

Financial Insights®

A Creative Personal Finance Report



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Working and Receiving Social Security

You can work while you receive Social Security benefits. And when you do, it could mean a higher benefit for you. That can be important to you later in life. It also could increase the future benefit amounts your family and your survivors could receive.

While you're working, your benefit amount will be reduced only until you reach your full retirement age. Social Security will use this formula to



determine how much your benefit must be reduced:

- If you are under full retirement age when you start getting your Social Security payments, \$1 in benefits will be deducted for each \$2 you earn above the annual limit. For 2008, that limit is \$13,560.

- In the year you turn full retirement age, \$1 in benefits will be deducted for each \$3 you earn above a different limit (for 2008 that limit is \$36,120) until the month you reach full retirement age.

On Setting Exciting Goals

Lots of financial media talk about goals and almost all, including us, discuss ensuring that your goals are attainable, reasonable, and have strategies attached that will make them work. We also suggest dividing your goals into long- and short-term categories and clearly defining and distinguishing between your wants and your needs. But not many people talk about **exciting** goals. As you've probably guessed by now, we're about to change that.

Choose and set goals, whenever you can, that you can get excited about. Why? Excitement breeds determination and determination gets things done! For instance, while "financial security" sounds like a positive and worthwhile goal, does it excite you? Probably not. Why? Because it is vague and undefined; the words lack luster, vitality or excitement.

How about something like "I want to have enough money in my nest egg by age 55 that at a reasonable return of, say, 5 percent, my annual income will be over \$90,000!" Now there is a goal that has some meat and bones, something you can really sink your teeth into. Something, in short, that has **excitement!**

Or how about, "I want to be able to send each of my children (grandchildren) to an out-of-state college which enjoys a national reputation and costs over \$40,000 a year!" More specificity and excitement.

How about, "I want to retire to a villa in France, on the Riviera which I know will cost several million dollars and will likely increase in value by 20 percent by the time I am ready to retire." Calculate the numbers and you know exactly what you must achieve. The excitement builds.

These are exciting times. Let our goals reflect them.

- Starting with the month you reach full retirement age, you can get your benefits with no limit on your earnings. Contact Social Security at the beginning of that year, however, since there are special rules that may allow you to receive a full Social Security check for any whole month you are retired, regardless of your yearly earnings. Decisions are based on income.

the money that is counted toward those limits of \$13,560 and \$36,120 is only your wages, if you work for someone else. If you are self-employed, Social Security counts only your net earnings from self-employment. Social Security calculations do not include income such as government benefits, investment earnings, pensions, annuities or capital gains.

It's also important to know that

Source: Social Security Administration

Questions & Answers

Q. I've tapped into my traditional IRA to pay for graduate school at age 43. Will I have to pay taxes on the withdrawals? How about penalties?

A. We're not sure what your other circumstances are, but the habit of dipping into retirement funds at age 43 these days should be a last resort.

At any rate, you will have to pay taxes on the amount you withdrew for education, but penalties should not be a problem since the law allows for early withdrawal to pay for higher education expenses.

Q. My spouse and I often argue regarding financial matters. Do you have any tips for making our saving/spending/investment conversations more pleasant?

A. As with anything controversial (and financial matters certainly tend to have that characteristic), mutual respect and an attitude of compromise are the basic tenets that make discussions of this nature work out more smoothly.

One idea is to select a neutral or semi-public place to conduct your discussion, mitigating the chances that your conversations will overheat or become volatile.

Always bring specific proposals to the table (not vague notions like dreams with little substance) and ensure that you deal with the issues head-on.

Questions regarding whether to save/invest or spend are usually the stickiest. Bring a list of spending and saving priorities and remember that compromise attitude mentioned above.

Be cognizant of and try to steer the conversation to the **mutual** goals that you have. Initiate ideas that include strategies and objectives that will meet those mutual ends.

Finally, if possible, offer to pick up at least half the check.

We will accept questions from readers and reprint selected answers in this column. Send your question(s) to us; we'll answer as many as we can.

Financial Notes Worth Noting

Accumulating Dollars . . .

The table below shows how much you'll have to invest on a monthly basis in order to accumulate \$1,000. Various numbers of years are provided (how long it will take to reach your goal) along with varying percentages of return on your investments.

But the table is really more than that. It's a table that will allow you to identify what you'll need in order to accumulate any multiples of \$1,000!

For instance, if you want to accumulate \$10,000 in 10 years and estimate that you can earn 6 percent on your money, you'll have to invest \$60.70 per month (10 x \$6.07).

The figures in the graph are hypothetical and do not imply or guarantee that your investments will achieve these returns. The figures do not represent any particular investment, nor do they take taxes or inflation into account. Your investments may do better or worse, depending on market conditions.



