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“There is not the slightest indication that nuclear energy will ever be obtainable. It would mean that the atom would have to be shattered at will.” — Albert Einstein, 1932

"I think there is a world market for maybe five computers." -- Thomas Watson, chairman of IBM, 1943.

"You ain't goin' nowhere, son. You ought to go back to drivin' a truck." -- Jimmy Denny, manager of the Grand Ole Opry, to Elvis Presley in 1954.

"With over fifteen types of foreign cars already on sale here, the Japanese auto industry isn't likely to carve out a big share of the market for itself." -- Business Week, August 2, 1968.

"There is no reason anyone would want a computer in their home." -- Ken Olson, president, chairman, founder of Digital Equipment Corp, 1977.

Nicholson Financial Services, Inc. is an independent firm.

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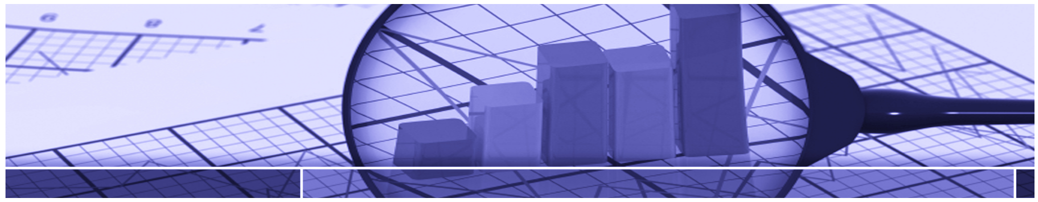

Nicholson Financial Services

Did You Know...?

Dow 30,000?

If you haven't yet, please read the quotes in the introduction to the left. It is funny to look at those statements in hindsight and realize how wrong they were. Many people have *cell phones* with more computing power than any PC that was available even a decade ago. Elvis became an American icon and Japanese cars have a huge market share in the US. Even someone as brilliant as Einstein could not see the future. I often encounter the belief that things won't happen because they never have before. Most of the time, I see it in the news media, but occasionally have to address this belief with clients and prospective clients. One place that this appears is in discussions of the "glass ceiling" that many investors apply to the markets. For this article I am focusing on the Dow Jones Industrial Average (DJIA) as it is probably the most widely followed index. As you probably know, the DJIA is currently trading at about 13,000 at the time I am writing this. Considering that the all-time high of the index in 2007 was around 14,164, I am starting to hear concerns about the market "topping out" or "getting too high." These are what I call glass ceiling concerns. It is the fear that the market will not push past 14,164 because it never has before.

In 1994, early in my career the DJIA was trading at about 3,500. I remember having a conversation with an older advisor who had been in the business for over 40 years. I asked him when he thought DJIA would cross 10,000. He replied, "Not in my lifetime. Son, since I have been in this business I have only seen it go from about 500 to 3,500 in 40 years!" Because the event hadn't happened yet, he believed that a "glass ceiling" existed. Being a newbie, I had no preconceived notion to make me believe it couldn't happen. The DJIA broke through 10,000 a little more than 5 years later during one of the great bull runs in our history.

I could have used any number for this article to make my point, but 30,000 seemed just large enough to be out of reach. My question, as you might guess, is not *if* the DJIA will hit 30,000 but how long will it take to do it.

Consider the following:
1) If the DJIA averages 6 percent per year, it would take about 12 years to double. That would be 26,000 by 2025. Considering that the DJIA has averaged roughly 9.5 percent per year since 1900, and considering that over the last 10 years it underperformed its long-term average at only 4.5 percent per year, 6 percent doesn't seem outlandish. If it averages better than 6 percent, the time to double decreases. At 9 percent per year, the DJIA would double in about 8 years.

2) What do General Motors, AIG, Kodak, International Paper and Sears all have in common? They are all former members of the DJIA. Indices, such as the DJIA, are not fixed. The companies that comprise the index can be changed when they no longer meet the standards of that index and replaced by others that do. That can also be construed as "companies with better growth opportunities or stability." This is just another way to keep the index growing over time. There are 30 companies in the modern DJIA, but over the last 100 years more than 125 companies have been represented in the index.

