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A Creative Personal Finance Report

January 2009

The Short-Term Goal

Most often, in these pages, we talk about long-term goals and long-term investing. And rightfully so. It is probably the most important kind of investing you will do in your lifetime.

Why? Because of the basic tenet: you can either invest a little money and give it a lot of time (assuming investment at a young age) or wait and hope to be able to invest a lot of money and not worry too much about the amount of time. The discipline required for long-term investing is tremendous.

But it's also so for those short term goals. You know, the ones that provide happiness or gratification along the way? A down payment on a second home? A special boat? That wedding? Are they important, too? You bet!

The table to the right shows what your discipline has to be in order to reach your financial objectives within your desired time frame, assuming a certain return on your money. The figures assume compound rates of return and lump sum investments at the beginning of each year.

Review your current short-term goals and check them against the table. Pick the rate you think you'll be able to achieve and the number of years you have to accumulate the desired amount. At that intersection you'll find the required annual investment. If you put money aside on a monthly basis, you can approximate the amount by dividing the annual amount by 12.

Threats to Retirement Security

Sipping cool and refreshing drinks on the deck behind the retirement condo in that sunny locale; traveling to all those great places we never had time to visit when we were young; or cruising the Caribbean on a luxury liner.

This parade of delightful thoughts is what many consider the retirement dream. Although your retirement goals may be different, they'll all come with a price tag, so beware of the three biggest threats to retirement security:

Underestimating how much we'll need in retirement. Although the pundits bandy figures between 60 and 85 percent of pre-retirement income, we have watched certain expenses explode in recent years and it's those expenses that retirees are particularly prone to need (or want more): health care, travel and education (children and grandchildren) being the largest.

Overestimating how much we can withdraw from our retirement accounts without the money running out. See page 2 of this newsletter for a Question and Answer that deals with a long-assumed rule of thumb that may not be workable in these economic times. These days, it is better to be conservative with withdrawal estimates and liberal with life expectancy estimates.

That idea brings us to: **underestimating how long we are going to live.** As we get healthier and better able to cope with disease and aging problems, our longevity has increased substantively. Someone born today has a good chance of living to be about 78 years old, on average. In 1900 the number was less than 50 years. Women are more likely to outlive men by almost 5 years. Are you prepared to deal with these potential threats?

Source: National Vital Statistics Reports

Building for a Short-Term Goal

(Annual savings required to produce \$10,000 in 1 - 5 years at varying rates of return)

Savings Period	4%	5%	6%	7%
1 year	\$9,615	\$9,524	\$9,434	\$9,346
2 years	4,713	4,646	4,580	4,515
3 years	3,080	3,021	2,963	2,907
4 years	2,264	2,210	2,157	2,105
5 years	1,775	1,724	1,674	1,625

Rates of return in this table are for illustrative purposes only and do not imply or guarantee that your investments will achieve these returns nor do the figures represent the returns of any particular investment. Figures are hypothetical and do not take taxes into account. Actual rates of return on your investments will vary.

Questions & Answers

Q. Please discuss inherited IRAs. Why all the hoopla?

A. Inherited IRAs are for IRA beneficiaries, allowing continued tax-deferred growth of inherited assets. The reason for all the hoopla is that the rules need to be carefully followed to avoid a minimizing of the inherited assets and their tax-favored nature. To preserve all options, inheritors must make certain decisions within nine months of the date of the death of the original account owner.

Inherited IRAs are all subject to IRS' required minimum distribution (RMD) rules. The RMD for an inherited IRA may be lower if the new beneficiary's life expectancy is greater than the former owners' life expectancy.

Q. If I began receiving substantially equal periodic payments from my Individual Retirement Account using a fixed method in 2004, may I switch to the Required Minimum Distribution (RMD) method in order to lower my distribution amount?

A. Yes.

If you began receiving substantially equal periodic payments under either the fixed amortization or the fixed annuitization method on or after January 1, 2003, you may change to the required minimum distribution method (RMD) in a subsequent year.

Remember, however: once that change is made, it must be followed in all subsequent years. Contact your tax advisor.

Q. How does a charitable lead trust work?

A. It's an estate planning vehicle in which investment income is given to a charity for a period of time, after which the principal passes to the grantor or other designated parties on the grantor's death.

