

# **THE FINANCIAL INFORMER**

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## **PLANNING**

**The number one reason some people are enjoying their lives after age 60 is that they planned the longest**, according to results of research by Ken Dychtwald, who is described as the world's leading expert on aging and the effects of demographic trends on the global economy. Some other interesting points:

- Much of the importance of planning is simply talking through with a professional what you want to accomplish and how you want to do it.
- Life expectancy has risen over the last 100 years by three years per decade. Three years per decade might be a low estimate of what we can expect going forward.
- Many people are now finding their life's calling at a significantly older age.
- One of the biggest causes of fear for baby boomers is uncertainty about health problems and the difficulty of planning for them.
- Discussions with parents regarding estate planning are rare – 69% of respondents in one survey had never had a conversation with their parents about the transfer of wealth. (Studies cited in the Economist and at MIT have found a 70% failure rate in family wealth transitions – could there be a relationship?)

## **Reinforce Your Goals**

Consider keeping your prioritized goals list in places where you will see it often. In today's society, it is easy to be sidetracked by something that appeals to short-term wants. Focus regularly on what is truly important to you. Consider creating visual stimuli matching some of your top priorities, such as a picture of your dream home, a college graduate in cap and gown, or an older person or couple enjoying retirement/vacation in a setting you would love to enjoy.

## **INVESTMENTS**

Take a look at the First Quarter, 2005 Projection by the Philadelphia Federal Reserve's Survey of Professional Forecasters: Expectations of Returns over the Next Ten Years

Stock Returns (S&P 500)	7%
Bonds (10 Year)	5%
Bills (3 Month)	3.7%
Inflation (CPI)	2.45%

Because of these low return projections, you need to save and prioritize the best you can. You also need low-cost strategies to prevent drag on your returns year after year. In effect, the lower returns are, the greater the growth percentage earned by your lowered expenses.

## **Stocks**

Since the beginning of the year, the stock market has had up and down swings based on economic data and company earning reports. Remember that large swings in stocks are expected and are the short-term price to pay for longer-term gains. Generally the thinking is that the economy will continue to grow but at a slower rate. This has led to lower stock market valuations for the time being – as of April 20<sup>th</sup>, the lowest valuations in eight years. A recession will bring equities down more, but we do not know when one might occur.

## **Bonds**

The bond market, which often reacts opposite to the stock market reacts, is primarily affected by interest rates. Short-term interest rates have been slowly rising as the Federal Reserve Bank has increased the Federal Funds Rate at each of its last eight meetings by .25%. As interest rates rise, bond values fall. If you own a bond fund, the immediate value of the fund will decrease but the increased interest rates will give you a similar and perhaps better long-term value. If you own an individual bond, the value will go down and you will not be compensated for the additional interest. However, the only way you will lose money is if you sell the bond before maturity or if the bond is risky and defaults. Otherwise, you will still earn the same amount from your initial investment if you hold the bond until maturity.

## **Real Estate**

This market may be starting to cool off somewhat in general. On the Eastern Shore and in other prime real estate areas, cooling off means that the rate of principal growth and sale turnover time is slowing, not reversing. The general consensus is that we will not see negative returns in the hottest areas in the near term. I do have considerable concern for clients and others who now feel, after many years of incredible realty returns, that there is no danger in real estate. Risk increases with age, need for income, and lack of other liquid assets. Many options exist to diversify risk, even if only to shift real estate holdings by like-kind exchange to more liquid, income producing assets.

## **More Investment Detail**

Expected returns for both stocks and bonds are much lower than both long-term historical averages and the most recent ten-year historical average. Forecasters believe that the U.S. Stock Market may be overvalued; i.e., investors are simply paying too much for shares of the future profits of U.S. companies. This is indicated by the current S&P 500 price to earnings (P/E) ratio of about 19 compared to the historical median of about 15.3. During the tech bubble from 1997 to 1999, the P/E ratio of the S&P 500 ran into the mid 30s. Many so-called experts and investor magazines spouted crazy-talk, saying that valuation formulas like the P/E ratio no longer mattered. How wrong! From 2000 - 2002, equity values dropped 20-50%. Investors who needed to sell or who

held the stock of companies that went bankrupt actually lost a lot of money. Those who held on to stocks of good companies and who were well diversified have generally recovered.