3) Looking at a long-term chart of the DJIA, the last 10 years look eerily similar to the 1970's. The decade of the 2000's and the 70's were both sideways (flat) markets for the DJIA. If you aren't familiar with what happened after the flat decade of the 70's, you should see for yourself HERE . I wouldn't assume that this decade and next will be as profitable as in the 80's and 90's. However, I think it will be better than the last 10 years.

4) These are just numbers! Theoretically, there is no limit to how high an index can go. The DJIA is meant to represent our economy and economies are meant to grow. Our economy faces challenges, but it always has. My point of this article is to make you aware of what can happen and give you hope for the possibilities. Someday, my kids or grandkids will probably be having a similar conversation about Dow 100,000. My hope is that they will own many of the great companies involved in getting it there.

Stock Market Metrics: Playing the Numbers

Fundamental metrics based on the operations of individual companies also can be aggregated and averaged to suggest the state of an index comprised of those stocks.

There are no infallible guides to stock market movements. However, that doesn't stop investors from using various measurements to try to divine the current and future direction of a stock's price or the equity markets as a whole. Here are some common methods (or metrics) for gauging the stock market.

Gauging volatility

The CBOE Volatility Index®, informally referred to as the VIX® and nicknamed "the fear index," measures real-time changes in the prices of a group of S&P 500 30-day options traded on the Chicago Board Options Exchange. When financial markets are stressed, prices of those options tend to rise as investors try to hedge any potential negative impact on their portfolios. The more concerned options traders are about potential instability, the higher the VIX tends to go; conversely, when fears subside, the VIX tends to be lower. How high is high for the VIX? During the worst of the 2008 financial crisis, it spiked to 89 at one point. Since then, it has gradually returned to more normal levels in the teens and twenties.

Moving averages

A moving average reflects a stock's average price or an index's value over a specified period of time (for example, the last 50 days). As a new average for the time period is calculated each day, the earliest day's data drops out of the average. The results are typically depicted as a line on a chart, which shows the direction in which that rolling average has been moving. For example, a stock's 50-day moving average (DMA) shows whether the stock's short-term price has been moving up or down; a 200 DMA smooths out shorter-term fluctuations by using the longer 200-day rolling time period. When a stock's price moves above its 50-day or 200-day average--two of the most popular gauges--technical analysts typically consider it a bullish signal that the stock or index has momentum. Conversely, when the price moves below its moving average, it's considered a bearish signal suggesting that any uptrend could be reversing.

Golden cross/death cross

When the short-term moving average of a stock or index rises above a longer-term average--for example, when the 50 DMA moves upward above its 200 DMA--the situation is referred to as a "golden cross." It shows that the stock's most recent price action has been increasingly positive, suggesting that investors have grown more bullish on the stock. Technical analysts also look for golden crosses with various stock indices--the S&P 500 is perhaps the most popular--to try to gauge the potential future direction of the equity markets.

The so-called "death cross" is the inverse of a golden cross. It occurs when the 50 DMA falls below the 200-day, and is considered a bearish signal, especially when seen in a broad market index such as the S&P 500. Such signals may or may not be valid; there are arguments on both sides. However, many of the automated trading systems that are responsible for a large percentage of all transactions are guided at least in part by such perceived quantitative signals. As a result, an index or stock can experience volatility--either up or down--as it reaches either of these points.

Fundamental metrics

Other stock market metrics rely on the nuts and bolts of corporate operations that are reflected on a company's balance sheet--so-called "fundamental data." Though based on the operations of individual companies, they also can be aggregated and averaged to suggest the state of an overall stock market index comprised of those stocks. The following represent some frequently used fundamental stock metrics.

Earnings per share (EPS): This represents the total amount earned on behalf of each share of a company's common stock (not all of which is necessarily distributed to stockholders). It is calculated by dividing the total earnings available to common stockholders by the number of shares outstanding.

