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U C C E S S

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## Evaluating Stock Investments

**Y**ou should thoroughly analyze a stock before purchase. But pick up a company's annual report, and you can quickly become overwhelmed by all the numbers. What figures should you concentrate on when evaluating a stock? At a minimum, look for answers to these questions:

✓ **What are the company's earnings?** Earnings per share (EPS) is the company's net income after taxes and preferred stock dividends divided by the average number of shares outstanding. Look for steadily increasing EPS, which shows a pattern of consistent growth.

✓ **How does the company's price relate to earnings?** The price/earnings (P/E) ratio is calculated by dividing the company's stock price by EPS. It basically indicates how much investors are willing to pay for a dollar of the

company's earnings. P/E ratios can be calculated using different earnings numbers. Trailing P/E ratios use earnings per share for the most recent four quarters, while forward P/E ratios use forecasts of future earnings per share. To get a feel for the reasonableness of a company's P/E ratio, review its historical P/E ratio, the P/E ratio of other companies in similar industries, and the P/E ratio of the market as a whole. Typically, companies with higher growth rates have higher P/E ratios.

✓ **How does the company's book value relate to its price?**

A company's book value equals its assets less its liabilities, commonly referred to as stockholders' equity. Dividing the stock's price by its book value per share will give you the price-to-book value. Companies with low price-to-book values are often considered value stocks.

✓ **What is the company's return on equity?** Return on equity (ROE) is calculated by dividing the

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## Is the Public or Private Sector Paid More?

**I**n 2015, the Federal Salary Council reported that private-sector white-collar workers earn 34.9% more than federal workers, consistent with the 35.6% average reported in 2013 and 2014. Whether this pay gap is fair continues to remain a hotly debated issue. While organizations advocating for federal employees call the pay discrepancy unfair, other organizations have suggested the gap is nonexistent. In 2012, the Congressional Budget Office reported that federal workers actually make 2% more than private-sector workers overall and earn 48% more in benefits. The report noted that workers with a high school diploma or less earned 21% more than private-sector workers at the same educational level, and federal workers with some college earned 15% more. On the other hand, federal workers with masters or doctoral degrees were found to earn an average of 14% less than their private-sector counterparts.

The Bureau of Labor Statistics reports that public-sector jobs, which peaked at 19.8 million workers in 2008, declined to 19.2 million in 2015, and the public sector saw the slowest job growth of any major industry at 0.3%. ○○○



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## Evaluating Stock

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company's income by its shareholders' equity. It is used to measure how well a company is utilizing capital retained in the company, although it is a statistic that should be reviewed over a number of years to detect trends.

✔ **What is the stock's total return?** Total return equals dividends plus or minus changes in stock price divided by your purchase price. This is the overall measure of the stock's performance and is useful when comparing one investment with other investments.

✔ **What is the company's debt level?** The debt ratio is the company's outstanding debt divided by shareholders' equity, which measures how leveraged a company is. High levels of debt can make a company more vulnerable during economic downturns. Also take a look at the current ratio, which is calculated by dividing current assets by current liabilities. It is a measure of a company's ability to pay its current obligations, with higher ratios indicating a stronger ability to make payments.

✔ **What is the company's growth rate?** A company's growth prospects can be evaluated using the price/earnings to growth (PEG) ratio, which is calculated by dividing the P/E ratio by the company's projected earnings growth rate. A PEG ratio of one is considered standard, meaning the growth rate is incorporated in the stock's price. A PEG ratio higher than one means the stock is trading at a premium to its growth rate, while a ratio of less than one may mean the stock is undervalued.

✔ **How volatile is the stock?** Beta is a statistical measure of how stock market movements have historically impacted a stock's price. By comparing the movements of the Standard & Poor's 500 (S&P 500) to the movements of a particular stock,

## Dos and Don'ts of Investing

**H**ere is a list of dos and don'ts to remember whether you are a new investor or a seasoned veteran.

**Do...rebalance** — Review your portfolio annually to ensure your investments are in alignment with your strategy. You may need to make modifications.

**Don't...babysit your investment accounts** — As long as you're invested, you will experience gains and losses. While it is important to evaluate and rebalance annually, babysitting your investments can only cause stress.

