

INSIGHT

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Reach Your Goals

FALL 2009



Keeping Your Goals In Clear View

ASTUTE LONG-TERM INVESTORS MAY FIND OPPORTUNITIES IN ECONOMICALLY TROUBLED TIMES.

By Jack El-Hai

Professor Dan Seiver knew something unusual was in store for the financial markets when he took his car in for servicing early last fall. “The TV in the waiting room was set on CNN, and they were running story after story about falling stock prices,” remembers Seiver, a member of the finance faculty at San Diego State University and author of the book *Outsmarting Wall Street*. “The mechanics kept interrupting their work to come in and watch. That, I thought, was a sure sign that the markets were doomed.” Sure enough, the stock market plunged—as investors of every stripe watched with growing concern.

Many investors, Seiver knew, would let their fear steer them into selling off stocks at the lowest prices in years. He had seen it happen before. When markets appear doomed in the short-term, long-term investors must stay focused on company fundamentals. Those who keep emotions in check can

take advantage of opportunities that a depressed market offers for building wealth. They may set themselves on a long-term path to gain money, not lose it.

A BUYER'S MARKET

“The best time to buy is when nobody else wants to,” Seiver says, “when everyone is in a storm running in circles.”

The current economic climate has produced a rare chance to buy securities at a discount. “If you have funds, this is a great time for long-term investors to buy stocks. The stock market is having a sale,” says Michael Goldstein, a professor of finance at Babson College in Massachusetts. “The odds of the Dow Jones going up to 12,000 are greater than those of it going down to 4,000. The Dow was already back above 9,000 in August.” Seiver agrees. “There’s so much negativity in the marketplace,” he says. “I associate that negative outlook with a good time to buy stocks.”

Approaching the markets with a horizon 10 years out or more, investors will recall that stocks have an unequalled record

of earning wealth—better than bonds, precious metals, cash, government securities, and other investments. “In the long run, stocks always outperform other investments, and I think that will continue going forward,” says Gary Ball, board member of the National Association of Investors Corporation (NAIC), a nonprofit organization that provides information and services to investors.

While the markets have tumbled this past year for good reasons—our economy is in a mess, and we’ve been mired in perhaps the worst recession since the Great Depression—long-term investors may weather the storm by adhering to tried-and-true guidelines for buying securities, minimizing effects of cyclical fluctuations.

A FUNDAMENTAL FOUNDATION

Among successful strategies for the long-term, in good times and bad, is working with an advisor who keeps a close eye on the fundamentals of firms whose stocks you’re considering. Such measurable and qualitative information

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is invaluable when comparing investment choices. For businesses, much of this information has a home on the balance sheet: revenue, earnings, liabilities, and rate of growth. Companies with steady growth, low debt, and strong return on equity are considered most likely to weather hard times and continue growing, even as weaker companies fail.

Most experts have their own favorite fundamental indicators—tea leaves they read in hopes of predicting a stock's future performance. Goldstein, for instance, tracks the dividend yield in a stock's performance. Companies that pay any dividend, regardless of the amount, historically have held

The point is to base investment decisions on solid guidelines, not on emotion. "You have to find a way to overcome the excesses of fear," Seiver says. "That's why almost any set of sound rules will help your portfolio's performance." The same holds true when prosperous times return, when greed could hijack many investors' brains and lead them to unsound decisions. Those who hold to their guidelines and resist unreasonably high prices will do the most to increase their wealth in the long-term.

REDUCING TAX CONSEQUENCES

Low stock prices could offer investors another valuable opportunity: changing course or rebalancing a portfolio without

ment wealth. If you wish to move \$50,000 from one mutual fund to another, for instance, you can make the shift over five months at \$10,000 per month, instead of transferring all \$50,000 at once. As a result, your cost per share will be lower if the price drops during the five months. "Dollar-cost averaging usually makes people more comfortable because it protects them from investing everything at peak price," Goldstein says. "Most people don't mind possibly missing some initial gains at the start in return." By enforcing discipline, dollar-cost averaging also helps keep fear and emotion out of the investing picture.

