

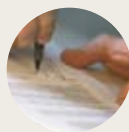


# NAPFA

## *Planning Perspectives*



► Balancing Risk.....2



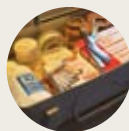
► To Spend or Not To Spend...3



► Retirement Benefits.....4



► Real Estate Investing.....6



► Financial First Aid Kit.....7

### In this issue...

## Investing with a Long-Term View

With the stock market gyrating by hundreds of points almost every day and the housing market news relentlessly negative, it's not surprising that some people are panicking about their financial futures. Handling money can be emotional, and our emotions get even more intense during difficult times.

The key to weathering the storm is having a long-term plan, sticking to it, and leaving emotions behind as much as possible. Jumping out of the market isn't a good strategy. Seeking to make a quick buck on a fallen stock isn't the answer, either.

In this issue of *Planning Perspectives*, we emphasize taking the long-term view. We present articles about: how to balance risk; whether to spend or save the anticipated "tax rebates" from the proposed U.S. economic stimulus package; the dangers of chasing returns in one sector (real estate investment trusts, in this issue's example); and when to begin taking Social Security payments.

Long-term thinking is always important. Especially today.

## NAPFA Turns 25

This year marks 25 years since NAPFA was founded. Our organization was started by a small band of financial advisors in 1983 who challenged the conventional financial planning model of the time. Planning in those days was exclusively driven by commissions. The aim of an advisor was to get the client to buy something—stocks, bonds, insurance, anything—that generated a commission.

A few advisors knew that this sales orientation was wrong. They asked a simple question that had deeply meaningful impact: If advisors are supposed to work for their clients, wouldn't a commission affect the advice that was being offered?

Fee-Only financial planning was born.

As one of the founders said: "We wanted to represent the consumer. We wanted to create buying power for the consumer and planner. We wanted to create an aggregate voice for objectivity."

These visionaries added another element: comprehensive financial planning. Again, their idea was deceptively simple, but radical in its impact. They promised to integrate all aspects of a client's financial future into a single comprehensive plan. Their goal was to avoid focusing solely on one area of financial need, which, inevitably, was the area that gave a salesman the highest commissions.

Now, a quarter-century later, much of that vision has been realized. NAPFA has grown to 2,000 members and has become an important influence on how financial services are delivered to millions of people. Fee-Only, objective, comprehensive, fiduciary planning has become widely recognized, praised, and emulated. We've raised the bar—and we intend to do more.

During this anniversary year, we will share more of NAPFA's history and describe what we plan to do in the years ahead.



# Investing

## Balancing Risk

By J. Patrick Collins, Jr., CFP®, EA [www.greenspringwealth.com](http://www.greenspringwealth.com)

When financial professionals talk about “risk,” they often mean the volatility that is associated with the financial markets. Especially in early 2008, when the stock market has tumbled and fears of a recession abound, this type of risk is powerfully felt.

But there’s more to risk than market volatility. I often tell clients that there are two specific risks that need to be planned for: short-term risk and long-term risk. Short-term risk involves volatility. Any time you invest your money, there is a chance that there will be a loss of value in your investment. If your investment goes down in value, and you need to access to those funds in the short-term, you will experience a loss.

Short-term risk typically subsides with most investments as time progresses. This is shown in the chart below, which displays statistics from the S&P 500 from 1926 through 2004:

### Downside Risk

Worst 1-year period (1931): -43.35 percent  
Worst 10-year period (1930-1940): -1.0 percent  
Worst 30-year period (1929-1959): 8.6 percent

Long-term risk is the threat most people underestimate. This risk is better known as inflation—in other words, your risk of running out of, or outliving, your money.

As the chart on this page shows, the costs of goods and services increase due to inflation. For an individual to maintain a standard of living, he must increase his income at the same rate.

One of the primary jobs of a financial advisor is to identify risks that are inherent to our clients’ situations and either avoid, transfer, or minimize those risks.

For short-term risk (volatility), an allocation of assets to stable, safe investments like checking and savings accounts will solve the problem. Unfortunately, by avoiding volatility, you will increase your exposure to long-term (inflation) risk. Conversely, inflation risk can typically be minimized by investing one’s assets in growth investments like stocks. Since these investments have historically outpaced the inflation rate, individuals can experience a growth in their assets at the same time the growth in expenses is occurring. By placing all of your assets in growth investments, you will limit your exposure to inflation, but you might experience greater volatility.

