 in June. The unemployment rate moved 0.1% lower to 9.1% which is still up 0.3% since March 2011. The number of unemployed is 13.9 million compared to 14.1 million in June.

The price of OIL gained 0.1% last month. It is significantly higher than a year ago so it will continue to add to CPI inflation.

Current (7/31/11) Oil Price per barrel:	\$96.05
Last Month (6/30/11):	\$95.92
Monthly Change:	0.1%
Peak Oil Price per barrel:	\$147.90
Decline from peak price:	\$51.85
Decline from peak price in percent:	35.1%



Buy Treasury Bonds at <http://www.treasurydirect.gov>

I Bonds currently pay a composite rate of 4.60% for new purchases with a base rate of 0.00%. This rate is effective through October 31, 2011.

Series I-Bonds are a low risk way to get inflation protection. Gains are tax deferred until redeemed. Now I-bonds are better than 5-yr TIPS which have a negative base rate. Hold your older I-Bonds with high base rates to hedge for future inflation while getting very attractive rates and tax deferral of the compound income. More information at <http://tinyurl.com/cy2lkn>

Starting January 1, 2012 paper savings bonds will no longer be sold at financial institutions. This effectively lowers the annual limit for I-bonds to \$5,000.

TIPS (Treasury Inflation Protected Securities) are our first choice for inflation protection for terms of 10-years or more or for more than the current \$10,000 per year i-Bond limit. Hold them in your IRA because interest payments and inflation adjustments are taxable as ordinary income.

TIPS	Coupon	Maturity Date	Current Yield
As of Aug 4, 2011			
5-Year	0.125%	04/15/2016	-0.73%
10-Year	1.250%	07/15/2021	0.19%
20-Year	2.500%	01/15/2029	0.75%
30-Year	2.125%	02/15/2041	1.10%

The base rate or "coupon" for TIPS is set at the time of purchase but the actual "current yield" changes with market demand. The principal amount for TIPS is adjusted for inflation and paid at maturity. If there is deflation, then you get your original investment back. For full details, see:

<http://xrl.us/TIPSInfo>

Since January 2004, the 10-yr TIPS "current yield" peaked at 3.13% in Nov. 2008 and on 8/4/11 set a record low of only 0.19%! Our recommended TIPS funds, VIPSX & VAIPX in the model portfolios, did well last year and continue to do well this year but they will give back some if rates surge faster than inflation.

UPCOMING TREASURY AUCTIONS

(Tentative Calendar as of 8/5/2011)

Issue	Auction Date	Current Rate
3-month bill	Weekly	0.00%
6-month bill	weekly	0.04%
52-week bill	Aug 23 & Sept 20	0.10%
2-year note	Aug 23 & Sept 27	0.28%
3-year note	Aug 09 & Sept 12	0.47%
5-year note	Aug 24 & Sept 28	1.24%
7-year note	Aug 25 & Sept 29	1.91%
10-year note	Aug 10 & Sept 13	2.55%
30-year bond	Aug 11 & Sept 14	3.83%
5-year TIPS	Aug 18 & Dec 22	-0.69%
10-year TIPS	Sept 22 & Nov 17	0.30%
20-year TIPS	None scheduled	0.87%
30-year TIPS	Oct 20	1.23%

GDP Update: On July 29, the Bureau of Economic Analysis said their first estimate of Q2-2011 real GDP growth increased at an annual rate of only 1.3%. The BEA significantly revised their estimates for GDP by quarter back to Q1-2008. The recession was much worse and the following recovery was less robust than originally thought. For example, GDP for the most recent quarter, Q1-2011, fell from 1.9% down to only 0.4%. (See definitions on page 8)

Quarter	Q2-08	Q3-08	Q4-08	Q1-09	Q2-09	Q3-09	Q4-09	Q1-10	Q2-10	Q3-10	Q4-10	Q1-11	Q2-11
GDP Growth	1.3%	-3.7%	-8.9%	-6.7%	-0.7%	1.7%	3.8%	3.9%	3.8%	2.5%	2.3%	0.4%	1.3%
Prior Estimate	0.6%	-4.0%	-6.8%	-4.9%	-0.7%	1.6%	5.0%	3.7%	1.7%	2.6%	3.1%	1.9%	

The acceleration in real GDP in the second quarter primarily reflected a deceleration in imports (lower oil prices), an upturn in federal government spending, and an acceleration in nonresidential fixed investment that were partly offset by a sharp deceleration in personal consumption expenditures.

