Financial Insights®

A Creative Personal Finance Report

(626) 919-3456
(800) 365-7749
FAX (626) 919-6127

JOSEPH N. RUBINSTEIN, MBA
Personal Financial Consultant
General Securities Principal

DIVERSIFIED SECURITIES INC.
COMPLETE INVESTMENT AND ADVISORY SERVICES
1000 LAKES DRIVE, SUITE #420, WEST COVINA, CA 91790
E-Mail: joerubins@yahoo.com CAL. INS. LIC. #0A68771

June 2008

On Setting Goals

Financial advisors are often told that they spend a lot of time and energy on "how to set goals, how to achieve objectives and how to do this and that." That is correct and so be it.

Here we go again:

1. Visualize and decide what you want. It's important to either set aside some time by yourself, or, depending upon your circumstances, with your family or significant others.

Make a list of those things that you want right now, 5 years from now, 10 years from now, etc. Or at least break them down into **now** and **later** ideas. Make sure that your "wants" are exact, specific and stated in simple and clear language. For instance, a goal like "to retire in a few years with lots of money" is too vague. Try something like "to retire in 11 years with at least "x" amount of money.

2. As we've indicated many times, commit your goals to paper . . . well at least type them in a computer document so that they are available and able to be "called up" whenever you wish to review or modify them. Written goals, believe it or not, are easier to achieve.

3. Ensure that each goal is achievable, reasonable given your circumstances and, if necessary, broken down into very understandable and measurable pieces. In other words, large or cumbersome goals need to be reduced to workable and doable parts.

4. Design strategies and actions for achieving each goal. These include steps you need to accomplish to reach your end.

5. Finally, make sure you have patience and understand the time frame for achieving your goal. For instance, if your goal is to save $10,000 in one year, realize that $200 a week will make it happen. If you need the same amount in 6 months, it's $400 a week.

Housing Obligations Endanger Rules of Thumb for Retirement Income

Changing contract terms for mortgages, mortgage refinancing and mortgage demographics jeopardize long-standing and widely accepted rules of thumb regarding the necessary level of retirement income according to research accomplished by Adolph Neidermeyer, Ph.D.; Natalie Wesley and Richard A. Riley, Jr, Ph.D., all of West Virginia University.

It is important, the authors conclude, that investors review the notion that retirees need 70 - 80 percent of pre-retirement income during retirement.

U.S. Census Bureau data from 1980, 1990 and 2000 indicates that a significantly higher percentage of respondents in their 50s, 60s and 70s report carrying mortgages in 2000 than in 1980, the trend being among those with higher incomes. Low interest rates have encouraged mortgage refinancing, resulting in the extension of some mortgages into retirement. Creative home financing, such as interest-only mortgages, is also allowing more homeowners to carry larger mortgages into retirement.

Mortgages now consume a larger percentage of household income among all age groups, and the percentage is highest among those in their sixties, seventies, and older. Additional findings suggest that increased mortgage payments are occurring as families age.

Assuming that these trends continue, the question is whether Americans will increase their life savings or reduce other consumption during retirement to compensate for continuing mortgage payments.

What are your plans?

Questions & Answers

Q. Do most government offices have a presence on the world-wide web?

A. There are lots of government offices on the web; a few that might be of interest to the investor are: the Social Security Administration at **http://www.ssa.gov**, the Internal Revenue Service at **http://www.irs.ustreas.gov** and the U.S. Department of the Treasury at **http://www.ustreas.gov**.

Q. Can you review the categories of beneficiaries and what they mean?

A. Sure. Beneficiaries usually fall into three categories: primary, secondary / contingent and "remainderman" (thought by some to be a sexist designation) or "final." Naming beneficiaries is critical since it ensures that your assets will be distributed according to your wishes and not that of the state.

Primary beneficiaries will receive distributions in the percentages indicated or equally, if no percentages are indicated. If a primary beneficiary dies before you do, your assets will be distributed proportionately among the remaining primary beneficiaries.

Distribution goes to secondary / contingent beneficiaries if there are no living primary beneficiaries. As with primary, the allocations are made by percentages indicated or equally if there are no specifics provided.

If a primary or secondary / contingent beneficiary dies during the distribution process, the distribution will be paid to the beneficiary's estate unless otherwise indicated.

In most cases, if all primary and secondary / contingent beneficiaries predecease you, your estate will be named as the remainderman or final beneficiary.

Some situations may demand more complex beneficiary arrangements.

"Do-it-yourself" is not the way to go here; get competent legal advice to ensure that your wishes are followed.