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

Procrastination

You've heard the words here before: the single greatest cause of the lack of energy and care in designing financial strategies for the future is procrastination.

But what causes procrastination?

The greatest single cause of procrastination is confrontation with a task so large that it seems too overwhelming to tackle. How to avoid that? Take on smaller parts of the task until it is more manageable. Chip at it rather than try to haul it away in one piece. Other causes, all surmountable, include: a) hesitancy to address painful personal concerns, b) fear of failure, c) lack of time, d) lack of expertise, or e) sense that there is still plenty of time.

Even in the face of all these possibilities: there's no time like the present!



Make Time for a Check-Up Now

Most people agree that nothing is more important than your health! If you have severe chest pain, you immediately run to a doctor for a check-up . . . just to be sure it isn't something really serious. Nothing is more important than your health . . . not even money or reducing taxes. However, with many retirees, these run a "close second."

Unfortunately, few people schedule a periodic check-up for their financial health and there may be no warning signs about an impending serious problem or financial disaster. Some tangible and intangible benefits of a financial check-up might include:

Tangible Benefits

- Organized records help clients, spouses and heirs
- Options for surviving spouse's income security
- Potential immediate/future tax savings and increased spendable income
- An estate distribution plan that helps meet your objectives

Intangible Benefits

- Peace of mind that only comes from knowledge
- Financial and mental freedom to enjoy life
- Preparing spouse for decision making
- Control over how your legacy and estate dollars will be used

Call for a "check-up" appointment today.

Funny Money Quotes

If you can count your money, you don't have a billion dollars. **J. Paul Getty**

All I ask is the chance to prove that money can't make me happy. **Spike Milligan**

I don't like money, actually, but it quiets my nerves. **Joe Louis**

Wealth is any income that is at least one hundred dollars a year more than the income of one's wife's sister's husband. **H. L. Mencken**

It's amazing how fast later comes when you buy now! **Milton Berle**

The meek shall inherit the earth, but not the mineral rights. **J. Paul Getty**

The most popular labor-saving device is still money. **Phyllis George**

5 Common Investment Blunders Made With Rollover IRAs

About one-third of all job changers leave their 401(k) balances with their former employers' retirement-savings plan provider, according to a survey by the Employee Benefits Research Institute in Washington, D.C.

A key factor is fear. The rules that govern tax-deferred retirement-savings accounts are so complex that a simple mistake with an IRA rollover can result in taxes and fines that can devastate a retirement-savings account.

Fortunately, typical missteps with rollover IRAs can be avoided by thinking over strategies before you switch jobs, and then following up once you're settled in with your new employer. Here are five of the most common blunders people make with rollover IRAs and how to avoid them.

Cashing Out Instead of Rolling Over

Cashing out a retirement-savings account when you leave an employer might be the biggest and most costly mistake.

If you choose not to transfer your old 401(k) to a rollover IRA and instead elect to cash out the account, you'll have to pay ordinary income taxes on the savings, as well as a 10 percent penalty if you withdraw the funds from the account before age 59½. The plan administrator also will withhold 20 percent of your account balance for tax purposes upfront.

Example, if you are under age 59½, and your original 401(k) balance was \$500,000, you will receive a check in the mail for \$350,000 (\$500,000 minus \$100,000 for withholding and \$50,000 for the early-withdrawal penalty).

In addition to losing almost one-third of your account value, you've also given up the ability to let your savings and earnings continue to grow tax-deferred over time.

A great big mistake.

Although you have a 60-day grace pe-

riod, moving your savings to a rollover IRA by directing your employer to do a trustee-to-trustee transfer can avoid the withholding, fines and paperwork.

Doing Nothing

There are a lot of reasons people leave their retirement savings with their former employers' plans: fear of making a mistake with the IRA rollover ranks near the top. Such fear can lead to procrastination and paralysis.

Other investors are satisfied with the performance of their investments in their former employers' plans and see no reason for moving their accounts.

But you could be missing out on future investment opportunities by leaving your money in a plan that has limited options — or worse, a plan that requires you to invest the bulk of your savings in your former employer's stock. In addition, subject to certain rules, a beneficiary may withdraw an inherited IRA over his or her own life expectancy.

Consolidating all of your retirement-savings accounts from former employers into one rollover IRA also can help ease the burden of having to keep track of multiple accounts.