Current-dollar GDP, the market value of the nation's output of goods and services, increased 3.7%, or \$136.0 billion, in Q2 to \$15,003.8 billion (\$15 Trillion). In the first quarter, current-dollar GDP increased 3.1%, or \$112.8 billion.

Federal Reserve: Core inflation remains low but at 1.6% it is slowly moving closer to the Fed's target of 1.8 to 2.0%. The FOMC made it clear they will keep interest rates low until the unemployment rate falls and core inflation rises above their target. In recent statements, Fed officials said the current high rate of CPI inflation we see (3.6%) is "transient" thus not expected to last.

ECRI's Weekly Leading Index: As of Aug. 5, 2011 ECRI's WLI is up slightly after setting a 27-week low last month. ECRI expects a global slowdown but they have not yet called for another US recession. While others including the Fed expected a second half recovery, ECRI continues to expect very slow growth to continue while warning that a new external shock could push the economy into a recession.

Market Outlook: With only 1.3% GDP growth in Q2, there is not much room for the economy to slow without falling into another recession. Top rated economist Ed Hyman, chairman of the ISI group, pointed out that that since 1970, in six out of the seven times real GDP, year to year, has slipped below 2%, as it did Q1-2011, it signaled a recession. Like it or not, government spending takes money from the wealthy and spends it which adds to GDP. Cutting government spending now at local, state and federal levels may push the US economy into another recession unless the private sector can pick up the slack. Political bickering aside, we would not be surprised with more stimulus such as extending the reduced payroll tax for another year .

We continue to see very low probability of high inflation as long as unemployment remains high, housing prices stay low or fall further and economic growth is positive but anemic at best. With the unemployment rate stubbornly stuck above 9%, consumers are spending less and saving more. June's 0.2% decline in consumer spending, which accounts for about 70% of U.S. economic activity, was the first decline since September 2009.

We want to point out i-Bonds are very attractive now for zero risk investments. This is the last year you can get \$10,000 per Social Security number; \$5,000 at TreasuryDirect.gov and \$5,000 at a bank. This allows a couple to put away \$20,000. You can also buy them for children and grandchildren as long as you have their social security number; just make sure nobody else buys them for the same people so they don't go over the limits.

To reduce portfolio volatility and downside risk, we eliminated the long-term and Intermediate-term bond index funds from our model portfolios for 2011. We will watch for rates to normalize then we plan to add those bond funds again. We want to again remind subscribers that the decline in interest rates to historically low levels and keeping rates relatively low even as the economy and inflation start to heat up was artificially stimulated by QE1 and QE2, the federal reserve "printing money" to purchase US Treasuries. As long as these treasuries remain on the Fed's balance sheet, rates are artificially low. We would not fault subscribers for selling all bond funds not indexed to inflation now and waiting in CDs and savings accounts (paying over 1%) for interest rates to "normalize."

Being safe with our fixed income recommendations means we left some money on the table. If this is a bond bubble, then recent gains COULD (not will) evaporate quickly if interest rates surge. Our goal is to help you sleep better at night and enjoy life rather than worrying about the daily, weekly or even monthly bond market fluctuations.

Municipal Bonds We ONLY recommend call protected, triple-A rated, tax-exempt, general obligation (GO) municipal bonds issued by states that have the ability to raise taxes. Only a few states have this high rating. We think retirement years are best spent enjoying them rather than following the fiscal health of states and small municipalities. We prefer to take our risk in the stock market and sleep well with our conservative fixed income portfolio.

"Taxable equivalent yield" is the "tax-free rate" divided by "one minus your federal tax bracket."

