



Education

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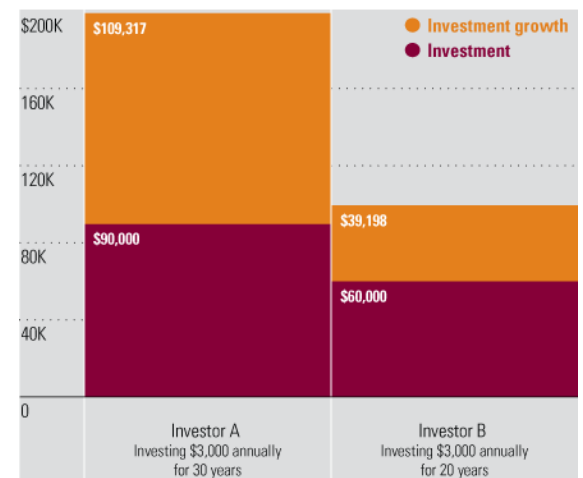
Monthly Education Brief

The Costs of Financial Procrastination

Retirement usually doesn't start until you're in your 60s but there is a good reason to start saving much sooner. The earlier you contribute to your nest egg, the more time your portfolio will have to grow in value.

The image illustrates the ending wealth values and effects of compounding of two investment portfolios. Consider two hypothetical investors who begin investing \$3,000 at an average annual rate of return of 5%. Investor A invests \$3,000 for a 30-year period, which results in an ending wealth value of \$199,317. On the other hand, investor B invests \$3,000 for a 20-year period, which results in an ending wealth value of \$99,198. Investor A invested an additional \$30,000 compared to Investor B. However, a large difference in the ending wealth value can be attributed to the compounding effect of the \$30,000 for the additional 10 years. In other words, your dollars saved now will be worth a lot more than your dollars saved in retirement.

The Effect of Compounding



Source: This is for illustrative purposes only and not indicative of any investment. The image represents a hypothetical rate of return of 5%. The values represented do not account for inflation or taxes. Past performance is not a guarantee of future results. The opinions herein are those of Morningstar, Inc. and should not be viewed as providing investment advice. Please consult with your financial professional regarding such services.



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About Keating Capital

Keating Capital, Inc. is a business development company that specializes in making pre-IPO investments in innovative, high growth private companies that are committed to and capable of becoming public. We provide individual investors with the ability to participate in a unique fund that invests in a private company's late stage, pre-IPO financing round — an opportunity

that has historically been reserved for institutional investors.

Keating Capital shares are traded on Nasdaq under the ticker symbol KIPO.

Portfolio Companies:
*BrightSource Energy
*Corsair Components
*Harvest Power
*Kabam

*Livescribe
*MBA Polymers
*Metabolon
*NeoPhotonics
*Solazyme
*Suniva
*Tremor Video
*TrueCar
*XTime

Monthly Market Commentary

Strong retail sales, an improving employment report, falling gasoline prices, and rising auto sales all painted a picture of a stronger U.S. economy these past few weeks.

GDP: GDP for the third quarter was revised downward to 2.0% from 2.5%, based on a larger-than-estimated inventory reduction and lower-than-expected imports. Fourth-quarter GDP estimates remain in the 2.5%-3.0% range, which would bring the full year to the 1.5%-1.75% range. One of the strongest determinants that could make these numbers true is consumer demand, which is expected to remain high at least during the holidays.

Employment: November employment numbers continued on a slow but steady upward trend. Although the recession officially ended in June 2009, private employment continued to decline until Feb. 2010. Overall, 8.9 million private-sector jobs were lost during the recession, and only 3.0 million were recovered since the February 2010 bottom (roughly equivalent to a 140,000-150,000 per month average). Consistent along these lines, employment numbers in November increased by 140,000 (better than 117,000 in October, but not as good as 220,000 in September). Longer store hours this holiday season translated into 50,000 jobs added in the past month, but these positions are mostly temporary, and the trend will find itself reversed once the busy season is over.

Unemployment: The drop in the unemployment rate to 8.6% from 9.0% may well be the best news of the week. However, only half of the decline was due to people actually finding jobs. The other half of the decline happened because of people who stopped looking, which is unusual, to say the least, in a still-uncertain economy. While a decline in the unemployment rate is good, the key metric that will move the economy forward is the number of new jobs added, which has been good, but not stellar, so far.

Income data: Real disposable income grew by 0.3% in October after declining three months in

a row because of high inflation, falling Medicaid payments, and collapsing interest receipts. Consumption slowed from 0.5% in September to an even more depressing 0.1% in October. But then again, a year-over-year analysis using a three-month moving average shows consumption more steady, at about 2%.

However, the biggest detriment to consumer incomes has been taxes. Cessation of various stimulus programs, increases in state tax rates, and the progressive federal tax system mean that a 2.7% jump in incomes has been accompanied by a 15.9% jump in taxes. High earners were probably the ones who felt it most, but a look at luxury retailers contradicts this, as high-end spending has remained fairly constant.

Retail sales: In terms of year-over-year percentage change data, retail sales seem to be slowing down, but the comparison is very tough, since November was one of the strongest months in 2010. Weekly data is strong and suggests a potentially better picture for December sales, especially since it seems that many consumers have not begun their holiday shopping yet.

Auto industry: Automakers recently reported new U.S. light-vehicle sales with the best seasonally adjusted annualized selling rate since Cash for Clunkers in August 2009. In absolute terms, November sales totaled 994,786, up 13.9% from November 2010, and every major auto manufacturer except Honda posted a year-over-year sales increase.

In light of these mostly positive economic indicators, the overall consensus seems to finally indicate that the U.S. economy will not double dip. On the other hand, nobody is yet willing to project a robust 2012, either.