Price-earnings (P/E) ratio: This represents the amount investors are willing to pay for each dollar of a company's earnings. Calculated by dividing the share price by the EPS, it can be used to gauge investor confidence in the company's future. A ratio based on projected earnings for the next 12 months is a forward P/E; one based on the previous 12 months' earnings is a trailing P/E. Like EPS, P/E is considered an indicator of how expensive or cheap a stock is.

Return on equity (ROE): This is a way to gauge how efficient a company is, especially when compared to its peers in the industry. This percentage compares a company's net income (usually for the last four quarters) to the total amount of shareholders' equity (typically, the difference between a company's total assets and its total liability).

Debt/equity ratio: Obtained by dividing a company's total liability by all shareholder equity, this percentage suggests the extent to which the company relies on borrowing to finance its growth.

How to Raise a Saver

Earmarking savings

To help your child learn how to manage money, encourage a 50-25-25 rule (or some variation) that earmarks 50% for immediate spending needs, 25% for the purchase of big-ticket items, and 25% for long-term savings.

As parents, we naturally want what's best for our kids. We want them to be polite, respectful, healthy, curious, and smart. And we hope that someday, they will grow into successful adults with independent, fulfilling lives. How best to accomplish this? Well, along with teaching the ABCs, 123s, and right from wrong, teaching your child the basics of financial literacy can help you raise a saver and lay the foundation for your child's bright financial future.

The early years, 3 to 7

Children this age may think that money magically appears from special machines whenever Mom or Dad pushes a few buttons, but there is one money concept they can understand. They know people need money to buy things--chances are they've tagged along with you to the grocery store a few times and watched you fill up your cart. Young children often model the behavior of their parents, so on these shopping trips, when you think your child is receptive, you might say things like "I can't buy this right now, I have to save more money and buy it next time" or "That's great these apples are a really good price today--I can buy more." These types of comments sink in and hopefully will get your child thinking about money and spending.

Once children can identify coins and dollar bills, give them a piggy bank or clear plastic jar to keep any money they earn or receive as gifts. Tell them they can buy something they want once they save a certain amount (make sure the item/price is appropriate and within short-term financial reach). Taping a picture of the item on the bank can provide a visual goal. Of course, children need a way to earn some money. Consider giving your child a weekly allowance and/or payment for small jobs around the house. Some parents tie an allowance to chores; others expect chores as part of everyday family life, but pay extra for "super" chores. The overall goal is to get your child excited about seeing the coins and dollar bills pile up.

The middle years, 8 to 12

These years are the sweet spot to lay a solid financial foundation. Children this age are more financially and materially aware--they have a general idea of what things cost (at least the things they want), they see (and covet) the possessions their friends have, they're bombarded by advertising, they get asked what they'd like for their birthday, and they often have a say in the new clothes and school supplies they get every year. And they aren't shy about pointing out the other items they want--electronics, sports equipment, room decor. It's enough to make any parent shudder.

The first thing to do? Explain the difference between "needs" and "wants." Continue to give your child an allowance, and encourage a 50-25-25 rule (or some variation) that earmarks 50% for immediate spending needs, 25% for the purchase of big-ticket items, and 25% for long-term savings. Consider matching a portion of that last 25% so your child is more motivated to save. Open a bank savings account for your child's long-term savings, and explain how interest and compounding works.

Help your child set financial goals, both short-term (a skateboard or sweatshirt) and long-term (a laptop). When it comes to spending, explain--and model--the concepts of delayed gratification, prioritizing purchases, and making tradeoffs. Help your child learn to get the most value for his or her money by selecting quality merchandise, comparison shopping, waiting for sales, and discouraging impulse buying. Let your child see that you, too, can't buy everything you want all the time.

Introduce the concept of budgeting by explaining how your family's budget works. Without going into detailed numbers, explain how income you receive from your job must be used to pay for needs like food, housing, utilities, and clothing, and how any money left over is set aside for emergency savings, long-term savings, and for "wants" like trips to the movies, restaurants, and new toys and gadgets.