Monthly Investments Needed To Accumulate \$1,000

Number of Years	Anticipated Rate of Return (Compounded Monthly)			
	2%	4%	6%	8%

5	\$ 15.84	\$ 15.03	\$ 14.26	\$ 13.52
10	\$ 7.53	\$ 6.77	\$ 6.07	\$ 5.43
15	\$ 4.76	\$ 4.05	\$ 3.42	\$ 2.87
20	\$ 3.39	\$ 2.72	\$ 2.15	\$ 1.69
25	\$ 2.57	\$ 1.94	\$ 1.44	\$ 1.04
30	\$ 2.03	\$ 1.43	\$.99	\$.67

The Oft-Forgotten Insurable Risk

When insurance comes up in discussions with clients, most think of four basic risks that insurance is used for: life, health, home and auto. But the one item that is oft-forgotten is the "continuation of your paycheck."

Disability income protection is an imminently insurable risk and is covered to some degree or another by many firms. How much is covered and how soon benefits are payable are two questions to consider. Even three months of an emergency fund would be quickly depleted with a major illness or other incapacity that would make it impossible to work.

Quotable Quotes

"War does not determine who is right - only who is left."

- Bertrand Russell

"The man with a new idea is a crank, until the idea succeeds."

- Mark Twain

"A real friend never gets in your way - unless you happen to be on the way down."

- Dr. Wayne Dyer

"There is only a slight difference between keeping your chin up and sticking your neck out, but it's worth knowing."

- Anonymous

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A Friend In Need Is A Friend Indeed

When A Friend/Relative Asks For Financial Assistance, Question Yourself, Be Prepared and Be Very, Very Careful

Friends and/or relatives quickly become different kinds of people when money is involved. And so do you. With everything that is going on in the world today and all of the financial concerns that are keeping us in a tizzy, it's a perfect time for someone to come to you with a request for assistance, be it a parent, a child (or any other relative) or a friend (close or not).

Here are some ideas for you to consider — ideas that will make you aware of the jungle of problems that could occur when someone you care about asks for money. Although some of these need not be discussed with your prospective borrower, you'll want to at least consider them on your own.

1. First and foremost, is your relationship such that you can comfortably discuss financial matters, money and cash. In many instances, just the "idea" of money sets certain relatives and friends into such a state that serious and reasonable conversation is an impossibility. Make sure the relationship can withstand the conversation.

2. How will indebtedness or an exchange of cash affect your relationship with this person or persons? Is that potential change in the relationship worth it? Your relationship with relatives and friends is important and, in most instances, sort of sacred. Treat it as such and consider what effect a loan or other assistance agreement will have. Will love turn to gratitude? Will respect turn to dependence? Are those potential changes good? For both you and the other party?

3. Consider the possibility of never getting repaid. Can you afford to make the assistance a gift? Can you afford to have the assistance become a gift WITHOUT your approval? Ought it be a

gift rather than a loan? Indebtedness is not a happy feeling, but neither is being "stuck with the check." Consider the repercussions of a default on both the relationship AND your portfolio.

Even though your friend or relative might be in dire straits, remember that cash loans, even if they are repaid, reduce your capital for investment and therefore, your return. Make sure this is part of your consideration.

4. Other than a cash loan or gift, is there another way for you to assist your relative or friend? Is there a way that you can provide assistance through, e.g., the use of a second car, housework, baby-sitting or other activities that would cut down on your friend/relative's expenses, relieving stress in their other financial areas?

5. If you get this far in your conversation with yourself and all the other musters have been passed, you are now ready to structure a loan. While an official "public" loan (like a car loan or mortgage) usually carries "collateral" (something that the lender can "attach" should the borrower default), what kind of collateral is there when your friend or relative is in trouble? It is likely that, if there were collateral, they would be seeking assistance elsewhere (like a home-equity credit line) or a regular business loan.

So, if you are this far and ready to move ahead, you need to structure a loan that protects you and the borrower. Don't try to go this alone; get professional assistance.