Portfolio Performance

Commentary

A portfolio is a group of asset classes, such as stocks or bonds, held by an investor. When it comes to constructing an investment portfolio, risk tolerance, time horizon, and investment objectives need to be carefully considered.






Would you lie awake at night worrying about your portfolio if it was heavily invested in stocks? How long is it before you will need to start withdrawing money from the portfolio? If retirement is still 30 years away, you might be able to invest in riskier asset classes because you have time to ride out potential down periods. Your financial advisor can help you address these potential situations and much more.

The table illustrates how various portfolios performed since 1926. Each portfolio's total return is presented along with its corresponding risk, and a few other statistics are highlighted as well. Notice that as the allocation to stocks increases, the returns increase. However, these higher portfolio returns are associated with much greater risk than in portfolios with a lower allocation to stocks. For instance, out of the five portfolios presented, the 100% stock portfolio provided the highest return but also came with the most risk. When the 100% stock portfolio is compared with the 50% stock and 50% bond portfolio, one will notice that the risk decreases dramatically; however, the return also declines—by 1.7%. Stocks have a higher level of risk than bonds and those who invested in this asset class were rewarded accordingly. One other thing to note is that the 25% stock and 75% bond portfolio came with the least amount of risk (8.9%) and a moderate return of 7.0%. Despite the fact that bonds are considered less risky than stocks by many investors, the portfolio with the least risk did not consist entirely of bonds. The reason for this is that stocks and bonds are not highly correlated; meaning, they tend to move independently of one another. So, if stocks took a hit, bonds might be up and vice versa. These opposite movements may help reduce the overall risk of the portfolio.

An investor with a long time horizon might be able to deal with short-term risk in order to receive the higher return opportunities that more aggressive portfolios may provide. On the other hand, an investor with short-term goals may opt for a more conservative portfolio for more stability and potentially less downside risk.

Constructing an investment portfolio is not an easy task. Moreover, once the allocations have been determined, they tend to shift over time because of the performance of the underlying asset classes. Consequently, the portfolio will need to be rebalanced in order to maintain a target asset mix and a given level of risk. Lastly, as you grow older and your goals and risk tolerance change, your portfolio allocation will need to change as well. Investing is an ongoing process—be sure to consult with your financial advisor throughout this challenging journey.

Summary Statistics of Various Portfolio Allocations 1926–2010

Portfolio	Return	Risk	# Positive periods	# Negative periods	Highest return	Lowest return
 100% Stocks	9.9%	20.4%	61	24	54.0%	-43.3%
 75% Stocks/ 25% Bonds	9.2%	15.5%	64	21	41.3%	-34.2%
 50% Stocks/ 50% Bonds	8.2%	11.4%	66	19	34.7%	-24.7%
 25% Stocks/ 75% Bonds	7.0%	8.9%	70	15	35.7%	-15.0%
 100% Bonds	5.5%	9.5%	63	22	40.4%	-14.9%

Government bonds are guaranteed by the full faith and credit of the United States government as to the timely payment of principal and interest, while stocks are not guaranteed and have been more volatile than bonds. An investment cannot be made directly in an index. The data assumes reinvestment of income and does not account for taxes or transaction costs. Portfolios are always rebalanced. Past performance is no guarantee of future results.

Source: Stocks in this example are represented by the Standard & Poor's 500®, which is an unmanaged group of securities and considered to be representative of the stock market in general. Bonds are represented by the 20-year U.S. government bond.

The End of the Recession

In September 2010, the National Bureau of Economic Research announced the long-awaited news: an end date for the recession that had begun in December 2007. The NBER determined the official end date as June 2009, quieting down (if not completely silencing) double-dip fears. NBER defines a recession as a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales. Looking back at the performance of the main asset classes during the recession and in the months following the official end date, gold was the best overall performer, and long-term government bonds offered consistent positive returns. Out of the investments with the worst performances during the recession, REITs posted the most-impressive return in the 18 post-recession months.

Returns During and After the Most Recent Recession

	Recession Dec 2007 to Jun 2009*	Aftermath Jul 2009 to Dec 2010*
Gold	19.3%	50.4%
Long-term government bonds	8.4%	8.5%
Treasury bills	1.9%	0.2%
Small stocks	-33.8%	60.7%
Large stocks	-35.5%	41.1%
International stocks	-39.7%	32.2%
REITs	-48.1%	86.6%

*Returns in table represent cumulative returns during time periods indicated, not geometric returns.

Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. Holding a portfolio of securities for the long term does not ensure a profitable outcome, and investing in securities always involves risk of loss. International investments involve special risks such as fluctuations in currency, foreign taxation, economic and political risks, liquidity risks, and differences in accounting and financial standards. REITs are subject to certain risks, such as risks associated with general and local economic conditions, interest rate fluctuation, credit risks, liquidity risks and corporate structure. Small stocks are more volatile than large stocks, are subject to significant price fluctuations, business risks, and are thinly traded. Government bonds and Treasury bills are guaranteed by the full faith and credit of the United States government as to the timely payment of principal and interest, while stocks, REITs, and gold are not guaranteed.

Source: Gold—Wall Street Journal London P.M. closing price. Long-term government bonds—20-year U.S. government bond. Treasury bills—30-day U.S. Treasury bill. Small stocks—Dimensional Fund Advisors, Inc. (DFA) U.S. Micro Cap Portfolio. Large stocks—Standard & Poor's 500® Index, an unmanaged group of securities considered to be representative of the U.S. stock market. International stocks—Morgan Stanley Capital International Europe, Australasia, and Far East (EAFE®) Index. REITs—FTSE NAREIT Equity REIT Index®.

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