### Long-Term Risk: Cost Increase Due to Inflation

Costs	1969	1989	1999
Bread	\$0.29	\$1.29	\$2.46
Dozen Eggs	\$0.47	\$1.19	\$2.25
Movie Ticket	\$1.00	\$5.00	\$12.00
New Ford Car	\$2,200	\$14,000	\$33,000
3-BR Home	\$19,000	\$105,000	\$248,000

(Prices and projections in this chart are estimated based on historical data. This data cannot be relied upon for complete accuracy or to indicate future trends.)

So what should you do? The key to managing the risk is balance. By allocating a percentage of your assets to stable assets and a percentage to growth assets, you minimize the risks inherent in your situation. How much you allocate to each asset class has to do with several variables, and that should form the basis of your work with your financial advisor.



# Finances

## Five Things You Can Do with Your Tax Rebate From the Economic Stimulus Package

By Michelle Goldstein [www.goldsteinfinancialfuture.com](http://www.goldsteinfinancialfuture.com)

Last week, President Bush signed the federal economic stimulus package. Most Americans, except those at the uppermost end of the economic scale, will be receiving “tax rebates” this summer that will be about \$600 per person and up to \$1,800 for a family with dependent children.

How should you use this money? The government wants you to spend it—and spend it as soon as possible—so that it will stimulate the economy. When money is spent, it goes into someone else’s bank account, and thus makes them wealthier and more able to spend. Then, if they spend their money, it goes to someone else, and the cycle continues. Multiplied several times, your spending and the spending of your friends and neighbors could positively affect U.S. economic growth.

But while spending the money might be the best outcome for the U.S. overall, does it make sense for you individually? Financial advisors frame the question from the perspective of whether an individual’s finances are in balance, and whether the person is on a path to achieve long-term goals.

If you’re not saving sufficiently, you might

consider the rebate as “found” money, not money you use in your weekly or monthly budget. Here are five ways to use that money to strengthen your long-term financial security and that of your family:

- 1. Make a contribution to retirement.** Sock it away into your IRA or Roth IRA if you are eligible.
- 2. Pay off short-term debt.** Make an extra payment on your highest-interest credit card first.
- 3. Save for college.** Put it into a 529 Plan or a Coverdell IRA (if eligible) for your kids or grandkids.
- 4. Build a Rainy Day fund** Use your rebate to create or add to your emergency fund. Having a savings account with three-to-six months of living expenses is ideal.
- 5. Pay off long-term debt.** Make an extra payment on your school loan or your home so that you can pay it off faster and save some interest expense.





# Retirement Planning

## When Should You Start Accepting Social Security Retirement Benefits?

By Stan Johnson, CFP® [www.compfinancial.com](http://www.compfinancial.com)

One of the most important and least-understood decisions we face as we approach retirement is when to start taking Social Security retirement benefits. Should you start early and receive benefits longer, or should you wait to get a larger monthly check? Unfortunately, many people make the wrong decision.

The Social Security Administration just added a new Website for financial planners, but anyone can go to it at [www.socialsecurity.gov/financialplanners](http://www.socialsecurity.gov/financialplanners). In the Retirement section of the site, there is a table that shows how your monthly check will be reduced if you start benefits at age 62, as compared to taking it at your Normal Retirement Age (NRA). The NRA has been going up in recent years, and for those who were born from 1943 through 1954, it will be 66. Anyone in this age group will reduce his or her monthly Social Security check by 25 percent if they start receiving their benefits four years early, at 62.

The Website also provides a link to a “Breakeven Points” calculator, where you can calculate at what age the accumulated value of the benefits taken at 62 and at your NRA are equal. Presumably, one could base the decision on whether you think you will live beyond the breakeven age. An example on the Website shows that for someone who was born in February 1942, the breakeven age is 77 years 10 months. So, a person who thought he probably would not live to see his 78th birthday might decide to take the benefit early.