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

On Distributing Retirement Money: Take Cash from Tax Advantaged Accounts Last

Drawing down your savings in order to support yourself (after the world of work has either inadvertently or involuntarily retired you or you have consciously made the decision yourself) brings new challenges these days. With healthier and longer lives, added expenses, cost of living increases and, in some instances, taxes and reduced entitlements, you'll want to be particularly careful about how you tap into your retirement money.

Generally, it makes most sense to withdraw money from your taxable accounts before you begin to tap your tax-advantaged accounts. You want your tax-advantaged accounts to continue to grow (if they grow -- no guarantees) with either tax deferral or tax-exemption. You may wish to consider rolling a corporate 401(k), for instance, into an IRA after retiring.

Also remember that you must begin tapping regular IRAs, 401(k) and other tax-deferred retirement accounts when you turn $70^{1}/_{2}$; there are no mandatory withdrawals for Roth IRAs, however.

Always seek professional counsel regarding important money matters.

Enjoy the Trip of Your Life

According to the Social Security Administration, most people will average 23 years in retirement (some up to 30 or more), a long time to support yourself without working. Considering the two "bad guys," taxes and inflation and the tremendous increases in health care costs, it's even worse these days than it used to be.

Review this packing list before you shove off for what is likely to be the longest and most exciting trip of your entire life.

You'll be glad you did.

Items to pack:

- Lots of dollars. Inflation makes this item impossible to "overpack."
- Comprehensive health insurance, including convalescent and nursing home coverage.
- Wills for both spouses. Unpack periodically and check for accuracy.
- Diversified investments to help reduce the risk of economic cycles. As we are all too keenly aware, the cycles do come! Diversification does not preclude investment loss and is simply a method used to help manage risk.
- Durable Power of Attorney. Prepare for unexpected disability.
- Adequate survivor income if you plan to bring your spouse along.

Items NOT to pack:

- Too many fixed investments. Many retirees learn too late that their purchasing power is eroded by inflation, ending up "safe," but not stable.
- A "closed mind." Be flexible; be able and willing to react to surprise detours in the roads ahead.
- Reliance on Social Security. You need to be financially "independent" of Social Security.

Bon voyage! And if we can help you plan or pack for your trip, please call.

Some Modern Thoughts About Common Investment Challenges

While general media (newspapers, magazines and television) would have us think that investing is the easiest thing in the world, financial decision making is wrought with challenges. Within the last several decades, scientists have been studying investment behavior and realize that there are challenges that are easily met by some and not so easily by others. We will highlight a few of the challenges here and suggest some methods that you might adopt or implement to meet those challenges.

ESTABLISHING GOALS

The first challenge is establishing goals. Oh, we know . . . too simple. Well, actually not, if they are to be clear, specific and realistic. These goals and their concomitant objectives are the blueprint — the framework, if you will — of the investment strategies that are to follow.

Why are the setting of goals and objectives sometimes a challenge? A variety of reasons have been documented in recent years including work and family commitments that occupy a majority of an investor's time or possibly not being particularly clear in one's own mind about priorities and balancing a wide range of desires and goals.

One that has been studied a lot recently is called the "endowment effect," a tendency by individual investors to overvalue current circumstances (or holdings) and undervalue opportunities to achieve future benefit (immediate versus potential future gratification).

Work on goals and objectives, no matter how hard they might be to set. They not only help us set direction, but well-written and thought-out objectives give us incentive as well. They also tend to eliminate uncertainty.

With the help of your advisors, write down your short-, intermediate- and long-term goals and objectives.

MANAGING RISK

Recently, many investors have been focused on the risk of market volatility, the possibility of losing money due to fluctuations in the markets. But many investors fail to deal with an equally devastating risk: inflation — the possibility of losing purchasing power! Just watch your gas pump clicker or your grocery bill skyrocket to get a feel for this risk!

Your exposure to risk should be based on your time horizon — the amount of time between right now and when you'll need to be drawing down your assets to meet expenses.

Studies of the tendency for people to focus more on current investment returns than on inflation is known as "availability bias." the tendency of people to base their decisions on the most recent and meaningful events. Availability bias causes investors to over-react to market conditions whether it be "positive" or "negative."

By looking at both inflation and market volatility with equal fervor, one can build a portfolio that has an appropriate mix to potentially handle both scenarios.

MAINTAINING YOUR STRATEGIC FOCUS

While it is good to be informed and mindful of news and information that surrounds and affects your investments, don't abandon well-conceived and disciplined investment strategies to chase performance.

Short-term shifts in market yields, articles in newspapers, journals or magazines regarding certain sectors and their effect on your portfolio should likely be taken with a grain of salt.