The teen years

Children this age often seem to be ever-growing financial sinkholes--$10 here, $20 there, a laptop, sports equipment, an instrument, school trips, gas for the car, not to mention looming college expenses. Build on the saving, goal-setting, and budgeting lessons from earlier years. Be more specific about what things cost in your family's budget, and explain that in addition to paying day-to-day expenses and saving for college, you're saving for your own retirement.

When your child is old enough, encourage him or her to get a job to help pay for some typical high-school expenses and to start building a nest egg. Teach your child how to use an ATM/debit card, balance a checkbook, and wisely manage credit--skills they'll need in college. Finally, you can introduce your child to more advanced financial concepts, such as stocks, bonds, IRAs, and diversifying investments, by looking at teen-oriented investing books and financial websites.

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Is it true that Social Security beneficiaries are being required to receive their payments electronically?

That's correct. On March 1, 2013, the U.S. Treasury Department will stop mailing paper benefit checks. After that date, all Social Security beneficiaries (as well as anyone receiving another type of federal benefit, such as Supplemental Security Income benefits, Railroad Board annuity payments, federal retirement benefits, or veterans benefits) will be required to receive their benefits electronically. The federal government estimates that switching to electronic payments will save taxpayers $1 billion over 10 years, and cut down on the risk of lost and stolen checks.

Most Social Security beneficiaries are already receiving benefits electronically, and if you're among them, you don't need to do anything--you'll continue to receive your benefits via the method you've chosen. But if you're receiving a paper check, you need to choose one of two electronic payment options as soon as possible.

The first payment option is to have your benefit directly deposited to a bank or credit union account. The second option is to have your benefit put on a Direct Express® Debit MasterCard® prepaid card that can be used to pay bills, make retail purchases, or withdraw benefit funds from an ATM or a financial institution. Most transactions are free, although fees do apply to certain services. The Treasury Department recommends the direct deposit option for anyone with access to an account at a financial institution. The Direct Express® card is most appropriate for individuals who need the benefits of direct deposit but who don't have an account at a financial institution. If you haven't chosen an option as of March 1, 2013, you'll be automatically enrolled in the Direct Express® card option. If you're applying for Social Security benefits for the first time, you'll be asked to choose your payment option at that time.

To sign up for electronic payments, you need to visit the government website, www.GoDirect.org, or call the U.S. Treasury Electronic Payment Solution Center at (800) 333-1795. You can also sign up for the direct deposit option at your bank or credit union, or for the Direct Express® card at www.usdirectexpress.com.

Is the Social Security Administration mailing out annual Social Security Statements?

In 1995, the Social Security Administration (SSA) began mailing out annual Social Security Statements to everyone age 25 and older. These statements were designed to help Americans plan for the future by providing a detailed record of their earnings and estimates of Social Security benefits. Last year, the SSA suspended mailing these statements because of budgetary concerns, but in March 2012, the SSA resumed mailing annual statements to workers age 60 and older. If you're age 60 or older, you should receive your statement every year, about three months before your birthday. The SSA is also resuming the mailing of one-time statements to workers who are age 25 to introduce them to Social Security programs and benefits.

The SSA has also unveiled an online version of the Social Security Statement, available at the SSA website, www.socialsecurity.gov. You'll have immediate access to your statement once you've signed up for a "My Social Security" account. Statement information includes a projection of your retirement benefits at age 62, at full retirement age, and at age 70; projections of disability and survivor's benefits; a detailed record of your earnings; and other information about the Social Security program. Individuals who are receiving paper statements in the mail will have the option to sign up for online statements instead. While workers are encouraged to use the online statement option, in some cases, the SSA will mail statements upon request to individuals under age 60, including domestic violence or identity theft victims who have blocked online access to their personal information.

There's also another way to estimate the amount of Social Security retirement benefits you will be eligible to receive in the future under current law. You can use the SSA's Retirement Estimator, which is also available at the SSA website. To use this calculator, you must have enough credits to qualify for benefits, and you must not already be receiving benefits or waiting for a decision on your benefit application. You can create various scenarios that will illustrate how different earnings amounts and retirement ages will affect your future retirement benefit.

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