The Website lists several factors that should be considered in making the decision (in the link “**Other things to consider**”), but it falls well short of even mentioning several other factors. Failing to understand these additional factors is what leads people astray:

1. There are really two decisions to make. The first is when to start your benefits, and the second is when to quit working. If you start your benefit early but continue to earn income, your benefits will be reduced if you earn over \$12,960/year until you reach your NRA. Your benefits are not affected once you reach your NRA, no matter how much you make or whether you have taken an early benefit. If you delay starting benefits several years after you quit earning any income, your income might be squeezed. However, there are ways to manage the situation.
2. Surviving spouses are entitled to the benefit of the deceased worker or to their own benefit, whichever is greater. However, if the deceased spouse took a reduced benefit and the survivor’s benefit is lower than the deceased’s benefit, the survivor will live with a reduced benefit also. (For more information, read an article posted at [www.CompFinancial.com](http://www.CompFinancial.com) on the Documents page that discusses this and other issues concerning married vs. single workers.)
3. Once you have taken your first benefit check, it’s hard to change your



Continued on page 5



# Retirement Planning

Continued from page 4

mind. Your decision isn't exactly irrevocable, but you have to file form SSA-521, "Request for Withdrawal of Application," with the Social Security Administration and pay back the funds you have received. If you can't afford to pay it back, then you and your survivors are stuck with the reduced benefits for life.

4. Last, and most important, what are the real risks? Most people need a nest egg to produce income during retirement to supplement their Social Security check.

The biggest risk all of us face is outliving our nest egg. If you live well beyond the breakeven age, having a larger benefit will decrease the odds you outlive your nest egg. And remember that your benefit will be increased by the Cost of Living adjustment every year, so the gap will get wider as you age.

In 2003, 59 percent of women and 53 percent of men opted to claim their retirement benefits at age 62, and most of the remaining retirees opted to take a reduced benefit before their NRA.

Yet, most of those people will live until

they're over 80, and almost one-third will live into their 90's. Most of them would have benefited by waiting to take their benefit at their NRA or even later. (It's not often realized that your benefit can be increased by 8 percent for every year you delay starting your benefits beyond your NRA.)

What should you do? Hire a financial planner with the right tools and experience to provide you with a detailed analysis and a recommendation.

Year of Birth <sup>1</sup>	Full (normal) Retirement Age	Months between age 62 and full retirement age	At Age 62 <sup>2</sup>			
			A \$1000 retirement benefit would be reduced to	The retirement benefit is reduced by <sup>3</sup>	A \$500 spouse's benefit would be reduced to	The spouse's benefit is reduced by <sup>4</sup>
<a href="#">1937 or earlier</a>	65	36	\$800	20.00%	\$375	25.00%
<a href="#">1938</a>	65 and 2 months	38	\$791	20.83%	\$370	25.83%
<a href="#">1939</a>	65 and 4 months	40	\$783	21.67%	\$366	26.67%
<a href="#">1940</a>	65 and 6 months	42	\$775	22.50%	\$362	27.50%
<a href="#">1941</a>	65 and 8 months	44	\$766	23.33%	\$358	28.33%
<a href="#">1942</a>	65 and 10 months	46	\$758	24.17%	\$354	29.17%
<a href="#">1943-1954</a>	66	48	\$750	25.00%	\$350	30.00%
<a href="#">1955</a>	66 and 2 months	50	\$741	25.83%	\$345	30.83%
<a href="#">1956</a>	66 and 4 months	52	\$733	26.67%	\$341	31.67%
<a href="#">1957</a>	66 and 6 months	54	\$725	27.50%	\$337	32.50%
<a href="#">1958</a>	66 and 8 months	56	\$716	28.33%	\$333	33.33%
<a href="#">1959</a>	66 and 10 months	58	\$708	29.17%	\$329	34.17%
<a href="#">1960 and later</a>	67	60	\$700	30.00%	\$325	35.00%

1. If you were born on January 1st, you should refer to the previous year.  
 2. If you were born on the 1st of the month, we figure the benefit as if your birthday was in the previous month. You must be at least 62 for the entire month to receive benefits.  
 3. Percentages are approximate due to rounding.  
 4. The maximum benefit for the spouse is 50% of the benefit the worker would receive at full retirement age. The % reduction for the spouse should be applied after the automatic 50% reduction. Percentages are approximate due to rounding.



# Investing

## For Now, Avoid Real Estate Investment Trusts

By David John Marotta [www.emarotta.com](http://www.emarotta.com)

I received my county real estate tax bill recently, and for the first time in several years, my property tax assessment went down by about 2.8 percent. The drop is very small, but the trend in housing is significant. Also, commercial real estate investments fell sharply during 2007 and may underperform other investment choices during 2008.

Investors commonly purchase real estate through a real estate investment trust (REIT) that buys and manages properties. These are publicly priced and traded, and collections of REITs are available in mutual funds and exchange-traded funds.

Just over two years ago, my firm warned about real estate. We wrote, "A bubble is never known until after it has burst. What can be suggested is that the housing prices boom shows signs of weakness, and that they may correct or at least underperform for the next few years. Higher interest rates will slow housing growth in 2005, but the bubble, if it is a bubble, could pop as late as 2006 or 2007."

