

# Financial Insights®

A Creative Personal Finance Report



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September 2008

## Energize Goals; Write Them Down

Quite often financial strategizing itself, due to its long-term nature, makes goal setting boring and dull.

What are our usual and ordinary goals?

"A comfortable retirement?"

"Financial security?"

"Lots of toys?"

"A yacht and a summer home?"

While those goals are not bad, they are not energized. They are vague, half-hearted and do not provide the excitement, energy, specificity (or the discipline) needed to reach them.



Consider the following as more exciting, exact and energized ideas:

"I plan to acquire \$2 million in my retirement fund by age 56"

or

"Financial security to me means having at least \$150,000 of income every year after I retire, based on the value of today's dollar."

or

"I want a villa on the water somewhere in Europe with room for my entire family to visit whenever they wish."

## Keeping Your Eye on the Ball

An analogy came to mind recently as I watched a Little League baseball game at a local park and heard coaches comment to each young slugger: "Keep your eye on the ball." Easier said than done, especially when you are twelve years old and the pressure of "the big game against Billy" is on!

The same holds true for us as investors. We need to keep our eye on the ball and the ball, for most of us, is retirement or "the prize."

If you are in or nearing retirement, one must remember the end, the goal, the "prize": to enjoy life, sit back or do all those things you always wanted to do (but never had the time or, in some instances, the money to pursue them).

You may also have some special decisions to make if, for instance, you have money in taxable *and* non-taxable accounts. If you have sufficient dollars coming in from pension and Social Security accounts, you might consider supplementing your spending requirements with the income generated from taxable accounts and let the investments continue to grow in your tax-deferred accounts until mandatory distributions are required.

After required distributions begin, you might think about taking some of that income and reinvesting it in taxable accounts rather than spending it.

Always keeping your eye on the ball (or the prize), remember that reallocation is not a bad idea; as needs change, different investment types may become more or less important in the mix. Most importantly, don't make decisions in a vacuum. Ensure that you have a thorough understanding of the many options available to you.

If I can assist, don't hesitate to call.

Those are exciting and specific ideas, highly measurable, calculable (we can figure out what you need to do to work toward achieving them) and inspiring.

For many years, we have suggested that goals and objectives be written down. Finally, we get corroboration from Jerry Detweiler, financial lecturer-author of **The Ultimate Credit Handbook** who says: "a goal is just a goal and an objective just an objective until it is written down and part of a plan."

Besides, **written** goals:

- ✓ provide a very specific basis and a reference for future evaluation,
- ✓ increase the likelihood that they will be reached,
- ✓ add to your self-respect,
- ✓ are great confidence builders,
- ✓ add a sense of values,
- ✓ reduce conflict,
- ✓ create a sense of purpose and anticipation of life and
- ✓ help you concentrate.

## Questions & Answers

**Q.** *I am married and my wife is the beneficiary of my IRA. While I hope it doesn't happen, what are her options if I die before reaching age 70½?*

**A.** If you should die before you reach age 70½, and your wife is the sole beneficiary of your IRA, she may:

1) Roll over your IRA assets into her own IRA. She may want to establish an IRA account to receive these assets and be able to contribute money to the account.

2) Extend distributions over a longer period of time by electing a series of life expectancy payments based on her single life expectancy using the recalculation or non-recalculation method.

Under this second option, distributions must begin by December 31 of the year following the year of your death or by December 31 of the year you would have reached age 70½, whichever is later.

Please note that if no qualified designated beneficiary is selected, the entire account balance must be distributed no later than the end of the fifth year following the year of death.

As you can see, there's more to planning a retirement than just saving and investing. Some decisions that need to be made require detailed knowledge and understanding of tax and IRS law

As you see, there's more to retirement than saving and investing. Consult a professional tax advisor.

**Q.** *While I am required by law to leave portions of my qualified retirement plans to my spouse, are IRAs included? May I leave them to others?*

**A.** Since IRAs are not qualified plans, you are permitted to leave them to anyone you wish.

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*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

## Reasons People Retire

The availability of economic resources is paramount in the retirement transition, but there are other critical dimensions to the retirement decision and to what might be labeled

"positive retirement." Respondents who were completely retired were asked about four possible influences on their decisions to stop working: poor health, wanting to do other things, not liking their work, and wanting to spend more time with family.



More than one-third of those who retire say that spending more time with their families was a very important reason for retirement, and roughly one-fourth also cited "wanting to do other things." Poor health was a very important factor for 35 percent of retirees in the 55 to 59 age category, but the importance of poor health as a motivating factor for retirement dropped consistently with increasing age. In keeping with findings about enjoyment of work, fewer than 10 percent of respondents were motivated to retire by a strong dislike of their work.