Calculation: $2.766\% / (1 - 0.28) = 3.345\%$

National Average of Municipal Bond Yields

Term	Current Yield	28% Taxable Equivalent Yield	Yield Last Month
1-Year	0.164%	0.227%	0.208%
2-Year	0.322%	0.448%	0.463%
5-Year	1.046%	1.453%	1.286%
7-Year	1.702%	2.363%	2.017%
10-Year	2.408%	3.345%	2.766%
15-Year	3.138%	4.359%	3.490%
20-Year	3.613%	5.019%	3.869%
30-Year	3.994%	5.547%	4.298%

Current Municipal Bond yield Data from Bloomberg.com as of 8/5/11

Recommended Mutual Funds

Fund Name	Symbol	Expense Ratio [1]	Fund Performance through July 31, 2011						Yield [2]	Dur-ation [3,4]	Quality	\$ Min. [5]
			2011 YTD	2010	2009	2008	2007	Combined from 2007				
--- Vanguard 800-662-7447 www.vanguard.com - Admiral Shares with lower expenses are recommended if you have the required minimum.												
Prime Money Market	VMMXX	0.23%	0.03%	0.1%	0.5%	2.8%	5.1%	8.7%	0.02%	N/A	AA	2,500
Short Term Bond Index	VBISX	0.22%	2.43%	3.9%	4.3%	5.4%	7.2%	25.5%	0.80%	2.60	AA	3,000
Short Term Bond Index Admiral Shares	VBIRX	0.12%	2.49%	4.0%	4.4%	5.5%	7.3%	26.0%	0.91%	2.60	AA	10,000
Intermediate Bond Index [10]	VBIIIX	0.22%	6.34%	9.4%	6.8%	4.9%	7.6%	40.2%	2.79%	6.40	AA	3,000
Intermediate Bond Index Admiral Shares [10]	VBILX	0.12%	6.41%	9.5%	6.9%	5.0%	7.7%	40.9%	2.90%	6.40	AA	10,000
Long Term Bond Index [10,11]	VBLTX	0.22%	7.37%	10.3%	1.8%	8.6%	6.6%	39.5%	4.64%	13.10	AA	3,000
Inflation Protected Securities (non index) Fund	VIPSX	0.25%	9.39%	6.2%	10.8%	(2.9%)	11.6%	39.5%	(0.09%)	5.40	AAA	3,000
Inflation Protected Securities Admiral Shares	VAIPX	0.12%	9.43%	6.3%	11.0%	(2.8%)	11.7%	40.2%	(0.02%)	5.40	AAA	50,000
S&P 500 Index	VFINX	0.18%	3.78%	14.9%	26.5%	(37.0%)	5.4%	0.1%	1.84%	N/A	N/A	3,000
S&P 500 Index Admiral Shares	VFAIX	0.07%	3.85%	15.1%	26.6%	(37.0%)	5.5%	0.6%	1.96%	N/A	N/A	10,000
Extended Market Index	VEXMX	0.30%	4.00%	27.4%	37.4%	(38.7%)	4.3%	16.4%	0.79%	N/A	N/A	3,000
Extended Market Index Admiral Shares	VEXAX	0.13%	4.09%	27.6%	37.7%	(38.6%)	4.5%	17.2%	0.93%	N/A	N/A	10,000
European Stock Index [6]	VEURX	0.27%	4.92%	4.9%	31.9%	(44.7%)	13.8%	(8.7%)	--	N/A	N/A	3,000
European Stock Index Admiral Shares [6]	VEUSX	0.16%	5.03%	5.0%	32.0%	(44.7%)	13.9%	(8.2%)	--	N/A	N/A	10,000
Pacific Stock Index [6]	VPACX	0.27%	0.00%	15.8%	21.2%	(34.4%)	4.8%	(3.5%)	--	N/A	N/A	3,000
Pacific Stock Index Admiral Shares [6]	VPADX	0.16%	9.00%	15.9%	21.2%	(34.3%)	4.9%	5.6%	--	N/A	N/A	10,000
Emerging Market Stock Index [7]	VEIEX	0.40%	(0.03%)	18.9%	76.0%	(52.8%)	38.9%	37.1%	--	N/A	N/A	3,000
Emerging Market Stock Admiral Shares [8]	VEMAX	0.27%	0.08%	19.0%	76.2%	(52.8%)	39.1%	37.9%	--	N/A	N/A	10,000
Total Bond Market Index	VBMFX	0.22%	4.08%	6.4%	5.9%	5.1%	6.9%	31.8%	2.48%	4.90	AAA	3,000
Total Stock Market Index	VTSMX	0.18%	3.92%	17.1%	28.7%	(37.0%)	5.5%	4.0%	1.67%	N/A	N/A	3,000
Total International Stock Index [6]	VGTSX	0.32%	2.09%	11.1%	36.7%	(44.1%)	15.5%	0.2%	--	N/A	N/A	3,000
--- Fidelity 800-343-3548 www.fidelity.com - Advantage Shares with lower expenses are recommended if you have the \$100,000 minimum.												
Select Money Market	FSLXX	0.33%	0.04%	0.1%	0.7%	3.0%	5.1%	9.2%	0.01%	N/A	AA	2,500
Spartan U.S. Bond Index	FBIDX	0.22%	4.21%	6.3%	6.5%	3.8%	5.4%	28.9%	2.60%	4.40	AA	10,000
Spartan Total Market Index	FSTMX	0.10%	3.88%	17.4%	28.4%	(37.2%)	5.6%	3.9%		N/A	N/A	10,000
Spartan International Index	FSIIX	0.20%	3.55%	7.7%	28.5%	(41.4%)	10.7%	(7.1%)		N/A	N/A	10,000
Four-In-One Index	FFNOX	0.23%	3.76%	13.7%	25.0%	(32.6%)	6.2%	5.4%		N/A	N/A	10,000

