and does nothing else, that would not be a strong enough sign to me," he adds. "But if it allows Greece to depart and simultaneously institutes a plan to protect Spain and Italy, for example, that could be a positive catalyst for European markets. In my opinion it has to both help the situation and prevent problem areas from spreading."

If and when that happens, Haworth adds, it could signal an "all clear" to start buying European stocks, which he believes represent a good value. In that case, "it could be even more risky to stay completely out and miss the rally," he says.

MIDDLE EAST AND OIL PRICES

Another area of concern is Mideast turmoil and its effect on oil prices. Volatility in the region seems to be a constant, and any number of unexpected events could impact oil supplies and cause price spikes. But with oil at less than $100 a barrel as of this writing, now might be a good entry point, compared with five years ago when oil prices hit an all-time high of $145 a barrel in July 2008. "At this point, the market prices for oil seem to anticipate a low probability for conflict in the Middle East," Haworth says. "Should conflict arise, this will likely mean prices may spike higher, which may be detrimental to global economic growth."

To potentially offset that risk and to take advantage of any rise in energy prices that may occur, he recommends oil-focused investments within a commodity allocation, when appropriate for the portfolio and overall investment objectives. There are different ways to gain this exposure, but Haworth says this option may create a well-diversified portfolio that may provide a hedge against market volatility.

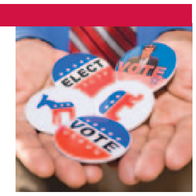
Keep in mind investing in commodities is not without risk. Performance can be affected by market fluctuations, regulatory changes, interest rate and economic changes and adverse political or financial factors.

EMERGING MARKETS: THE BRIC

Emerging markets have been the darlings of aggressive investors for some time. As of late, some of the largest developing nations in market capitalization have shown signs of stress. Economic growth in Brazil, Russia, India and China (BRIC) has slowed since fall 2011, although the growth is still above that seen in developed economies. The reasons are manifold, but Haworth says, "these countries have been tightening their monetary policy. So to a large degree, this is actually a designed slowdown."

That doesn't mean there's nothing to worry about. "Emerging economies often depend on robust global gross domestic product (GDP), and if they don't have that it may impact them more directly than other economies," says John De Clue, Chief Investment Officer of The Private Client Reserve. "But China especially seems to be orchestrating a reasonably soft landing. I would put emerging markets as less of a risk than I might have six months ago."

THE PRESIDENTIAL ELECTION



Financial markets are not partisan, says Daniel Clifton, Washington, D.C.-based Head of Policy Research at Strategas Research Group.

Yet the presidential election is "a hurdle the market has to get over," he says. "Markets historically have traded sideways in election years until the results become clear. After that, they tend to rally no matter which side comes to power."

In 1996, when Bill Clinton ran for re-election, the S&P 500 remained flat despite high corporate profits — until party conventions. After that, Clinton became the presumptive winner and the stock index surged roughly 35 percent by year-end. Eight years later, when George W. Bush ran for re-election, markets remained flat through election day, again despite corporate profits, and then jumped some 7.2 percent through the remainder of the year, Clifton says.

This year, however, there are additional pressures. Tax cuts and spending programs are due to expire at the end of the year, and Washington seems afraid to make a move before Election Day. "That creates an extra degree of uncertainty," Clifton says.

How these issues get resolved may depend more on congressional elections than on the presidential election. Of course, historical performance isn't a guarantee of future results.

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What's not clear yet is how much monetary stimulus these countries will add to their systems or when we'll see the benefits. "It typically takes about a year for monetary policy to work its way through the system," Haworth says.

His moderately bullish view on emerging markets stocks going forward is partly based on the lack of a banking crisis or oversold housing market in these countries, unlike in developed nations.

"They may continue to be attractive on a long-term basis but volatile in the short-term," De Clue adds. "If a client said to me, 'I'm going to need my money out in a year or two,' I probably wouldn't recommend exposure to emerging markets," he says. "But for clients who are longer-term investors, emerging markets are certainly worth a serious look because of their historical above-average GDP growth."

