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## Taking Control in Uncertain Times

*By Kevin Adler, Editor, NAPFA*

This issue of *NAPFA Planning Perspectives* provides advice widely applicable to most consumers, but especially for families that are at the early stages of understanding their financial needs and building their financial stability. At a time of economic uncertainty and surprises in the stock market, the articles highlight the importance of taking control over financial aspects that can be controlled: developing a plan, reducing debt, and investing for the long term.

The role of a financial advisor is to help people build a plan and stick to it. Emotions can run high on financial matters, especially during tough economic times. But having a plan and a trusted advisor who is implementing it can go a long way towards keeping people on-track for meeting their financial goals.

Our first article in the newsletter is an overview of what should be contained in a financial plan, as well as a reminder that it's never too early to begin making a plan. Our second article addresses how young families can start to climb out of debt — which is advice that's applicable for everyone.

Our third article looks at why it's so tough for individual investors to beat the broad market indexes on a consistent basis, as illustrated by the wrong predictions by many well-known investment experts and economists. We follow with information about a valuable online tool developed by the U.S. Social Security Administration to help people estimate how much they will receive in monthly Social Security investments. We conclude this issue of *NAPFA Planning Perspectives* with a reminder about what consumers should expect from any financial advisor with whom they work.

NAPFA's website contains an array of information to help consumers at every stage of life. We encourage you to visit [www.napfa.org](http://www.napfa.org) for free information and to use our Find-An-Advisor search function to reach out to Fee-Only Advisors in your area.



# Financial Planning

## Financial Planning at My Age?

By Michael Chamberlain, AIF, CFP®, Chamberlain Financial Planning, [www.chamberlainfp.com](http://www.chamberlainfp.com)

**F**inancial planning is a process of balancing current needs and future goals. Unfortunately, many people do not plan, so they do not end up not getting what they desire in life.

One of the biggest hurdles is starting to plan too late. It's never too early to start to plan what you want if life and how to pay for it. Everyone's plan is based on his or her unique situation at the time. The "plan" should be reviewed and adjusted on a regular basis as circumstances change.

Most plans address the following elements:

- *Current Financial Situation.* Both you and your planner need to know where you are financially now. This comes from compiling your net worth statement (list of assets and liabilities) and creating a cash flow determination (income and outflows). This will give you a baseline for judging your progress over time and will help to highlight areas for potential savings.
- *Investment Risk Tolerance and Capacity.* Your emotional and financial ability to withstand investment risk will affect which investments are appropriate for you.
- *Investment Analysis and Recommendations.* Start with a look at what investments you have and whether they are properly allocated, given your risk tolerance, risk capacity, and goals. Then, your advisor can begin to make alternative recommendations.

- *Investment Policy Statement (IPS).* An IPS clearly outlines the objectives of your investments, expected returns, and possible gains and losses based on historical data. It provides guidance for managing your investments.
- *Retirement Planning.* Identify the goals that you have now and in the future, while taking into account current and future income and assets. Analysis includes determining the likelihood that your assets will last through your retirement years.
- *Estate Planning.* Even for the non-wealthy, estate plans are important. This includes having proper documentation for ensuring your healthcare preferences are followed, as well as for passing on your assets and legacy.
- *Risk Mitigation.* The "unexpected" will occur. Risk mitigation is the process of using insurance to protect against large financial loss if the unexpected did occur, but retaining only the risk, which you can financially handle.

Other topics that may be appropriate in a plan, depending upon the circumstance, could include education planning, debt management, income tax planning or estate tax mitigation techniques. Talk to your financial planner about what's appropriate for your circumstance.

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# Financial Planning

## Financial Fiascos Every Young Couple with Debts Should Avoid

By Kimberly J. Howard, CFP®, CRPC, KJH Financial Services, [www.kjhfinancialservices.com](http://www.kjhfinancialservices.com)

**Y**oung families often carry loads of debt, commonly resulting from unpaid college loans, car payments, and/or heavy usage of credit cards. Things get worse when they incur the added responsibilities of a home mortgage and raising kids. The difficulty of finding well-paid work in this economy adds to the burden.

However, with careful financial planning and an effective debt-management plan, young families can climb out from under harrowing debts. Read on to find out about major misconceptions that many young families have about their finances, and how you can avoid them.

### Professional help is not required.

Financial planning can be a do-it-yourself activity. There's lots of good information available in books and online about how to develop good savings habits, become a smart investor, and use your money wisely. But few of us have the discipline, the time, and the experience to manage all of these complicated tasks.

Young families with debt, especially those who have children, should consider working with a financial planner to put their finances in order. With a financial planner's guidance, the family can set financial priorities and understand what it will take to reach major goals, such as saving a down payment for a home or building a rainy-day fund or a college fund. A financial planner also can help families invest for their long-term needs.

