

Financial Insights[®]

A Creative Personal Finance Report



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On Happiness And Money

Henny Youngman, besides his ultra-famous "Take my wife . . . please" also wrote a few snappy lines about happiness and economics: "What's the use of happiness?," he said, ". . . it can't buy you money."

Contrary to Henny's opinion, which was poorly offered a long time ago, happiness has taken a front seat in the field of social sciences today and has been labeled positive psychology by those who not only believe in it, but want to ensure that it is not just the giddy, "touchy-feely" stuff of the '60s and '70s, but *bona fide* science.



And it has become just that. Although still "trendy" in some circles, the course called Positive Psychology 154 (and nicknamed the Happiness Course) at Harvard last year, had more than 830 students registered. The class enrollment was so large, they had to teach the course in the theatre.

But the biggest news is that money and happiness do not go hand in glove.

Getting Back on Track

It's no secret that everyone is feeling the crunch in one way or another. Even if you are secure in your job and / or did an admirable job investing, the impact of the spiraling downturn in credit markets, real estate, manufacturing, etc., is having a trickle-down effect on almost everyone. So, while these may not be appropriate for everyone, here are some ideas to help get you back on track and doing the right thing, right now:

1. Continue investing in your workplace retirement plan. Even if it is small and a seeming pittance, remember that the investment vehicles you are purchasing with that pittance are likely worth a lot less than they will be when the market returns to normal.
2. Continue funding, to whatever extent possible, your Roth, traditional or even non-qualified retirement accounts.
3. If you were planning to retire soon, reconsider. Working a bit longer, working at another job after retirement or "consulting," even at your old employer's workplace, are a few possibilities. It's often less expensive for an employer to "contract" with you than to maintain you on a payroll.
4. Diligently chip away at the highest-interest debt (usually credit cards) and try not to accumulate more, if at all possible.
5. Consider refinancing current debt, as many creditors are willing to negotiate with those who are willing to pay but may need more leniency or time.
6. If possible, readjust your W-4 in order to receive a little more in each paycheck. While it might reduce your refund next year, it's usable cash now!
7. Don't hesitate to get in touch with me.

A review of the literature indicates that a) people living in rich nations are, on average, happier than those living in poor nations, b) among individuals within a particular country, the money-happiness correlation is quite small and is predominantly evident among the very poor and c) many longitudinal studies show that there is no consistent relationship between happiness and increased income.

But maybe more important is the finding that happier people make more

money! Yes, quite a few studies show that cheerful people make more money than those less cheerful.

Why? A few possible explanations are offered: a) cheerfulness and happiness might help create a "can-do" attitude, b) happiness is something that others admire and may be related to better social skills and c) to the extent that happier people are more up-beat and likable, it may lead to a "halo effect" making it easier for employers to promote and provide positive evaluations.

Questions & Answers

Q. *Is there anything in the financial world that we know for sure?*

A. In the world of investments and preparing for your financial future, there are very few things that can be considered “for sure.”

But we put on our thinking caps and came up with six items we’re willing to put on our list.

Learning how to use each one and apply it to your personal situation can help you maintain focus on what is important and what’s not:

1. Inflation is a long-term constant. Make sure your financial strategies protect your purchasing power by including an appropriate mix of investments, some of which have an opportunity for growth.

2. Instant gratification usually means long-term investment failure. Never invest on “hot tips,” an e-mail note that suggests the high future value of a certain investment (they are getting more numerous every day) or what Aunt Hortense thinks is the “wave of the future.”

3. Stocks and bonds fluctuate in price. Long-term investors expect volatility and make it their ally.

4. Successful investors look beyond short-term fluctuations. They understand how time tames volatility and market changes.

5. Time is more important than timing when investing. Successful investors have a realistic long-term horizon and seldom make investment decisions based on what happened yesterday.

6. Selling at bottoms and buying at tops are natural for most people. Successful investors, on the other hand, use discipline and always try to stick to their investment strategies.

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

Non-Taxable Income

We’re so used to talking about taxable income (from investments and other sources), that we don’t pay a lot of attention to the income that is NOT taxable. The following is a list of income that a) is not taxable and b) should not be listed on your income tax return as income. Happy nontaxable income day!