Ignoring Plan Rules

You may be surprised to find that if you have left your account with your former employer's plan, the money may no longer be invested the way you had planned.

For instance, most plans require mandatory distributions from accounts with small balances.

Some plans will open default IRAs for you, and you may not like or even know about the investment options in the new account.

Forgetting to Update Beneficiaries

A life-wrenching event like changing your job could spur you to get all of your financial paperwork in order, right?

You'd think. But updating beneficiary information on financial accounts is something most people don't consider a very important detail.

Inheritance laws are complex enough; don't create more financial headaches for your loved ones. Put some thought into the designations.

Among some of the common mistakes IRA account holders make when naming beneficiaries in a rollover: Naming your estate as beneficiary; naming someone older than you who is a non-spouse (such as a mother or sibling); and failing to consider a contingent beneficiary in case your beneficiary dies before you do.

Missing the Last Step

So you've followed the rules, completed all the proper forms, chosen your beneficiaries carefully and your funds have been safely transferred to your new rollover IRA.

Well, before you sprain that elbow patting yourself on the back, make sure you've completed the final step to a rollover IRA: investing the money. Make sure it doesn't languish long in a temporary, low-yielding account, awaiting a future decision.

Source: Employee Benefits Research Institute



Eight “Revolutionary” Ideas

According to some sources, New Year’s resolutions have been around since ancient Babylonia, when the most common was a promise to return farm equipment to its rightful owner. Others say New Year’s resolutions have been around since sliced bread, when people promised to share a crust/crumb or two with their neighbors. This year, as always, we’ll hear the common “Happy New Year” greeting for about two or three weeks into January and gripes and groans about resolutions that most commonly address health issues (losing weight and exercising), money issues (being smarter about spending and saving) or personal “shortcomings” (e.g., no more procrastination).

But the idea of setting up a “new” beginning, starting out fresh, resolving to do better, promising to be stronger, kinder or more thoughtful, more attentive or more studious . . . always makes us feel like we are on the edge of something new, exhilarating and exciting.

It is also a well known fact that resolutions are hard to keep (and often, not kept at all). Maybe it’s just the fact that they are called resolutions that makes them so difficult. What if we change them to new ideas or “let’s try something new?” Maybe these kinds of promises will be easier to keep and become more achievable.

What follows are some renamed ideas that have proven beneficial over the years for clients. Pick one, two or more and make them your New Strategies for 2009!

You’ll be glad you did.

Keep Accurate Records. Buy a good diary-type book or computerize your accounts. Record-keeping becomes more and more essential as deductions are minimized and tax savings include ceilings. Accurate records may allow you to maximize tax savings, since you’ll have a record of your expenses/spending.

auto and home to life, health, disability, and long-term care is appropriate. Investigate how to improve or change coverage and, possibly, reduce cost.

Get Complete and Accurate Information. Before you make decisions regarding investments, tax-saving moves, or whether to utilize other economic strategies, don’t let apathy keep you from getting every bit of information you need to make good judgments. Competent, professional advice and well-educated decision-making is often worth the cost.

You May Need to Make Adjustments to Your Investments. Check out the make-up of your portfolio. You may need to reconsider the risk level of your investments and make some decisions regarding allocation. As we get older and our family and life situations change, so should our investment mix.



Get a Complete Financial Checkup.

Just as many health agencies have set up wellness clinics, it is important that you check in with your advisors, even when everything seems to be alright — but especially when everything seems to be askew. Economic volatility, as we continue to experience, is here to stay, requiring up-to-date, competent and professional advice.

Ensure Your Will Is Current. Most wills should be checked periodically, especially when marriage, children, grandchildren and other family changes affect the picture.

Consider An Insurance Review.

An annual checkup of insurance, from

Review the Plans and Investments for Your Retirement. Especially if you are a participant in a company-sponsored plan, motivate yourself to understand the plan and investigate the possibilities of repositioning those investments. Ensure that every advantage is taken to fund corporate and private plans to the fullest extent allowable and affordable.

Vow to Be Good to Yourself and Your Family. Commit a certain amount of your monthly income to investment. Instead of getting at the end of the line of people and companies clamoring for your money, stand tall at the front of the line and make that first check out to you and your family.

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