

Waiting is the hardest part

MONTHLY COMMENTARY

September 2012

It's tough to put a dollar figure on uncertainty, but there seems to be plenty of anecdotal evidence that there's a high price to pay for the kind of doubt and confusion now confronting businesses and households. A consumer who considers buying a new car and a CEO looking at building a new plant may both reach the same conclusion due to uncertainty — "Let's wait and see what happens before we spend any more money." Or, as Ben Bernanke, chairman of the Federal Reserve, wrote in a 1980 paper, "Uncertainty, because it increases the value of waiting for new information, retards the current rate of investment."

Indeed, the chart below shows the level of uncertainty in recent years to be at historically high levels. The creators of the index say that uncertainty cost the U.S. economy 2.3 million jobs and reduced real gross domestic product by 3.2% between 2006 and 2011.

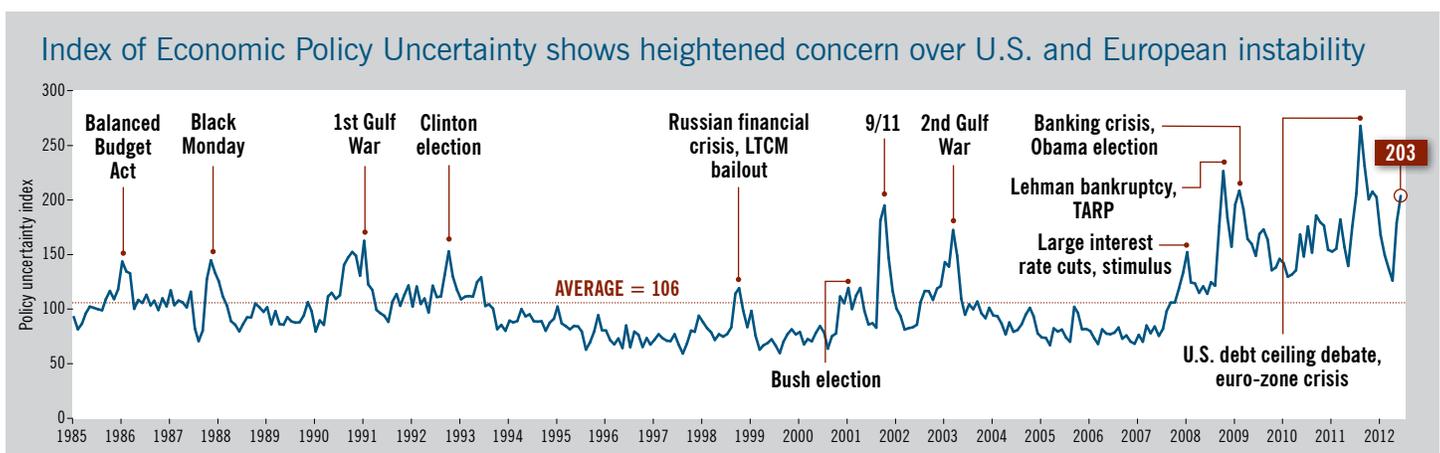
If one thing can be said for sure, it's that there's more uncertainty ahead. In Europe, officials are holding summit after summit in an effort to control the euro-zone debt crisis. In the United States, not only is there the usual uncertainty that surrounds a presidential election but tension over whether

seemingly intractable sides can reach agreement over such daunting issues as tax rates and government spending, or whether policymakers will send the country over a so-called fiscal cliff. As if that weren't enough, officials in China are wrestling with policies that could mean the difference between a soft landing or a hard landing for an economy that's been one of the engines of global growth for a decade.

You can't plug politics into a spreadsheet

Life for investors would be simpler if there were a handy timetable by which these issues would be resolved in a quick and orderly fashion. But successful investors know they can't control the outcome of the euro-zone summits or American fiscal debates, much less plug politics into a spreadsheet.

They can, however, review their goals, manage risk, be mindful of valuation and yield and remember that diversification may matter now more than ever. It's easy to overlook in such a challenging environment, but unsettled times can also offer opportunities for long-term investors. In the midst of uncertainty, there are companies with strong balance sheets, smart management and innovative products that continue to thrive, and whose shares may be attractively valued.



Source: *Measuring Economic Policy Uncertainty*, by Scott Baker and Nicholas Bloom of Stanford University and Steven Davis of the University of Chicago, June 2012. The index comprises three sets of measures: (1) monthly news articles containing "uncertain" or "uncertainty," "economic" or "economy," and policy-relevant terms (scaled by the smoothed number of articles containing "today"); (2) the number of tax laws expiring in coming years; and (3) a composite of quarterly forecasts of government expenditures and one-year CPI (Consumer Price Index) from the Philadelphia Fed Survey of Forecasters. Data are available at www.policyuncertainty.com.

Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so they may lose value. Past results are not predictive of results in future periods.

Kick the can't — focus on what you can control

Powerless. That's how a lot of investors feel. In a recent Gallup poll, 57% of investors said they feel they have little or no control over their efforts to build and maintain their retirement savings. What's causing them to feel so lost? According to 70% of those polled, the most important factor affecting the investment climate is something they can't control, the federal budget deficit.

On the flip side, among investors with a written financial plan having specific goals or targets, the poll showed 80% of nonretirees and 88% of retirees said their plan gives them the confidence to achieve their financial goals. It seems like some investors have figured out what they can control and what they can't.

A sense of stability

Granted, it's hard to feel in control when the changes in the global economy and the world's markets seem to be so remarkable for their speed and intensity. But there are some things that investors can control and that can help provide a sense of stability in a landscape that seems to be shifting.

- Review your portfolio to ensure that the investments are aligned with your objectives, such as capital preservation, income and growth. Objective-based investing is a disciplined approach that can help you focus on long-term needs and goals, not short-term market conditions.
- Maintain a strategy of investing in strong companies whose management is committed to rewarding investors

through dividend payments. A dividend-focused strategy can work well in challenging investment environments; and dividends have the potential to dampen the volatility of an equity portfolio.

- Make sure the portfolio is well diversified. Despite recent issues in Europe, successful long-term investing requires a truly global perspective that takes into account the changing nature of the world's economies and markets. Many companies are increasingly global, and may be poised to benefit from new markets created by an evolving middle class in many developing countries.

How to confront the challenge of uncertainty

What you can control	What you can't control
Identify investment objectives	Outcome of U.S. elections
Establish a holistic financial plan	Market volatility
Select quality investment managers	Global economic conditions
Employ disciplined risk management process	Future of euro zone
Review portfolio for tax-efficiency	U.S. tax policy

Investors should carefully consider investment objectives, risks, charges and expenses. This and other important information is contained in the fund prospectuses and summary prospectuses, which can be obtained from a financial professional and should be read carefully before investing. Investing outside the United States involves risks, such as currency fluctuations, periods of illiquidity and price volatility, as more fully described in the prospectus. These risks may be heightened in connection with investments in developing countries.

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