1. Life insurance proceeds*
 2. IRA and Pension rollovers
 3. Child support payments
 4. Inheritances*
 5. Gifts*
 6. Workers comp
 7. Disability income payments if you paid the premiums on the policy.
 8. Damages for personal physical injuries
 9. Health and accident benefits.
 10. Federal income tax refund.
 11. Most scholarships and fellowships
 12. Foreign earned income (must be reported, but up to \$91,400 is excludable)
 13. Foster care payments (certain restrictions for children over 18 in foster care)
 14. Social security benefits may not be taxable, depending on your age and income.*
 15. Gain on the sale of your personal residence is usually nontaxable. The gain might be taxable if you lived in the residence less than two years or if the residence has ever been used as a rental property or home office.*
 16. Roth IRA qualified distributions.
- * Must meet certain and specific Internal Revenue Service requirements.

Quotable Quotes on Love and Love and Money

If you have love, you don’t need to have anything else, and if you don’t have it, it doesn’t matter much what else you have.

Sir James M. Barrie 1860-1937, British Playwright

Love is a force more formidable than any other. It is invisible — it cannot be seen or measured, yet it is powerful enough to transform you in a moment, and offer you more joy than any material possession could.

Barbara De Angelis

The greatest weakness of most humans is their hesitancy to tell others how much they love them while they’re still alive.

Orlando A. Battista

Love is a fire. But whether it is going to warm your hearth or burn down your house, you can never tell.

**Joan Crawford,
1904-1977, American Actress**

I love you, not for what you are, but for what I am when I am with you.

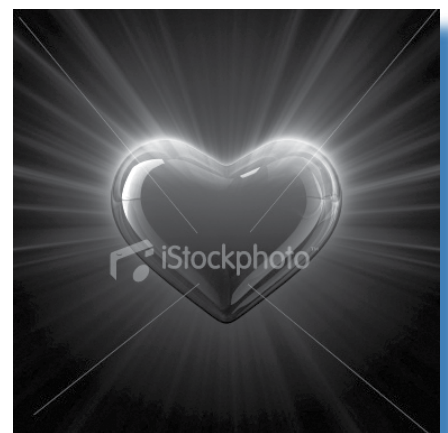
Roy Croft

In a great romance, each person plays a part the other really likes.

Elizabeth Ashley, American Actress

I was nauseous and tingly all over. . . . I was either in love or I had smallpox.

Woody Allen



You Are Not Alone

Nearly Half of U.S. Households Own Equities and Bonds

Nearly half of U.S. households own equities or bonds, a significant increase during the last two decades. But ownership of these investment assets has declined since 2001, as increasing market volatility has reduced Americans' tolerance for risk, according to a new joint study recently released by the Investment Company Institute and the Securities Industry and Financial Markets Association.

Based on a survey of more than 5,000 households, researchers at ICI and SIFMA calculate that 54.5 million households participated in the market through equity or bond ownership in early 2008. This represents 47 percent of U.S. households — up from 39 percent in 1989, the first year for which directly comparable survey data are available.

The research concludes that the two-decade rise in equity and bond investment was fueled by the rapid growth of defined contribution (DC) retirement savings plans, such as 401(k) plans. Between 1989 and 2004 — the latest year for which comparable data are available — the number of participants in private-sector DC plans nearly doubled, from 36 million to 65 million. The survey shows that at every income level, working-age households are much more likely to be equity or bond owners if their employer sponsors a DC plan.

"This research underscores the significant role of the 401(k) system in turning Americans into savers and investors. It also points to the important role that employers play in offering opportunities for ownership and building retirement security," said Paul Schott Stevens, president and CEO of ICI.

And, he continues, "Despite the market's recent turmoil, Americans' retirement assets are greater than in decades past. Today's market conditions underscore the need to provide more and better investment education to help Americans manage their assets for a secure future."

Market volatility is daunting to investors, as this study makes clear, but over the long-term, savings and investment in the financial marketplace remain a crucial stepping stone on the path towards a secure retirement," said Tim Ryan, president and CEO of SIFMA.



Other key findings of the new study, Equity and Bond Ownership in America, 2008, include:

- **Among the working-age population, household income plays the dominant role in determining ownership patterns. Within income groups, education is also a determinant.** For example, among those earning \$100,000 or more, the ownership rate is 65 percent for those with no more than a high school education, and 90 percent for those with at least some graduate school education.