**Do...what is best for you** — Always make decisions based on your unique goals, comfort level, and financial portfolio. There are so many variables that should influence your investment decisions, and probably none of them are exactly the same as anyone else's.

**Don't...do what everyone else is doing** — Make investments because they make sense for you, not because everyone else is doing it. Herd mentality definitely applies to the market.

**Do...invest for the long term** — Investing long term gives your money time to grow in the market. Compounding interest is very powerful.

a pattern develops that gauges the stock's exposure to stock market risk. The S&P 500 is an unmanaged index generally considered representative of the U.S. stock market and has a beta of one. A stock with a beta of one means that on average, it moves parallel with the S&P 500. A beta greater than one means the stock should rise or fall to a greater extent than movements in the S&P 500, while a beta less than one means it should rise or fall to a lesser extent than the S&P 500. Since beta measures movements on

**Don't...rush your investments** — The market needs time to grow your money for you; let it. Of course, some investments are appropriately short term, but most of your investments should be in the market for the medium to long term.

**Do...diversify** — Allocate your funds among asset classes and asset class categories. This will give you a more balanced, stable portfolio, mitigating losses when downturns do occur.

**Don't...put all your eggs in one basket** — If you invest everything in only one place (in one asset class or asset class category), you risk suffering significant losses when that investment falls.

**Do...set a strategy and stick to it** — Once you have developed your investment strategy, every financial decision you make needs to reflect that strategy. When events occur that affect your strategy, sit down and discuss options (that's a conversation you should have annually regardless of what has or hasn't changed in your financial situation).

**Don't...make decisions out of emotion** — When it comes to financial decisions, they should be made rationally based on informed analysis and according to your investment strategy. ○○○

average, you cannot expect an exact correlation with each market movement.

The decision to purchase a stock can't be made solely from a review of financial ratios. You'll also need to evaluate subjective factors, such as the quality of management, prospects for the company's industry, and where the company stands in relation to its competitors. If you'd like help reviewing the financial ratios of a stock that interests you, please call. ○○○

## Insurance and Your Financial Plan

Insurance plays a vital role in your financial plan. A comprehensive insurance plan, which can include everything from auto insurance to disability insurance, helps protect you, your family, and your wealth.

Without insurance, most people would have difficulty coping with major and unexpected financial setbacks. Insurance is a reasonable way to plan for worst-case scenarios that we all hope never become reality.

In many ways, it's the bedrock that supports your overall financial security. Some might even argue that if you have to prioritize, it's more important to focus on developing a solid insurance plan before you worry about issues like investing.

### Where Do I Start?

Most people already have some insurance. A typical adult with a family and a job might carry auto, life, and homeowners insurance (not to mention health insurance, which is another essential coverage).

But most people purchase their insurance piecemeal, picking up a policy here and there when they need it. Rarely do people have a coordinated insurance plan that aligns with their overall financial plan.

Thus, your first step in developing an insurance plan should be sitting down and taking an objective look at your total financial situation, perhaps with the help of a financial advisor.

Consider your age, family situation, the risks you face, and current assets and liabilities. This will help you identify areas where you might need the peace of mind that quality insurance provides.

For example, parents with young children will almost certainly want life insurance, while people

who suspect there's a good chance they'll end up in a nursing home may want long-term-care insurance.

Sound complicated? It can be. Unfortunately, there is no off-the-rack or one-size-fits-all approach to buying insurance.

### Evaluating Your Risk and Determining Your Needs

Determining what kind of insurance you need to protect yourself and your family begins with an honest evaluation of the risks you face. That helps you decide what kind of insurance you'll need.

But that's just the beginning. For example, if you have young children, you probably know you need life insurance. But how much is enough and what variety (whole- or term-life) is best? And what about other types of coverage? Should you buy umbrella insurance or disability insurance?

Life insurance tends to be the area where people have the most questions about whether their coverage is adequate. To determine your needs, you need to imagine the unthinkable: How would your family survive if you were no longer there to support them? Don't just choose a big number and assume it will be enough.

Consider this: You have a life insurance policy with a \$1 million death benefit that you think will be more than enough to provide for your family if you pass away unexpectedly. Tragically, you die, and your surviving spouse uses \$400,000 of the benefit to pay off your mortgage and some other debts, pay for your funeral, and cover other miscellaneous expenses. That leaves just \$600,000 for your family.