What is next? The law of averages tells us that it is more likely for the current P/E ratio of 19 to come down to 15.3 than it is to go up. So this indicates more potential for price loss unless company earnings continue to increase. That's why expectations for the next ten years are low - we have to deduct for the adjustment to the high-priced market. We may have low or very low returns for the next decade, but our economy will adjust and higher returns should occur in the future. Remember that technological and biological advances continue to advance exponentially and that most of the world is still a market for much of what we take for granted. There's plenty of room for growth in a diversified portfolio! If we have created a portfolio together, focus on staying the course.

### **Investment Adjustment Considerations**

- Carefully assess your risk tolerance and need for capital and income over the next five years. Put what you will need into liquid assets.
- Diversify internationally – certainly in equities and possibly in fixed income also.
- Be extremely cautious with real estate if it is a large part of your portfolio.
- Add a small portion of commodities to your portfolio, perhaps by dollar-cost averaging over the next six months.
- Tilt the weight of your equity portfolio toward value and large-cap stocks by a small amount (less than 5-10%), but do not necessarily sell currently-held small cap stocks. Small caps are more volatile but have out-performed the S&P 500 over the last 30 years by 4.4%. They often perform more poorly at the end of a business cycle but then lead the economy into the next boom market.
- Continue to use short and intermediate duration bonds and products with lower risk (such as money markets and CDs) in this rising interest rate environment for a portion of your fixed income investments.

### **Best Tips on Handling and Preventing Identify Theft**

You have read, seen or heard about the need to prevent identity theft somewhere recently. The time and money spent to recover from such a potentially devastating event can be significant. Four clients of Financial Solutions have called with concerns about identity theft, security violations, or lost wallet/purses within the last year. We have compiled the following list of tips pertaining to identity theft:

1. Report a lost credit card to the credit card company immediately and get a new number, even if you think the card is just misplaced at home.
2. If you have been victimized, file and get a copy of a police report immediately.
3. File a complaint with the FTC at <https://www.ftc.gov/ftc/idtheftform.htm>, which maintains a database of identity theft cases used by law enforcement for investigations.
4. For most up-to-date procedures, go to <http://www.consumer.gov/idtheft/>
5. Protect your social security number and passwords. Change passwords frequently. Do not use social security numbers on checks (except to the IRS).

6. Limit access to your information. If you have a post office box, use that address. Use your work phone instead of your home phone. Use your initials on checks.
7. Protect your credit card numbers. When you are writing checks to pay on your credit card accounts, only write the last four numbers of the account in the "for" line.
8. Instead of signing the back of a credit card, write "Photo ID required." However, a few businesses, such as the U. S Postal Service, may not accept your card with this method.
9. List the account and phone numbers of all credit card cards not in your wallet or purse; then pull all important documents from your wallet or purse and make front and back copies of everything. Keep these and a copy of the following numbers in your fire-proof safe or safe deposit box:  

Equifax: 1-800-525-6285	Experian: 1-888-397-3742
Trans Union: 1-800-680-7289	Social Security Admin Fraud Line: 1-800-269-0271
10. Do not let mail sit for hours in a mail box at home. Use a post office box, if necessary.
11. Shred credit card offers and other papers containing personal, account or password data.
12. Opt out of receiving junk mail. Call each of your credit card companies and ask them to stop sending you convenience checks and any other non-billing mail. Opt out of other mailing lists by calling 1-888-567-8688.
13. Get a comprehensive credit report at least once a year (<http://www.creditreport.com>, three-in-one with one credit score for \$25). This is the **ONLY** way to be certain that you haven't already been victimized. (An annual **FREE** credit check is already available to residents on the West Coast and will become available to East Coast residents in September 2005- <https://www.annualcreditreport.com>, call toll-free 877-322-8228)
14. Let your elected representatives in Washington know that you consider identity theft a felony and expect identity thieves to be caught and treated as felons. Also tell them you expect to be notified when hackers break into companies that have your records. (This is already a state law in California, a reason that we now know about some hacker break-ins.)

LIVING WILL or DURABLE HEALTH CARE POWER OF ATTORNEY (P.O.A)

When the Schiavo case was in the news so much last month, did you discuss with your spouse, adult children, and parents what you would want if your were ill and could not communicate your wishes about treatment? Did they discuss what they would want with you? A living will or durable health care POA may be the best way to insure that your wishes are honored. We have good information on this topic in our office, but you will need to consult your attorney for legal advice.

Take good care of yourself.

John W. Fiege

Financial Solutions    50 Ames Street    Onancock, VA 23417    787-4693    johnwfiege@msn.com