Making quick shifts in strategy is influenced by a psychological theory referred to as "recency bias," the tendency to overvalue information that is new and most current. The recency bias tends to make investors move on incomplete, though recent information.

Maintain your sound investment strategies and, generally, stick to them. If they were good to begin with, they are likely still OK.

Finally, that being said, we will now mention a final challenge which may seem to fly in the face of the previous one, regarding maintaining focus on already established strategies.

REEVALUATE YOUR OVERALL GOALS AND STRATEGIES

Rather than act on most recent information, forget about future benefit or deal with what happens to be currently available, it may be wise to revisit your ideas on an annual basis, in consultation with your advisor, to reconsider, rebalance or reallocate your investment goals (and, therefore, mix) based on time horizon, circumstantial or familial changes.

Sources:
Journal of Experimental Psychology; University of Oregon and wisegeek.com.

Everyday Financial Ideas

Where is Wealth in American Priorities?

Who says Americans worship at the feet of the almighty dollar? Not the American public. Only 13% of adults say it's "very important" for them to be wealthy, ranking this personal priority far behind six others measured in an April 2008 survey by the Pew Research Center Social & Demographic Trends project.

But don't get Americans wrong — a majority certainly wouldn't mind being rich. According to the survey, another 43% of adults say being wealthy is "somewhat important" to them, while about the same proportion say it's "not too important" (33%) or "not important at all" (10%).

These survey findings cannot answer whether most Americans genuinely place a medium-to-low value on wealth, or whether they accept the fact that they'll never be rich, or whether they're reluctant to admit that money matters a lot to them. But whatever the explanation, it's striking how few Americans rank being wealthy as a top priority in their lives.

Four times more people say "doing volunteer work or donating to charity" is a very important priority than say the same about being wealthy (52% vs. 13%). And about five times more Americans (67%) say it's very important to them to have enough free time, the top-rated value in this survey among a nationally representative sample of 2,413 adults.

Who most wants to be rich? Those who aren't, this survey suggests. Fully 22% of those with family incomes of less than $20,000 a year say it's "very important" for them to be wealthy. That's more than double the proportion of adults who earn $100,000 or more a year.

Paradoxically, while the least affluent are the most likely to value wealth the most, they're also among the most likely to value wealth the least. Fully 13% of those in the less-than $20,000 income category say becoming wealth is "not important at all" to them, nearly double the proportion of those in the $100,000 or more category who hold this view. As it turns out, there's an age-related explanation for these seemingly inconsistent results. Those in the lowest income tier contain disproportionately large numbers of adults under the age of 30, a group that most values wealth, but also a heavy share of retirement-age adults, a group that values wealth the least.

Who Most Values Wealth

Wealth holds a great attraction for the young, this survey finds. Fully 20% of all adults under age 30 say being wealthy is a top priority — easily the largest proportion of any age group. Another 42% say it's at least somewhat important to them. But the dream apparently diminishes with age. Only about 14% of adults between the ages of 30 and 49 place a high premium on being wealthy. And by the time adults reach their 50s, just one-in-ten place a similarly high priority on riches.

Overall, first-generation Americans are twice as likely as subsequent generations to say it's important to them to be rich (25% vs. 12%).

Education follows a similar pattern, with those with a high school education or less significantly more likely than college graduates to value wealth (18% vs. 7%) and somewhat more likely to say riches aren't a personal goal at all (6% vs. 10%).

What We Value Most

% of respondents saying item is **VERY IMPORTANT** to them

	%
Have enough free time to do things I want to do	67
Being successful in a career	61
Having children	61
Being married	53
Doing volunteer work or donating to charitty	52
Living a religious life	52
Being wealthy	13

Being wealthy tends to be highly valued by many whose current circumstances suggest they face long odds of ever becoming well-off including unemployed men as well as the least well-educated. About a quarter of each group say being rich is very important to them. For many of these Americans, this expressed desire for wealth may reflect little more than the desire to be financially more secure.

Other Priorities

The Want-to-Be-Rich tend to hold career success at the top of their priorities list: Nearly nine-in-ten (89%) say it's "very important" for them to succeed on the job compared with only 57% of Americans who don't say wealth is very important. Those in the latter group place career success third on their ranking of important values behind having enough free time (65%) and having children (61%).

That's not to say Americans who want to be rich are careerists who place little value on free time. Just the opposite: They're much more likely than others to say they want to have time to do the things they enjoy doing (80% vs. 65%); it's just they don't rate free time as highly as job success. In fact, those who wanted to be wealthy were more likely to value each of the six other values tested, though these differences were slightly too small to be statistically significant on all priorities except career success and having free time.

Read more at ***http://pewresearch.org/pubs/816/who-wants-to-be-rich***.