However, investing internationally is not without risks. One must consider foreign taxation and currency risks. Future political developments could also impact performance. There can be more risk when investing in less developed countries, or when concentrating investments in a single region.

MANAGING RISK: A HISTORY LESSON

To be invested in markets is to take risks, but risks are relative. Even staying on the sidelines — keeping all your money in cash, for example — incurs the risk of losing out to inflation, not to mention forgoing the opportunity to participate in market rallies.

"Being completely out over the long-term only makes sense if you think the markets are going to zero, which has only happened four times in the past 112 years," says Rob Haworth, Senior Investment Strategist at U.S. Bank Wealth Management.

Those four are:

1914, Berlin, Germany:
Stock exchange closed at the start of World War I.

1918, Moscow, Russia:
Stock exchange vanished after the Bolshevik Revolution.

1943, Berlin, Germany:
Stock trading frozen by Nazis.

1949, Shanghai, China:
Stock exchange closed after the Communist Revolution.

"Those are all very dramatic examples, and not scenarios we foresee in broad international exposures today," Haworth says. "As long as there's a possibility of recovery, there may be value in having long-term holdings."

DOMESTIC ISSUES

The U.S. economy seems to be improving, though at a tepid pace. "Unemployment is slowly declining and the housing crunch appears to be on the mend," De Clue says. "So in my opinion, I wouldn't consider these to be big market risks per se."

At the same time, a more urgent concern is the government fiscal policy, De Clue says.

Tax hikes and spending cuts set to take effect in January would drain $607 billion out of the economy next year and may cause the United States, at least briefly, to fall back into recession, says the nonpartisan Congressional Budget Office.

The looming "taxmageddon" has many worried. At the end of the year, many of the Bush Administration tax cuts are set to expire. If Congress can't compromise on a new budget, automatic cuts will take effect under the "sequestration" outlined in the Budget Control Act of 2011. That means 10 percent of discretionary spending would be automatically cut, amounting to some $85 billion in domestic expenditures for agencies such as the Pentagon. Congress may also let the payroll holiday tax cut expire, which would cause every working American to pay 2 percent more in taxes, and the federal extension of unemployment benefits to cease.

The taxes on capital gains are scheduled to increase in 2013. That means an additional 3.8 percent will be added next year, over the current rate of 15 percent. If the Bush-era tax cuts aren't extended, the regular capital gains rate will rise to 20 percent. Another obscure provision would reduce the value of itemized deductions, adding 1.2 percent. The total effective rate on capital gains would then be nearly 25 percent.

A half-trillion dollars in benefits to Americans will stop at year-end unless Congress acts. The effect: GDP growth in 2013 could be slashed by 3 to 5 percent as measured by official estimates. The debt ceiling will have to be reauthorized, too, or the government won't meet its bills.