### What's wrong with a little credit card debt?

The greatest financial blunder many families make is carrying (and using) too many credit cards. It is particularly difficult to mitigate and manage credit card debts because they have high rates of interest. Being inexperienced,

young families often commit the mistake of making only the minimum monthly credit card payments. By paying only the minimum, it could take more than a decade to pay the entire balance, even without new purchases! Ideally, a family in debt should stop using its credit cards and start making payments of at least \$100 more than the minimum on each credit card account. It might even make sense to work with a licensed credit counselor if either partner has trouble controlling credit card use.

### We don't need a budget.

A close kin to any debt issue is poor budgeting. Young couples tend to overspend — mostly because they underestimate their expenses. The problem originates from the bad habit of spending first and planning to save what's left. Unfortunately, with this method, there's hardly anything left at the end of the month. As a remedy, make a frugal budget that accurately covers your daily expenses and reflects your savings goals — and stick to it.

### Retirement is far away.

Many young couples haven't deciphered the significance of saving for retirement. They skip contributions to their employer's 401(k) retirement plans or their own IRAs. Because retirement is decades in the future, these young wage earners prefer to focus on short-term goals, like buying a new car. They fail to understand that the best way to take advantage of the compounding of investment returns is to start saving as soon as possible — and let time be their friend.

Here's a simple rule of thumb about retirement savings. Those who invest at least 15 percent of their income in retirement savings consistently from an early age remain far ahead financially after retirement than those who don't.

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# INVESTMENT

## What Are the Experts Saying?

By Kevin Brosious, MBA, CPA/PFS, CFP®, Wealth Management, Inc., [www.wealthmanagement1.com](http://www.wealthmanagement1.com)

I often hear from prospective clients that they used to follow the advice of certain financial experts. Some people paid for subscriptions to the experts' newsletters, blogs, and websites. A few told me that they never missed certain financial shows on TV. They would ask me what I thought of the person they followed.

Most of the time, I would respond that their financial expert is a "real smart" person. But I would also tell them that there are a lot of "real smart" people providing investment advice, and none of these experts is all-knowing all of the time.

One thing that all investors have to keep in mind is that there are two sides to every trade. When someone is buying, someone else is selling. Often, the buyer and seller are both "real smart" people, but both can't be right about the transaction they are making.

Watch the financial news channel CNBC any day of the week. You will see interviews with smart people who have differing opinions. How would you know which opinion is correct?

Here are predictions by some people who I consider to be smart:

**Richard Band**, editor, *Profitable Investing* newsletter: "A very powerful and durable rally is in the works. But it may need another couple of days to lift off. Hold the fort and keep the faith!" - March, 2008.

*Band describes himself as the "World's No. 1 authority on investing for low-risk growth." At the time of his prediction, the Dow Jones Industrial Average (DJIA) was at 12,300. By late December, it was at 8,500.*

**Ben Bernanke**, Fed Chairman: "I expect there will be some failures.... I don't anticipate any serious problems of that sort among the large international active banks." - February 28, 2008

*In September, 2008, Washington Mutual failed. Citigroup, Bank of America, JP Morgan Chase, and Wells Fargo had to be bailed out with TARP funds.*

**Jim Kramer**, Mad Money: "Bear Stearns is fine; don't move your money from Bear. Bear Stearns is not in trouble, don't do anything silly." - March, 2008

*Six days later, Bear Stearns was bailed out and its share price plunged to \$2.*

**T. Boone Pickens**, billionaire oil-and-gas executive: "I think you'll see \$150 a barrel [of oil] by the end of the year." - June, 2008

*At the end of December 2008, oil was trading at \$40/barrel.*

And my favorite has to be **Harry Dent**, Harvard MBA, and founder of HS Dent Investment Management and author. In 1998, Dent authored a book titled, *The Roaring 2000's*, in which he predicted that the Dow Jones would reach 21,500 and, possibly, 35,000. Today, the DJIA is currently struggling to stay above 12,000. Proving his ability to change with the times, in 2009 he authored a book titled, *The Great Depression Ahead*, in which he predicted a DJIA of 3,800 by the end of 2010. The DJIA closed last year at 11,578.

*Years ago, I made the decision to follow a passive investment strategy for my clients. Consequently, I never try to time the market or pick the hottest stock or sector. I came to this decision after years of listening to the experts.*

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# Retirement

## Social Security's Online Benefits Estimating Tool

By Karen O'Brien, trueNorth Financial Services, LLC., [www.truenorth-fn.com](http://www.truenorth-fn.com)

The Social Security Administration has a wealth of information on its website, as well as an extremely useful tool: the Retirement Estimator. The Estimator ([www.socialsecurity.gov/estimator](http://www.socialsecurity.gov/estimator)) is an online calculator that provides benefit estimates to help people plan for their retirement, and it's very fast and easy to use.