PROFESSIONAL PLANNING

Necessarily, the first step is outlining your objectives. If you own a business, do you want to turn it over to your children at an early age? Do you want to buy a vacation home? What is your goal? As with everything in life, you can't know how to get there, unless you know where you're going.

Financial planning is not an isolated event, but a process that lasts a lifetime. When markets fall, investors must adjust, keeping their portfolios in balance and making the most of investing opportunities. At such times, planning is as critical as it will ever be in people's lifetimes. Plans you made last year should be reviewed for validity. In The Private Client Group, our advisors help clients reach goals by identifying individually appropriate asset allocation and investment vehicles.

Ultimately, when prices plunge, astute investing requires patience, planning, calm, and, most of all, focus on the fundamentals.

Our brains may be hard-wired to respond emotionally to crises. But long-term success depends on our ability to keep emotions in check, focusing on long-term opportunities that come with disciplined investing.

Jack El-Hai is a freelance writer and frequent contributor to The Atlantic Monthly, The Washington Post magazine, Finance & Commerce, and many other publications.



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The stock market is having a sale.

their value better than similar stocks in depressed markets, producing a better long-term return than non-dividend-paying stocks. All other things being equal, Goldstein favors a dividend-paying stock over one that doesn't.

Ball, of the NAIC, on the other hand, pays close attention to a company's short- and long-term debt. "Just as consumers are going under from mortgages they can't pay, the same principles apply to companies. We've already seen quite a few businesses fail from crushing debt, as spending on their goods or services gets cut back."

incurring the capital-gains taxes that high prices and profits might bring. "If you're trying to keep a 60–40 balance between equities and bonds, and declining stock prices have made it 40–60, it's time to rebalance in favor of the losers," says Goldstein. In addition, you may be able to use the absence of capital gains to swap high-cost mutual funds for those with lower administrative fees.

In times of economic volatility, investors may be able to make the most of dollar-cost averaging, potentially reducing the effect of market fluctuations on their invest-

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Cash Advances

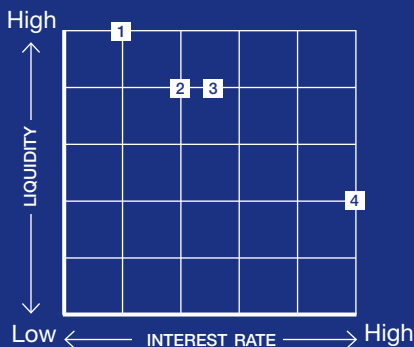
CASH MANAGEMENT STRATEGIES HAVE CHANGED DRAMATICALLY IN TODAY'S LOW-RATE ENVIRONMENT. FLEXIBLE TOOLS WILL HELP YOU MAINTAIN AND GROW YOUR CASH RESERVES.

OPTIMISTIC OUTLOOK

Many economists are finally beginning to see bright spots in the economy, but Rob Haworth, Regional Investment Manager for the Wealth Management Group at U.S. Bank, recommends caution for the time being. With low rates predominating for the foreseeable future, the four cash-management strategies outlined could still be relevant for some time.

He notes that the steps the government has taken to encourage borrowing and spending are likely to tamp down returns on investments, such as certificates of deposit and savings accounts. "I think the Fed will remain on hold for awhile to get the economy going, and even then, we're not expecting high inflation," he says. "Yields may not continue to be less than 1 percent, but they could remain relatively low."

The bottom line, Haworth says, is to expect low returns on these instruments for at least 18 to 24 months.



- 1 Checking Accounts
- 2 Savings Accounts
- 3 Bank Money Market Accounts
- 4 Certificates of Deposit

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By Erin Peterson

Recent economic volatility has caught the most cautious investors off guard. Conservative investments such as bonds tumbled in value along with formerly high-flying stocks.

Even money market mutual funds, where many put cash to avoid risk, looked shaky. For only the second time in more than 40 years, a fund made headlines when it "broke the buck" last fall and lost money.

These losses were sobering, not just to investors, but to anyone who assumed these traditionally lower-risk investments were actually no-risk investments.

A stabilizing economy means money market mutual funds are no longer in the danger they were last fall, but the persistent low-rate environment continues to frustrate investors. With expenses factored in, many money market mutual funds are paying virtually nothing. The change has left many investors scrambling for new cash management solutions.