Source: U.S. Department of Health and Human Services, *Health and Retirement Study*, 2008

## "Quotable Quotes"

*(gleaned from the Internet)*

- All this talk about more defense spending too, and for what? No country's ever going to invade us. They couldn't afford to live here.
- In the good old days I could live way beyond my means for half as much as it takes now.
- Somebody's always saying money can't buy love; money can't buy respect; money can't buy happiness; it can't buy this or that. Tell you what . . . they must be some terrible shoppers
- A true friend laughs at your stories even when they're not so good, and sympathizes with your troubles even when they're not so bad.

## Survival Tips for Bear Markets

The markets are roller coasters. What to do? Although there is no guarantee that these tips will be successful, here are some ideas:

1. **Maintain your equilibrium.** Continue to hold a mix of investments that are tailored to your objectives, horizons, risk tolerance and financial circumstances. Some liquidity, income and growth orientation provides a solid foundation.
2. **Periodically review your investment portfolio.**
3. **Continue investing regularly.**
4. **Evaluate the tax consequences of any portfolio move.**
5. **Make decisions based on the unselfish goal of preserving the spending power of your assets over time.**
6. **Seek professional advice.**

## One View of “Class” Culture

# Of 4 Middle Classes, “Struggling” Are Most Hopeful

There isn't one American middle class; there are four. Each is different from the others in its attitudes, outlook and financial circumstance — sometimes in ways that defy traditional stereotypes of the middle class, according to an analysis of a recent national survey conducted by the Pew Research Center Social and Demographic Trends Project.



One middle class is doing quite well. And members of this group — predominantly male, disproportionately well-educated and financially secure — expect to do even better in the future. It's the largest of the four groups, comprising slightly more than a third of the 53% of Americans who identify themselves as “middle class” in the Pew survey. Call them the **Top of the Class**.

Life is considerably tougher for the **Struggling Middle**, a group disproportionately composed of women and minorities. In fact, many members of the Struggling Middle have more in common with the lower class than with those in the other three groups and actually have a lower median family income than Americans who put themselves on the lowest rungs of the social ladder. About one-in-six self-identified middle class Americans fall into the **Struggling Middle**.

The **Satisfied Middle** has everything but money; their comparatively modest incomes have not muted their sunny outlooks or overall satisfaction with their lives. This group is disproportionately old and disproportionately young; middle aged adults are relatively scarce in the **Satisfied Middle**, who make up a quarter of the middle class.

By the conventional yardsticks of income, education, age, employment and family status, the fourth middle class group is the most middle class

of all — and the most dissatisfied and downbeat of the four groups. While they enjoy some of the economic advantages of the **Top of the Class** group, they express many of the same bleak judgments

about their lives as those in the **Struggling Middle**. Call them the **Anxious Middle**; they make up slightly less than a quarter of all middle class Americans.

These four groups were revealed by self-identified middle class Americans

who answered key survey questions.

Two of the groups that emerged from this analysis — the **Satisfied Middle** and **Anxious Middle** — straddle the statistical middle of the American life. But the **Top of the Class** and **Struggling Middle** seem, in some ways, anything but middle class. Why don't those in the **Struggling Middle** identify with the Lower Class? And why don't those seemingly privileged members of the **Top of the Class** identify with the Upper Class?

Part of the explanation likely lies with the powerful attraction that the label “middle class” has on most Americans and the stigma that some might associate either with upper or lower class labels. But that's not all of the answer. On many key measures, the **Top of the Class** is different from the 21% of Americans who identify themselves as upper class. For one thing, they don't make as much money: The median income of those in the **Top of the Class** is \$86,280, while median income for the upper class is \$95,875, or more than

\$30,000 above the overall middle class median. And in terms of levels of education, total wealth and how they rate their lives, the **Top of the Class** lags behind those in the upper class.

Those in the **Struggling Middle** are, as a group, demonstrably different from those who identify with the lower class. They're significantly more likely to be male, to be young and to be single. But more importantly, they are more satisfied with their lives and more likely to say they're living better than their parents. Also, they are more hopeful about their own futures and, in particular, the future of their children. A 40% plurality of the **Struggling Middle** say that their children's lives will be “much better” than theirs are: **revealing testimony that “middle class” is as much a state of mind as it is a financial condition.**

Taken together, America's middle class is an amalgam of distinct groups that share different outlooks on life and life experiences, a blend of young and old, many ethnic groups, optimists and pessimists, achievers and dreamers.