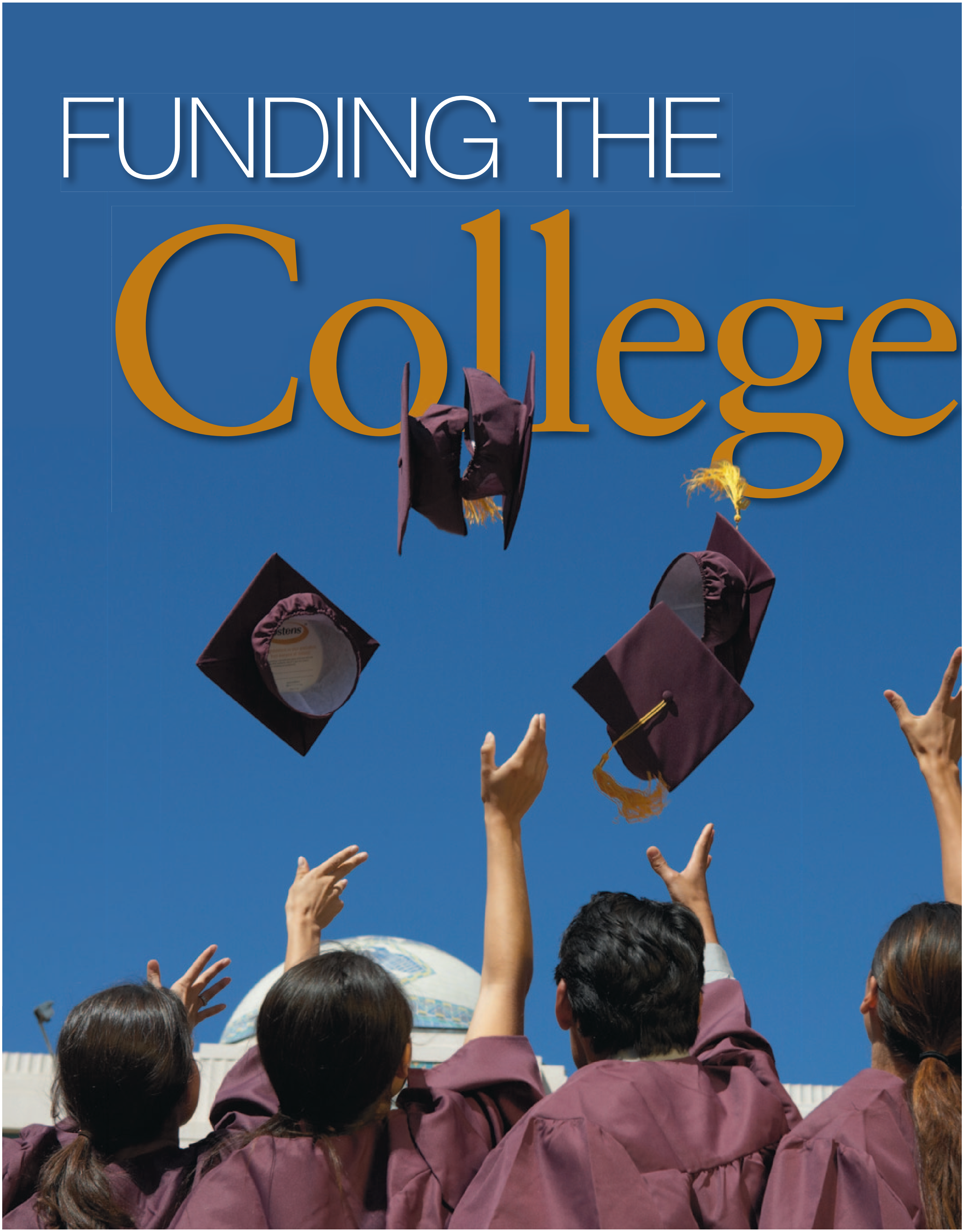
"This impending fiscal cliff represents a huge risk," De Clue says. "The big concern is what the government will or won't do about it."

