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CERTIFIED FINANCIAL PLANNER™

*Objective Advice to Help You Reach  
Your Goals & Find Peace of Mind*

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**The Economy** – Home prices peaked in July 2006. Since that date, prices have fallen between 15-20% on average. Stock prices peaked in 2007. We are officially in a bear market since both the Dow and the S & P 500 have decreased 20% since their highs. The unemployment rate is higher than it has been since 2004. Consumer expectations have declined, SUV's are declining in value, and most people believe that we are in a recession. Lately, financial news articles have been discussing the continuing fall in the financial sector of the stock market (affecting stock and mutual fund prices as well as credit availability) and inflation, especially the increasing cost of energy and food. Many articles give advice on saving money on gas. Meanwhile, the “experts” are debating whether we need to worry about inflation or deflation, and the term “stagflation” has reared its ugly head.

No one knows when the financial markets will bottom out and no one knows how much various stocks and mutual funds will be worth when the bottom comes. What we do know is that “this, too, will pass” just as previous major difficulties – wars, depression, high inflation, and other crises – have in the past.

We continue to relearn the truths of these financial principles:

1. We can't “put all our eggs in the same basket.” Holding a wide variety of investments is essential to getting a respectable return for any given level of risk.
2. All markets have risks of loss. Those who thought that housing prices always go up have learned better. Supposedly safe, low-risk mutual funds can get caught in a credit market debacle. We have recently seen several examples of “safe” funds that have fallen sharply.

3. Never put money you will need in the near future in the stock market.
4. Avoid buying high and selling low if at all possible. Studies show that the average investors tend not to achieve average performance in the markets due to the tendency to buy high usually for emotional reasons and to sell low also usually for emotional reasons. Of course, some losers should be dumped – but know why you are selling – be rational, not emotional.
5. It is NOT possible to “time the market” with any predictable success. We never know when the market is going to go back up. Often the majority of market increase is covered in just a handful of days. And the stock market also tends to recover prior to actual economic recovery so it can come back without any warning. Buy and hold continues to be the best advice for most of us.
6. If you are feeling panicky, your risk profile might not be correct. A higher percentage of your portfolio should be in cash and bonds. (Yes, bonds can lose value.) But be wary of selling low and buying high.

**Dividends** - Historically, much of the total return of the stock market has come in the form of dividends rather than share appreciation, and steady investment income can stabilize a portfolio when markets are volatile. Recently, many companies and mutual funds that pay high dividends have declined significantly due to the credit crunch. The wise thing is often to continue to get the dividends while waiting for the principal to grow. Of course, companies may cut dividends when times get tough so look for companies with solid balance sheets and a history of raising dividends.

**Bonds and Bond Funds** - Choose bonds and bond funds carefully to check credit risk levels and to match the duration(s) of time until you may need the cash. On the fixed-income side, yields on Treasuries are likely to decline as the Fed continues to cut interest rates, and investors may get better returns from highly rated corporate bonds. Meanwhile, yields on many municipal bonds are nearly as high as those on Treasuries, and that's before factoring in the municipal bonds' federal tax-free status. However, many local governments and agencies that issue municipal bonds are facing financial pressures, increasing the risk of default. High-yield (junk) corporate bonds may also suffer. Treasury inflation-protected bonds (TIP's) could help insulate your portfolio if rate cuts boost inflationary pressures, though they have already risen significantly in the past year.

**International Stocks and Bonds** - Most well diversified portfolios need a significant (8-25%) international component, and at a time when the U.S. economy and markets are under pressure, foreign markets could provide reduced volatility. However, loading up on emerging market stock funds could add increased risk to your portfolio just when it makes sense to try to minimize volatility. The economic outlook for many markets, including much of Europe and Asia, might be brighter than for the U.S. in the medium term, and emerging markets could continue to lead developed markets, especially over the long-term. Remember that some of your international exposure can come via U.S. multinational companies that get significant income from overseas operations.

**Exchange Traded Funds (ETF's)** – As mentioned in a previous newsletter, ETF's are growing in popularity with investors. They are an excellent way to invest a lump sum and are easy to use. They are less suitable for small periodic contributions because of brokerage fees on every trade. Moreover, they tend not to do well for short-term speculators, according to Sonya Morris, who writes for Morningstar. We do not recommend that strategy anyway.

**Early Tax Filing** Tax season is now behind most of us. Here's a note for next year: We do not recommend early tax filing for people holding real estate income trust funds or taxable foreign investments, nor for people receiving income from estates because tax information in those areas can be sent to clients in March. Filing too early might mean filing amended returns and paying a penalty.

**IRS Mileage Reimbursement** has increased. For business mileage reimbursement, the rate is 50.5 cents a mile for the first half of 2008 and 58.5 cents a mile for the second half of 2008. For medical or moving expenses, the reimbursement rate is 19 cents a mile for the first half of 2008 and 27 cents for the second half. The rate for charitable mileage expense is 14 cents a mile for the entire year unless Congress makes a change.

**Fireproof Safe** – What if you should suffer a devastating fire or some other shattering disaster? We have a friend in Minnesota who survived a fire, after which he still had his truck, his dog, and the sweat suit he was wearing. Everything else was destroyed.

The following suggestions for items to put in a fireproof safe were e-mailed to us by the Legal Zoom article center. ([www.legalzoom.com/legal-articles](http://www.legalzoom.com/legal-articles)) We think that they are worth passing on:

1. Current insurance policies and agent contact information. Copies of the policies can be stored elsewhere.
2. Passports, original birth certificates, and original social security cards
3. List of doctors, prescription medicines and contact information for doctors and pharmacies
4. CD's or an external hard drive containing digital copies of photographs
5. Safety deposit box keys
6. Important papers related to investments, retirement plans, bank accounts, and associated contact information
7. Information on outstanding debts, due dates, and contact information
8. Copies of important legal documents, including your estate documents and wills in which you are the designated executor

**Advanced Medical Directive for College Students/Young Adults**– When your child turns 18, you no longer have parental rights to their medical information. Hospitals may or may not provide information over the phone. It might be a good idea to have your child execute an advanced medical directive to speed up your access to information and provide a guideline for the care they would like to have. Check with a qualified attorney.

**Young Adults and Credit** – College students and other young adults receive credit card offers frequently. Unwise use of credit cards causes many problems. However, young adults need to establish a good credit history. To begin, all they need is one bank account, one credit card with a low limit or a debit card, and the determination to pay off the credit card balance each and every month. Write the credit card company stating that it is not to automatically increase the limit. Young people need to learn to delay purchases of things that aren't truly needed and to spend at least 10% less than what they earn in order to save for future goals. Many adults have a hard time with these principles.

**Extended Warranties** - Extended warranties on appliances, autos and other purchases are often unnecessary and almost always expensive. They are unnecessary because defective products often have problems soon after purchase, during their normal warranty. It is often best to save the money that would be spent on a warranty in your emergency fund to take care of anything that does need repair.

**Expected lifetime of appliances** – The lifetime of an appliance will depend on its original quality, amount of usage, and incidents such as power surges. But here is a very general guideline:

- 14 years or more: refrigerator, top load washing machine, range, cook top
- 11 years or more: gas or electric water heater, front load washing machine, dryer
- 8 years or more: microwave oven, garbage disposal, trash compactor, smoke detector  
dishwasher, room-size air conditioner, air conditioning compressor, heat pump

Don't forget to check Energy Star ratings to keep long-term energy costs lower.

**Vacation** - John will be out of the office from July 24 until August 4. In case of emergency, please call the office at 787-4693 or John's cell phone at 710-2489.

We hope everyone is enjoying summertime.