Footnotes

- [1] Expenses current as of January 2, 2011. Some funds have voluntary expense caps that may be terminated or removed at any time
 [2] VIPSX yield does not include inflation adjustments [3] Vanguard Duration as of 11/30/10, updated 1/2/11 [4] Fidelity Duration as of 11/30/10, updated 1/2/11
 [5] Often the funds have lower minimum investment levels if you sign up for automatic investments at regular intervals. Call the funds for details.
 [6] 2% redemption fee if fund held for less than 2 months. [7] Purchase Fee of 0.50% and a Redemption Fee of 0.25%
 [8] Purchase Fee of 0.50% and a Redemption Fee of 0.25% [9] 1% Redemption Fee if fund held for less than 1 year.
 [10] To reduce interest rate risk, we removed Vanguard's Long-term bond index. We show the returns here to track the fund until we return to it after rates have normalized.
 [11] There is no Admiral Class fund for this index [12] Not an index fund so minimum for Admiral shares is \$50,000 rather than \$10,000

Clickable Links: www.vanguard.com and www.fidelity.com

RETIREMENT ADVISOR MODEL PORTFOLIOS

(Note *The Retirement Advisor* Model Portfolios all began with \$200,000 on 1/1/2007)

A primary goal of *The Retirement Advisor* is to help our subscribers achieve their financial or retirement goals in a suitable timeframe and reasonable fashion. Our Retirement Advisor Model Portfolios were constructed with that goal and one other important goal in mind: Simplicity. Studies have shown that the most effective way to save and invest for retirement is to construct and maintain a diversified portfolio of low-cost index funds matched to one's retirement needs and risk tolerances. There is no need (and in fact, this may be detrimental to your financial health) to invest in the hottest technology fund, or buy actively managed mutual funds where annual expenses could be over five times as high as low-cost index funds.

Each month, subscribers to *The Retirement Advisor* will receive updates to three different Model Portfolios. These updates will include any portfolio changes based on our latest outlook of the economy, interest rates, and inflation, as well as portfolio rebalancing as different asset classes deviate from target weightings. In addition, the performance of individual funds will also be updated on a monthly basis.

We designed our three different model portfolios for individuals who are in retirement or who are pondering retirement, taking into account 1) their current stage in life, and 2) their risk tolerance (i.e. how much risks they can incur without losing sleep at night). In presenting our three different model portfolios, we have ordered them starting with the most aggressive portfolio to the most conservative.

We designed our first model portfolio, the **Aggressive Growth and Income Model Portfolio 1**, for someone approaching retirement who is interested in a "balanced" approach to investing, which combines a mixture of stocks and bonds. Its 50% stock market weighting gives it the potential to increase your standard of living over time when rebalanced at key time points.

We designed our second model portfolio, the **Moderate Growth and Income Model Portfolio 2**, for individuals in retirement who believe sleeping better at night with less stock market volatility is worth giving up some of the potential for gains in standard of living to get lower volatility.