Source: Pew Research Center, 2008

### HOW THE FOUR MIDDLE CLASSES RATE THEIR PRESENT LIVES . . .

Percentage in each group that rate their present quality of life as:

	High	Medium	Low	DK/Ref <sup>†</sup>
<b>Top of the Class</b>	46	42	12	*
<b>Satisfied Middle</b>	41	36	23	*
<b>Anxious Middle</b>	16	43	40	1
<b>Struggling Middle</b>	24	27	47	2

<sup>†</sup> Don't Know / Refused to answer

\* mentioned by fewer than .5% of respondents

### . . . AND HOW THEY SEE THEIR FUTURE

Percentage in each group that predict their quality of life five years from now will be:

	High	Medium	Low	DK/Ref <sup>†</sup>
<b>Top of the Class</b>	71	14	10	5
<b>Satisfied Middle</b>	61	16	12	11
<b>Anxious Middle</b>	54	20	18	8
<b>Struggling Middle</b>	55	16	17	12

<sup>†</sup> Don't Know / Refused to answer

## Does It Work In A Bear Market?

# Paying Yourself First and Systematic Investment

**Y**ou've heard us talk about it before and you'll hear us again: pay yourself first and systematically invest. These are a few basic financial investment strategies.

What happens when you systematically invest is an interesting phenomenon called Dollar-Cost-Averaging.

The question is almost always asked: Is there a best time to invest? On Monday the Dow Jones Industrial Average (DJIA) or the Standard & Poor 500 (S&P 500) goes up; on Tuesday, it goes down, only to hit a record high on Wednesday. By the end of the week, you don't know which way is up. (Note that one may not invest directly in the DJIA and S&P 500, since they are unmanaged indices.) So there is no "best" time to invest.

The next question often asked is: **does dollar-cost averaging work in a bear market, such as the one we are currently experiencing?** Remember that dollar-cost-averaging is a long-

term strategy. We know the markets are always in a state of flux and that they tend to move over relatively long periods of time (months and years).

**Dollar-cost-averaging would not work well if it was done solely in a bear or in a bull**

**market:** the whole idea of "averaging" presumes the premium prices of a bull and the discounts of a bear market.

So we consider looking at trends and evaluate gurus. By now we know that neither of those ideas work.

The simplicity of Dollar-Cost Averaging makes it a reasonable alternative. Here's how it works:

By investing a fixed amount of money at regular intervals (the investor picks the intervals and the amount) in an investment with a variable price, an

investor will buy more units of that investment when the prices are low and fewer units when prices are high.

In the example shown below, our Dollar-Cost-Averager invests \$300 a

month for a six-month period.

The unit costs are highly volatile, ranging from a high of \$28 per share in October to a low of \$19 in January.

The chart shows how many units were pur-

2008 / 2009

S	M	T	W	T	F	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31				

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chased each month.

This hypothetical investor made six \$300 investments totaling \$1,800 and purchased slightly more than 76 units for an average cost per unit of \$23.59. Compare that to the average price per unit of \$24.

Of course, accomplishing Dollar-Cost-Averaging takes long-term discipline and persistence. The example is hypothetical, for illustrative purposes only and does not predict the performance of any particular investment.

Dollar-Cost-Averaging is not a fool-proof investment technique. It neither assures a profit or protects against loss in declining markets. It involves continuous investment in variably priced units, regardless of price fluctuations.

Investors contemplating the use of Dollar-Cost-Averaging should consider their ability to continue purchases over a substantial period of time – even when prices are low.

As shown in the example, unit prices fluctuate. But one must also consider that other investments also fluctuate in principal and return. When any variable investment is sold, it may be worth more or less than its original cost and while the average cost per unit is less than the average price per unit in the example, your results will vary.

## How Dollar-Cost-Averaging Works

An investor purchases a variably-priced investment on a periodic basis (in the hypothetical example below, monthly), investing the same amount of money. It helps the investor avoid jumping in and out of a market.

Month	Amount Invested	Price per Unit	Units Purchased
October '08	\$300	\$25	12.00
November '08	\$300	\$28	10.71
December '08	\$300	\$22	13.64
January '09	\$300	\$19	15.79
February '09	\$300	\$23	13.04
March '09	\$300	\$27	11.11
Total	\$1,800	\$144	76.29

Average price per share:  $\$144 \div 6 = \$24.00$

Average cost per share:  $\$1,800 \div 76.29 = \$23.59$

*Our hypothetical example above shows how many units of an investment you purchase as unit prices change while your systematic investment amount stays at a level \$300 per month. For example, in October when the unit price is \$25, 12 units are purchased. In November, when the unit price increases to \$28, only 10.71 units are purchased. On the other hand, in January, when the unit price is only \$19, more than 15 units are purchased.*