If your beneficiaries invest that sum in a fund that earns an average 5%, that translates to a monthly income of \$2,500. That amount may not be enough to meet all your survivors' financial needs. And that

assumes your financial situation is relatively uncomplicated. If you have children with special needs or who will be attending college soon, you may need even more insurance.

When it comes to disability insurance, you may be tempted to rely on your company's policy, but that might be a mistake. The coverage may not be as extensive as you expect with a limited benefit period or narrow definition of disability (you may only get benefits if you aren't able to work in any occupation, not just your current occupation). Robust disability insurance coverage is essential if you do not have the resources to replace your current income should you become unable to work.

Long-term-care insurance is another essential component of many people's financial plans. Given the high cost of nursing home care or a stay in an assisted-living facility, the need for these types of services in retirement would bankrupt many, even those with substantial retirement savings.

If you suspect that you or your spouse might need such care, a long-term-care policy is one way to protect your assets and reduce the risk that you will run out of money paying for a nursing home stay.

Clearly, insurance and financial planning are intimately intertwined. It is difficult to separate one from the other. If you have questions about your current insurance coverage, please call to discuss. ○○○



## Financial Thoughts

**S**ince September 2008, there have been 6.1 million completed foreclosures across the United States (Source: CoreLogic National Foreclosure Report, 2016).

The average price of new, single-family homes is currently \$305,000, up from \$204,000 in 2009. The median size of newly built, detached homes is 2,445 square feet, up 28% since 1992 (Source: *Business-*

*Week*, 2016).

Approximately 77% of individuals between the ages of 20 and 24 are licensed to operate a motor vehicle, down from 92% in 1983 (Source: University of Michigan Transportation Research Institute, 2016).

In 2015, the average hourly pay rate for retail workers in the United States was \$9.79. The average hourly wage for full-time Walmart employ-

ees was \$13.38 (Source: PayScale, 2016).

The average American retires at age 64 for men and at age 62 for women (Source: *The Wall Street Journal*, March 21, 2016).

Approximately 1.4 million businesses in the United States are jointly owned by a husband and wife (Source: Nielsen, 2016).

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## News and Announcements

**H**i everybody! How about a big round of applause for Brad; he did a great job on the last quarter's newsletter. But for better or worse, I'm back. I'm also back to procrastinating, so there is not one chance in a million that you will receive this Holiday Version while visions of sugar plum fairies dance in your head. Then again, I seem to remember similar odds during the last baseball season and the latest presidential election.

So, I am writing this edition by the light of our Christmas tree with the 6-CD changer full of Christmas tunes. I'm a sap for Christmas music; I admit it. I just heard Mr. Tony Bennett croon "I'll Be Home for Christmas!" Great song; makes me so anxious to be together with out-of-town brothers and sister-in-laws, nieces and nephews, and friends. Most of all, I'm

thinking of my beautiful, liberal daughter, Erica, being home! Erica missed Christmas a few years ago, and I vowed that I will never, ever let that happen again.

I sincerely hope your homes have been filled with loved ones from far and near. Here comes "Do They Know it's Christmas," by supergroup Band Aid. Again, my daughter reminds me that millions of Third World people struggle daily with draught, starvation, war, and oppression. My hope is all of us remember the less fortunate in our Christmas prayers and generosity year-round. Oh, man, how about "Rockin' Around the Christmas Tree" by Brenda Lee!! Party on! Have that extra piece of Betty Jane's, eat another piece of turkey or a chicken wing, dance with grandma or the grandkids. I can't wait for the 23rd annual Weitzel/

Moore viewing of *National Lampoon's Christmas Vacation!* In general, I hope you had fun. I could go on and on; but it's getting late, and I have to go to work in the morning...just a few more, please. How about "Blue Christmas" by Elvis! I think of all the good friends, clients, and relatives we've lost. Especially my lovely sister, Tracy; we will never forget them. "Silent Night" by the one and only Bing Crosby! Really...of course, this is the real reason for the season!!

In closing, my Christmas wish along with my fantastic staff is for the Spirit of Christmas be with you and your families throughout 2017. Wishing each and every one of you a Happy, Healthy, and Prosperous New Year!