While some look for vehicles with the highest possible yield, the approach merits caution. Cash management is not about squeezing out every last basis point of yield; it's about having the cash available when you need it, while the rest of your portfolio keeps working. Taking on too much risk in search of the highest yield can defeat that purpose.

Due to recent changes by the government, several good options exist for those seeking liquidity and stability in an uncertain economic environment.

- **Checking Accounts**
Transaction accounts earning less than one-half of one percent interest will receive unlimited FDIC coverage through 2009. Combined with other FDIC-backed accounts, this can be a good option for housing cash.
- **Traditional Savings Accounts**
Many investors once shied away from savings

accounts because of low rates and the relatively low \$100,000 FDIC coverage. That limit was recently bumped up to \$250,000 through 2013 and can be multiplied through joint accounts and other ownership combinations. While returns remain low, the government's backstop helps provide unparalleled security.

- **Bank Money Market Funds**
Unlike money market mutual funds, where the underlying asset is a diversified portfolio of securities, a bank money market deposit account is backed by the underlying strength of the bank. FDIC insurance provides additional security within applicable limits.
- **Certificates of Deposit**
Short-term CDs backed by the FDIC may provide a slightly higher return than savings accounts and bank money market deposit accounts, though you'll lose some liquidity by locking up cash for a month or more.

All these strategies increase safety, but have their downsides. While they strip away a layer of money management that can lower returns, investors must do some legwork to find the most appropriate accounts. In addition, investors lose some of the diversity that can improve yields. Clients must clearly understand their risk tolerance and how the funds will be used, to make decisions.

Even with cash management strategies, there is a real connection between risk and reward, and the highest-yielding options do come with risks. Attention must be paid, not only to the yield side, but also to the risk side.

The bank solutions that investors may have set aside in search for higher returns have regained some of their luster in difficult economic times. By re-evaluating your own situation, you may find there's room for these options in your own cash management strategies.

Erin Peterson is a freelance writer and a frequent contributor to Kiplinger's Retirement Report, AAA Living, Bankrate.com, and many more.

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ESTATE TAX UP FOR DEBATE

Congress must take some action this year on estate tax, because the way it stands now the estate tax is set to disappear on January 1, 2010, but then spring back to life in 2011. In 2011, the estate tax exemption level returns

to \$1 million for individual estate tax exemption and \$1.3 million estate tax exemption for family-owned businesses. The tax rate will also return to its original maximum rate of 55% with 5% surtax on estates over \$10 million.

—*The Wall Street Journal*

Life Insurance is for the Living

At social get-togethers, life insurance doesn't typically make the list of small talk topics. However, more and more people are utilizing whole life insurance in a different way—to help pay for "end of life" health care—instead of regarding it simply as income protection or a legacy for their heirs.

Financing end-of-life health care expenses, known as long-term care insurance, can be complex, and there is still a lingering reluctance to pay for coverage that might never be used. However, almost no one seriously questions the need for protection. According to the "Own Your Future" planning guide for long-term care, distributed by the U.S. Department of Health and Human Services, 60 percent of people over 65 will need

some type of long-term care. With home health care and assisted living gaining popularity, that number is sure to increase.

Those with reasonable liquid assets can use this coverage as a balance sheet item, rather than an on-going monthly expense. A smart financial solution, protecting assets and preserving care options, combines long-term care coverage with single premium whole life insurance.

This approach has a distinct advantage over pay-as-you-go long-term care policies. Whole life avoids the potential of "use it or lose it" premiums, providing level premium guarantees and building cash value or equity. Simultaneously, any part of the

underlying insurance not required for long-term care is preserved and distributed to the beneficiaries; a guaranteed nest egg.

Some people might believe life insurance is for the young, but average ages for life insurance with long-term care provisions are in the middle-60s. Coverage under these types of policies includes popular options such as home health care, assisted living, and facility coverage. In addition, these policies are available for single insureds, or spouses can purchase on a joint life basis, with death proceeds paid when the second insured dies. Using whole life insurance for long-term care protection can simply mean repositioning your assets.

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