By far, the biggest benefit of this tool is that it automatically links to each person's actual Social Security earnings over the course of their work history, eliminating the need to manually key in years of earnings in order to get a benefit estimate. It is interactive, allowing users to understand the impact on their benefit of different assumptions about future earnings and retirement dates.

To protect privacy, only the benefit estimates are provided online. The Estimator does not display any personal information, such as address, earnings or other information that could lead to identity theft.

### How It Works

The calculator is designed for individual use, so you can't conduct an inquiry on another person. You have to acknowledge you are the individual whose personal information you are requesting before you can proceed.

You enter your personal information — including Social Security number, date of birth, place of birth, and mother's maiden name — and then enter your last year's earnings if they were covered by Social Security.

The initial output gives you your estimated benefits (in today's dollars) for:

- Drawing Social Security at age 62 (or current age if older than 62),
- Drawing Social Security at full retirement age, and
- Delaying drawing benefits until age 70.

The initial estimate is based on your average earnings over your working

lifetime and assumes that as you continue to work, you will make about the same as you entered for last year's earnings. This means that the tool is less useful for people who are decades away from retirement, as their earnings may significantly increase or decrease as their careers unfold.

The calculator also allows you to create additional scenarios where you can change the age at which you stop working, and/or change assumptions about future earnings.

You can use the Retirement Estimator if:

- You are not currently receiving benefits on your own Social Security record,
- You are not a Medicare beneficiary,
- You have enough Social Security credits at this time to qualify for a benefit, and
- You are not eligible for a pension based on work not covered by Social Security.

Of course, the closer you are to retirement, the more accurate the estimate is going to be. This new tool is particularly useful for people who are close to the end of their working years, as it allows them to easily model different stop work years to understand the impact on their Social Security benefits.



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# Financial Planning

## What Financial Planning Can Do For You

By Brian Pon, BS, CFP®, EA, PFP, Financial Connections Group, Inc. [www.financialconnections.com](http://www.financialconnections.com)  
and Jill Hollander, CDFP, CFP®, CRPC, Financial Connections Group, Inc. [www.financialconnections.com](http://www.financialconnections.com)

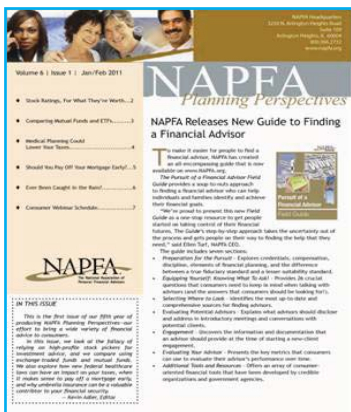
Some people assume that financial planning is all about the numbers: investments, rates of return, cash flow taxes, etc. That perspective is incomplete. We believe that the purpose of financial planning is something very different.

The way we see it, financial planning is about providing control and reducing uncertainty.

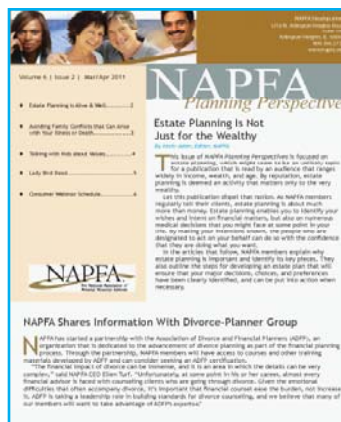
With a well-designed financial plan, you will gain peace of mind because you are moving towards your future with a plan in place, rather than handling events spontaneously. Your plan will anticipate different scenarios that might occur and devise possible responses.

Your financial plan also is about creating a vision for your future. Your advisor should talk with you about what you want your future to look like. Have you ever done that?

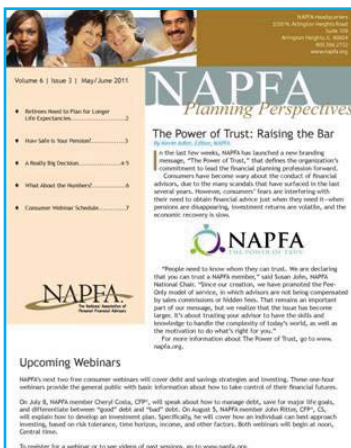
Have you missed previous issues of NAPFA's *Planning Perspectives*?  
All issues are archived at [www.napfa.org](http://www.napfa.org).



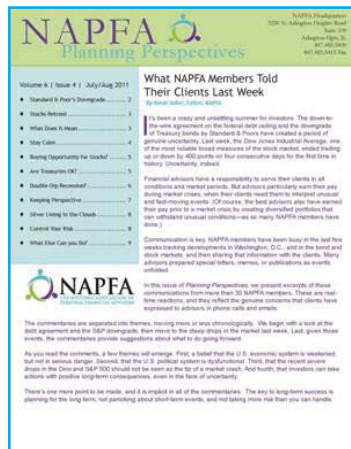
January/February 2011



March/April 2011



May/June 2011



July/August 2011

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