But getting out of real estate two years ago would have been a year early. It wasn't until 2007 that the Cohen & Steers Realty Majors Index turned negative, losing 18.03 percent. In fact, the three-year average is still positive, averaging 9.69 percent, and the five-year average is a whopping 19.79 percent gain. In the foreseeable future, however, we are very unlikely to see as much appreciation as the last five-year average.

Most real estate property sectors declined last year. Sectors with longer leases did the best. Health-care leases had a positive total return of

2.5 percent. The industrial sector of REITs also was positive. Apartments suffered one of the largest declines, down 25.4 percent. The office sector was down 19.0 percent.

Short-term trends are difficult to predict accurately, but with foresight and a sound investment approach, you can still profit from some long-term trends. Diversifying your portfolio across noncorrelated asset classes is the best way to earn steady long-term returns while managing risk.

Investments in REITs are grouped in the hard asset stocks category, but C&S Realty's correlation with the GSSI Natural Resources Index is low at 0.23. Correlations change over time, but they haven't gone above 0.43 in the past three years.

Investing in REITs during normal markets makes a lot of sense, but we suggest you continue to steer clear of them for the coming year. The beta of REITs versus the S&P 500 is currently about 1.68, which means REITs are about 1.68 times more volatile than the movements in the S&P 500.

Perhaps 90 percent of wealth management is avoiding the financial products and mistakes that surround us and compete for our attention. Real estate may seem attractive with today's choppy U.S. markets, but we suggest you keep your money invested elsewhere until the Fed stabilizes interest rates.



# Planning and You

## Filling Your Financial First Aid Kit

By Carol Friedhoff

[www.savvyoutcomes.com](http://www.savvyoutcomes.com)

The number one worry that people have is money. Next, they worry about relationships and health. Guess what? Money affects both relationships and health. So, here is a fun-filled first aid kit to come to your rescue.

**1. Key** – The first item in the kit is a key. Unlock your passions and goals. List 10 things you are really good at and enjoy. Next, fantasize your life 40 years in the future: What do picture yourself doing? What will your life be like? What path will you take? Given your passions, your strong points, and your vision, how are you going to get there? This vision is the key creating your fulfilling life.

**2. Piggy Bank** – With a fulfilling life, some purchases might no longer seem important. Start putting more into your savings; pay yourself first by saving at least 10 percent of your earnings. Target your savings initially towards building an emergency fund with at least three to six months of expenses. Next, create a plan to fund and achieve your goals; use those savings to create new opportunities.

**3. Scissors** – One way to reduce expenses and debt is to cut up credit cards. Yet, you also need a strong credit rating. So limit the number of credit cards you own. Only charge the amount you can afford to pay each month. This will reduce or eliminate interest expenses, improve your credit score, and lower the interest rate you will be charged for a loan.

**4. Bottle of Water** – Are your liabilities drowning your assets? Is your income still afloat? Use a budget to manage the flow of cash and to begin to achieve financial goals. If you do incur debt or create liabilities, make sure it goes for something that has a payback, such as purchasing a home, starting a business, or going to school.

**5. Band-Aid** – A band-aid stands for a means of protection. Throughout life, there are risks. Insurance protects people from risks—events that are not likely to occur, but which would create a large financial loss if they happen. You should be prepared with life, disability, liability, health care, home, auto, and long-term care insurance.

**6. Package of Seeds** – As you accumulate assets, you want them to grow, or at least to outpace inflation. There are varying risks associated with investments. Just like sowing seeds, you can diversify your garden (and reduce your risk of failure) by diversifying and selecting the mix of assets (cash, bonds, or stock) based when the assets will be needed. If the assets are needed within five years, it is better to have most of your money in a cash-equivalent account.

**7. U.S. Flag** – Although we live in a great country, everyone complains about taxes. It's fair to minimize your taxes within the limits of the law. Utilize your retirement accounts to the fullest, because they are one of the best ways to defer taxes.

**8. Scroll** – You can control some of your risks. For example, you can communicate how your financial and personal affairs should be handled if you die or become incapacitated. A will, durable power of attorney, titling of assets, and documentation of the location of your assets should be in your financial kit.

**Still in need of financial first aid?** Go to [NAPFA's Website](http://NAPFA.org) and seek professional help.

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*Fiduciary - fi-du-ci-ar-y*  
*adj.:* An individual, company or institution that has a legal duty to put the interests of their clients above their own.