

# Consider this

Russell's experts answer your questions about timely topics around the world and give perspective on how they're likely to impact the markets and you.

MAY 2010



## THIS QUARTER:

*Frank Pape, consulting director of client services, on healthcare, inflation and gold.*

What impact will the healthcare bill have on my portfolio?

**Short term, we don't expect the impact on the markets to be significant.** Healthcare represents 12% to 13% of the U.S. stock market and 17% of U.S. gross domestic product (GDP),<sup>1</sup> so healthcare legislation will likely impact the markets and economy in the future. But it's too early to have a clear picture of what that effect will be.

Long term, we expect healthcare legislation to lead to higher tax rates for upper-income investors and higher employee costs for some businesses. These costs could reduce profits, and additional government borrowing needs might lead to higher interest rates. The change may also bring more investment opportunities in the healthcare industry. For example, some healthcare-related businesses and industries could potentially profit due to increasing numbers of insured Americans. Aside from the legislation, aging baby boomers will likely make healthcare an important sector for investors.

*"A near-record number of unemployed Americans continue to limit rising prices."*

Now that the government has intervened in the healthcare, auto and financial industries, should we expect rising inflation rates?

**We don't believe inflation is a concern for the immediate future** and a large number of economists continue to believe that high unemployment is a larger concern than inflation in the present economic climate.

**Demand isn't outpacing the supply of consumer products,** and although that's good news for many consumers—since prices aren't expected to rise given the low inflation—it doesn't bode well for employment. With consumer spending down, U.S. factories aren't producing as many goods; total industrial production is far below the 80% average for the period 1981 through 2009. At the end of 2009, according to Bloomberg data, the measure was at 72%. This historical trend information is important, however, it doesn't predict future trends.

**Near-record U.S. unemployment rates are limiting increases in prices.** Continued high unemployment reduces the upward pressure on prices, according to historical data from the Federal Reserve Bank of St. Louis.

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Russell economists expect little or no significant increase in inflation in the immediate future, due to the magnitude of today's unemployment rates and the expectation that high unemployment will persist for the next couple of years. The prospect of high unemployment may continue to influence consumer attitudes—particularly about saving and spending.

**Americans are trying to repair their personal balance sheets** by spending less, saving more, and reducing debt. Those who want more credit face challenges in finding banks willing to extend loans. This backdrop of uncertainty has reduced spending and thus the likelihood of rising prices.

Even though inflation isn't an immediate concern, working with an advisor to create a diversified portfolio can help you meet your long-term financial objectives. A well-constructed portfolio should already have built-in responses to creeping inflation.

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*"Gold has enjoyed times of intense interest from investors (for example, now) to extremely long periods of indifference."*

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I've been hearing more about investing in gold in the wake of turbulent bond and equity markets. What does this mean for me?

**Gold can have extremely long swings that disappoint** investors who have too much of their portfolio invested in the precious metal. For example, gold had an annualized return of -0.5% from 1980 through 2006. Twenty-six years to see a cumulative total return of -1.3% helps explain why many investment advisors recommend limited exposure to gold.

True, gold has performed well recently. An ounce of gold as measured by the London PM Fix rate produced a 10-year annualized return (through December 2009) of 15%. And since the onset of the recent recession, many news commentators, radio ads, billboards, and SPAM e-mails have urged investors to add gold to their portfolios. Your advisor might include a measured amount of gold as part of a broader product group in a diversified portfolio. However, gold by itself can be volatile, and over the longer historical term, the returns haven't been that attractive compared to other investment options.

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<sup>1</sup>Source: Russell 3000® Index, March 31, 2010.

Additional sources: Wall Street Journal, March 2010.

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No investment strategy can guarantee a profit or protect against a loss.

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