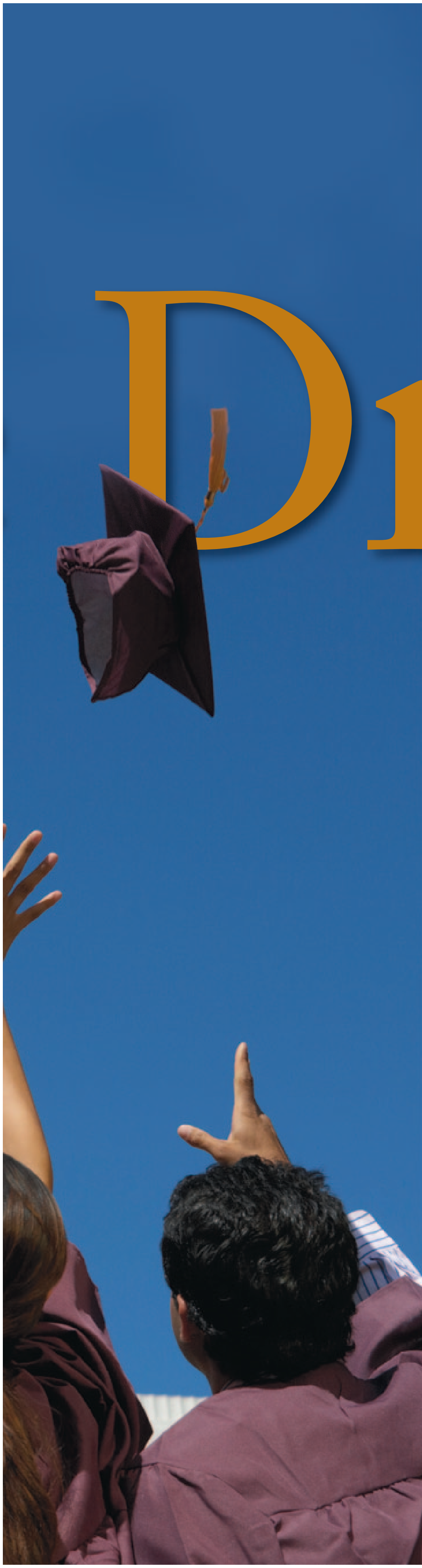
To some extent, that may depend on November's election. "The post-election discussions about the fiscal cliff may be more important than who wins the Presidency," De Clue says. "We may still have a contentious relationship in Washington between the two parties, and that would add to the uncertainty."

With the Federal Reserve promising to keep interest rates low through 2014, it may become a challenge to earn income from investments. Certain high-quality, well-priced stocks may offer better potential returns. "It's not hard to find a U.S. stock that pays a dividend well in excess of Treasury bond yields. But investors shouldn't just buy the highest dividend-yielding stocks without careful consideration," De Clue says.

While all investment decisions depend on one's goals and risk tolerance, risks can't be completely avoided when trying to make potential financial gains. "I look at companies with high free cash flow," De Clue says. "Having a high free cash flow may enable them to increase their dividend further, repurchase shares or make acquisitions — all of which tend to move up the stock price. Of course, this should not be the only factor in your selection." ■

FUNDING THE College





There are plenty of ways to fund a child's higher education — planning out a customized path may be essential to achieving long-term goals.

Dream

From game-day parties and lecture hall classes to life lessons learned, there are many reasons to be passionate about college. But finding and funding the right university can be difficult. It requires proper planning and preparation to find the perfect fit for your student.

At least 91 percent of high net worth individuals with children under 18 say funding college is a major goal, according to a survey by The Phoenix Company Inc., a life insurance and annuity company. Yet, only 23 percent say they've achieved their college financing objectives.

While planning ahead is a crucial component of saving for college, "you don't need to liquidate your assets to save for college," says Sally Mullen, Chief Fiduciary Officer of U.S. Bank Wealth Management. "There are many savings vehicles that allow contributions."

One gentleman in Iowa is taking advantage of 529 college savings plans for each of his 19 grandchildren, says Iowa State Treasurer Michael Fitzgerald, Chairman of the College Savings Plans Network (CSPN), a nonprofit association for administrators of state-sponsored college savings plans. Every December, he puts $2,975 — the maximum tax-deductible contribution under Iowa's plan — in each of the 19 accounts. He's using 529 savings plans that offer a variety of age-based asset allocation, a portfolio of stock or bond options that become more fiscally conservative as the beneficiary nears college age. "This is how he gives his grandkids their inheritance, so they can have a college education," Fitzgerald says. "You hear stories like this all across the country. It's something grandparents can feel really good about."

Leveraging a 529 plan or other savings vehicles isn't just satisfying, it may be smart. According to the College Board's 2011 Trends in College Pricing report, college tuition during the past decade has increased by an average of 5.6 percent per year at four-year public colleges and universities, and 2.6 percent per year at four-year private institutions. At those growth rates, the College Board estimates that a child born in 2010 will pay $23,750 a year in tuition and fees at a public university and $85,200 a year at a private university when he or she starts college in 2028.