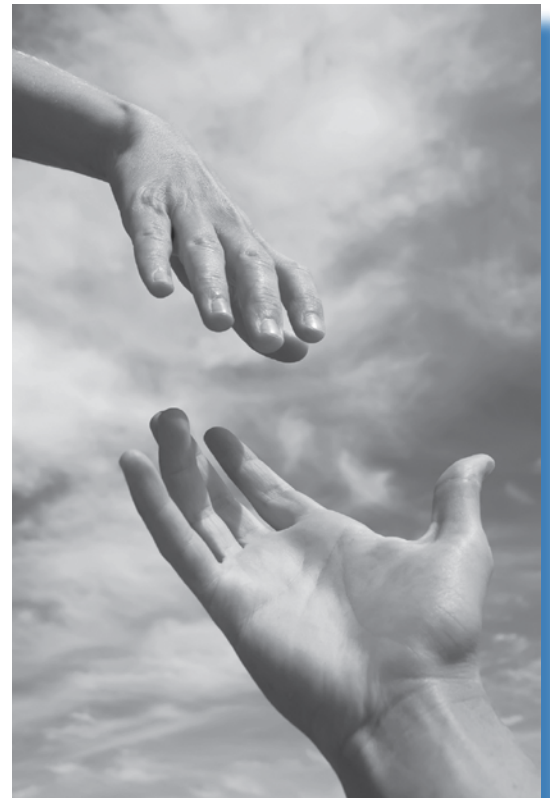
In many instances, you might be able to structure a loan that will be more than fair to the borrower, all the while

providing you with a better than low bank return on your investment. Most important in this area is to ensure that both the borrower and the lender are considered the most important part of the transaction.

6. Discuss this potential loan or agreement with your spouse or significant other. Imagine your most obnoxious in-law as the potential borrower and anticipate how you might feel if your spouse made a loan without consulting you. This is especially important in households where incomes are combined and shared.

7. Last, but not least, get some professional advice regarding a) the advisability of the assistance (loan), b) the documents to be prepared and c) the repayment parameters.

You'll be glad you did.



What Are The Signs? The Opinions? What of Recovery?

They say that economists are really quite good at predicting either a recession or a depression (or any sort of economic trend, for that matter) — as soon as it is over.

All kidding aside, the prognosticators are all over the board so we decided to do some looking at the reporting, at the forecasting, at the history, to find out what we can.

Doing that research allowed us to tell you only two things for sure: very few people agree and what happened in the past (both in economic trends and in investment performance) is no predictor of what will happen in the future.

According to John H. Makin, a reporter for the **Wall Street Journal**, “over the past half century, every housing downturn as sharp as the current one has translated into a U.S. recession.”

On the other hand, a recent **UCLA study** indicates that the nation will be “saved,” indicating that “some of the economy’s worst bumps are past.”

Makin’s arguments include the fact that housing prices have not fallen as quickly (an annual rate of 4 percent) since the Great Depression and, according to him, “the downward trend is accelerating.” Makin also refers to “tighter credit” reaching beyond the housing market as well as disappointing employment numbers.

The UCLA report, on the other hand, indicates that a recession would only be accompanied by unemployment numbers that increase by 2 million more jobs, something they don’t see in the forecast. Other mitigating factors? Though the economic outlook was largely cloudy, it did include some silver linings:

- The loss of 3 million manufacturing jobs early this decade means there is little room to cut more positions.

- Most of the damage to the economy from the housing slump will be over by the end of next year.

- The weak dollar will help U.S. exports.

- Consumer spending will drop, but much of the effect will be shouldered by other countries as U.S. imports of their products decline.

Other notes:

Growth in Other Areas? “Areas such as white collar business, education, health care and tourism remain healthy, somewhat softening the blow of the real estate downturn. We are seeing slow growth in many sectors other than real estate.”

-- **Ryan Ratcliff**,
one of the authors of the **UCLA study**

Domestic Consumption:

“At this stage, the key thing to watch is domestic consumption [which the proposed economic stimulus packages hope to address], which accounts for 70 percent of the U.S. economy.”

Recession or Depression?:

“Definitions: A recession is a period of decline in total output, income, employment and trade, usually lasting six months to a year and marked by widespread contractions in many sectors of the economy. A depression is a ‘Big Mac’ recession. Fortunately, unlike many Big Macs, they are rare.”

Conference Board Magazine

Flexible Workforce: “When the economy does a nosedive, the nation is well-equipped for a speedy recovery due to an increasingly versatile and flexible workforce. The experience of working acclimates new workers to the process of acquiring skills, meeting deadlines, staying on schedule, and learning. These skills, along with the experience of having had a job in the recent past, will empower workers who might temporarily lose a job. Workers’ willingness and ability to retrain and possibly move to areas where jobs are more plentiful can potentially facilitate a faster recovery from a recession.”

-- **Philip Jefferson**,
economist, **Swarthmore College**



-- **Wall Street Journal**

Diversify and Reallocate: These items, while no panacea and no guarantee that your investments will grow or even increase in value, are a basic strategy toward recession-proofing your portfolios. Diversification, both among and between investment sectors and types is an important move, as well as looking at the allocation of your portfolio’s dollars in different areas (such as guaranteed or growth investments).