We designed our third model portfolio, the **Conservative Capital Preservation Model Portfolio 3**, for investors who invest solely in fixed income securities without any stock market exposure.

Beta is a measure of how closely a mutual fund's return follows that of a reference index. Vanguard defines beta as "A measure of the magnitude of a portfolio's past share-price fluctuations in relation to the ups and downs of the overall market (or appropriate market index). The market (or index) is assigned a beta of 1.00, so a portfolio with a beta of 1.20 would have seen its share price rise or fall by 12% when the overall market rose or fell by 10%.

Duration is a measure of the sensitivity of a bond or bond fund's price to a change in interest rates. For small changes in yield, it is approximately proportional to the percentage change in price for a given change in yield. For example, a bond fund with a duration of 5 years would fall approximately 5% in value if the interest rate increased by 1%.

ECRI is The Economic Cycle Research Institute

ETF is Exchange Traded Fund. ETFs are like index funds in how they attempt to track various indexes with very low annual expenses. They trade like stocks.

SHY and IEF are similar to BSV and BIV but slightly more conservative in our view so reasonable alternatives for Model Portfolio #3. Using BSV and BIV for model portfolio #3 is acceptable and your returns should better track what we report for Model Portfolio #3.

PCE is "Personal consumption expenditures." The "PCE Price Index" is the Federal Reserve's preferred method of measuring inflation.

Real GDP, the market value of the nation's output of goods and services (GDP) adjusted for inflation.

US-FIG: ECRI's U.S. Future Inflation Gauge, a leading index designed to detect the direction of US inflation.

The *Retirement Advisor Aggressive Growth and Income Model Portfolio 1* is designed for someone approaching retirement who is interested in a portfolio allocation designed to provide both income and capital appreciation while avoiding excessive risk. We structured the stock portion of the portfolio to provide growth, while the bond portion provides income and stability. This portfolio is ideal for someone who is willing to have up to 50% of his portfolio in stocks in an effort to grow the portfolio while maintaining a steady income stream.

Portfolio #1 as of July 31, 2011		Expense	Allocation		Current	2011		Dur-	ETF
Fund Name	Symbol	Ratio	Target	Current	Value	YTD	Yield	ation	Alt.
Vanguard Short Term Bond Index Fund Admiral Shares	VBIRX	0.12%	20.0%	19.7%	\$48,739	2.49%	1.17%	2.60	BSV
American Express 1.00% Savings Account			16.0%	15.5%	\$38,298	0.67%	1.00%	0.00	
Vanguard Inflation Protected Securities Fund	VIPSX	0.25%	14.0%	14.7%	\$36,414	9.39%	(0.09%)	5.40	TIP
Vanguard S&P 500 Index Fund Admiral Shares	VFAIX	0.07%	25.0%	25.0%	\$61,732	3.85%	1.96%	N/A	SPY
Vanguard Extended Market Index Fund Admiral Shares	VEXAX	0.13%	9.0%	9.0%	\$22,275	4.09%	0.93%	N/A	VXF
Vanguard European Stock Index Fund Admiral Shares	VEUSX	0.16%	5.0%	5.0%	\$12,487	5.03%	NA	N/A	VGK
Vanguard Pacific Stock Index Fund Admiral Shares	VPADX	0.16%	6.0%	6.3%	\$15,550	9.00%	NA	N/A	VPL
Vanguard Emerging Market Stock Index Fund Admiral Shares	VEMAX	0.27%	5.0%	4.8%	\$11,898	0.08%	NA	N/A	VWO
Weighted Total		0.12%	100.0%	100.0%	\$247,393	4.05%	NA	N/A	
Percent of Portfolio in Equities			50.0%	50.1%	\$123,942				
Percent of Equities in International Funds			32.0%	32.2%	\$39,935				

The *Retirement Advisor Moderate Growth and Income Model Portfolio 2* is designed for someone who has retired and seeks to maintain their current standard of living, even with inflation. This portfolio has a smaller percentage of its holdings in stocks, with the bulk of the portfolio in fixed income securities and seeks to maintain an investor's current standard of living for many decades.

Portfolio #2 as of July 31, 2011		Expense	Allocation		Current	2011		Dur-	ETF
Fund Name	Symbol	Ratio	Target	Current	Value	YTD	Yield	ation	Alt.
Vanguard Short Term Bond Index Fund Admiral Shares	VBIRX	0.12%	28.0%	27.7%	\$69,745	2.49%	0.91%	2.60	BSV
American Express 1.00% Savings Account			0.00%	25.0%	\$61,166	0.67%	1.00%	0.00	
Vanguard Inflation Protected Securities Fund Investor Shares	VIPSX	0.25%	17.0%	18.0%	\$45,196	9.39%	(0.09%)	5.40	TIP
Vanguard S&P 500 Index Fund Admiral Shares	VFIAX	0.07%	15.0%	15.1%	\$37,859	3.85%	1.96%	N/A	SPY
Vanguard Extended Market Index Fund Admiral Shares	VEXAX	0.13%	5.5%	5.5%	\$13,914	4.09%	0.93%	N/A	VXF
Vanguard European Stock Index Fund Investor Shares	VEURX	0.27%	3.5%	3.6%	\$8,925	4.92%	NA	N/A	VGK
Vanguard Pacific Stock Index Fund Investor Shares	VPACX	0.27%	4.0%	3.9%	\$9,722	0.00%	NA	N/A	VPL
Vanguard Emerging Market Stock Index Fund Investor Shares	VEIEX	0.40%	2.0%	1.9%	\$4,859	(0.03%)	NA	N/A	VWO
Weighted Total		0.12%	100.0%	100.0%	\$251,386	3.43%	NA	N/A	
Percent of Portfolio in Equities			30.0%	29.9%	\$75,279				
Percent of Equities in International Funds			31.7%	31.2%	\$23,506				

The *Retirement Advisor* **Conservative Capital Preservation Model Portfolio 3** is designed for someone in the later stages of retirement who wants to avoid any losses in their portfolio and who does not need a lot of inflation protection. This portfolio contains no stock market exposure and has the goal of capital preservation in both up and down markets.

Portfolio #3 as of July 31, 2011		Expense	Allocation		Current	2011		Dur-	ETF
Fund Name	Symbol	Ratio	Target	Current	Value	YTD	Yield	ation	Alt.
Vanguard Short Term Bond Index Fund Admiral Shares	VBIRX	0.12%	35.0%	34.7%	\$89,705	2.49%	0.91%	2.60	BSV
American Express 1.00% Savings Account		0.00%	40.0%	38.9%	\$100,696	0.67%	1.00%	0.00	
Vanguard Inflation Protected Securities Fund Admiral Shares	VAIPX	0.12%	25.0%	26.4%	\$68,413	9.43%	(0.02%)	5.40	TIP
Weighted Total		0.07%	100.0%	100.0%	\$258,814	3.50%	NA	N/A	
Percent of Portfolio in Equities			0.0%	0.0%					
Percent of Equities in International Funds			0.0%	0.0%					

“ETF Alt.” means “ETF Alternative” which is an exchange traded fund (ETF) you can substitute for the recommended mutual fund.

SHY = iShares Barclays 1-3 Year Treasury Bond ETF. According to Fidelity ETF evaluator as of 1/4/11, the average duration is 2 years so this is a lower risk alternative to Vanguard’s BSV which has a longer duration (and a higher yield).

BSV = Vanguard ST Bond ETF. According to Fidelity ETF evaluator as of 1/4/11: average duration 3 years, average maturity 3 years

The Retirement Advisor Portfolio Performance By Year Through July 31, 2011						
Model Portfolio	2011 YTD	2010	2009	2008	2007	2007 to Now
#1: Aggressive	4.0%	10.9%	19.7%	(18.2%)	9.5%	23.7%
#2: Moderate Risk	3.4%	8.4%	13.2%	(8.7%)	8.5%	25.7%
#3: Conservative	3.5%	5.5%	5.5%	3.7%	8.3%	29.4%

For investors just getting started, we recommend using the “investor class” shares from Vanguard. When your account reaches the required minimum for the lower cost Admiral Class shares, Vanguard should switch you over with no charge or tax consequences. Call Vanguard for details.

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