- **Each successive generation of workers has generally higher equity ownership rates at any given age than have their predecessors.**

- **Risk tolerance has decreased among both younger and older households since 2001.** This decrease in willingness to take risks appears to be related to the stock-market turbulence in the bear market of 2000–2002 and appears to have played a role in the decrease in ownership rates in

recent years, from a peak of 57 percent of households in 2001 to 47 percent in 2008.

- **Investment goals and risk tolerance among equity and bond owners vary systemically with age,** with older

investors much less likely to say they are willing to take above-average or substantial risks in order to get higher returns.

- **Most equity and bond investors use the Internet for managing or viewing their accounts** and regularly rely on advisers for investment advice and guidance. Two-thirds (67 percent) of owners consulted with financial advisers during the 2003–2008 time period.

This year's survey for the first time includes detailed questions about bond ownership, including direct investment in bonds, ownership of bond mutual funds, and holdings of "hybrid" funds that invest in both equities and bonds.

Investors are reminded that there are risks involved when investing in securities markets, including, but not limited to, the loss of principal.

ICI senior economist John Sabelhaus and ICI associate economists Michael Bogdan and Daniel Schrass authored the study. The Securities Industry and Financial Markets Association brings together the shared interests of more than 650 securities firms, banks and asset managers; ICI is the national association of U.S. investment companies, including mutual funds, closed-end funds, exchange-traded funds (ETFs), and unit investment trusts (UITs).

You may read the entire report at http://www.ici.org/pdf/rpt_08_equity_owners.pdf.

2008 Retirement Confidence Survey

U.S. Attitudes About Social Security and Medicare

Worker and retiree confidence in the value of future benefits from Social Security and Medicare appears weaker than in the recent past. Nevertheless, most are counting on receiving at least some income from Social Security when they retire.

Confidence in Social Security

- Seventy-percent of workers are not too or not at all confident that Social Security will continue to provide benefits of at least equal value to the benefits retirees receive today.

- Skepticism about Social Security has gradually increased over the past five years, but remains below the level measured in 1998 when 75 percent of workers were not confident that benefit levels would be preserved.

- Perhaps because they are already receiving benefits and the Trust Fund depletion date is beyond most current retirees' life expectancy, retirees are more likely than workers to express confidence about the future of Social Security.

- However, 47 percent are not too or not at all confident that Social Security will continue to provide ben-

efits of at least equal value. Retiree uncertainty about Social Security is equivalent to levels measured in the mid 1990s and is significantly higher than it has been in recent years.

Expected Retirement Income from Social Security

- Today's workers are less likely to **expect** Social Security income in retirement than today's retirees are to report **having** Social Security income.

- Workers are also half as likely to expect Social Security to provide a major share of their income in retirement (31 percent) as retirees are to say Social Security makes up a major share of their income. However, EBRI research has found that 60 percent of those 65 or older have at least 70 percent of their



income from Social Security.

Expecting Social Security Income in Retirement

- Workers who are closer to retirement are more likely to expect Social

Security income in retirement than are younger workers

- Reflecting the graduated nature of Social Security payments, workers currently earning less income correctly expect Social Security to comprise a larger proportion of their income in retirement.

Confidence in Medicare

Although the financial difficulties threatening Medicare are more imminent than those facing Social Security, workers are less likely to feel uncertain about Medicare's future. However, 64 percent of workers are still not too or not at all confident that Medicare will continue to provide benefits of at least equal value to the benefits retirees receive today. This proportion has not changed in recent years, and is below the level measured in 1998.

Will Future Benefits Be Equal to Today's?

Retirees are less confident in the Medicare system than they have been in recent years. Forty-five percent of retirees say they are not too or not at all confident in the future value of Medicare benefits, the highest level of doubt displayed since 2004.

You may read the entire report at: http://www.ebri.org/files/RCS08_FS5_SS-Med.pdf

Worker Confidence That the Social Security System Will Continue to Provide Benefits of at Least Equal Value to the Benefits Received by Retirees Today, 1992-2008

	1992	1993	1998	2003	2004	2005	2006	2007	2008
Very confident	3%	4%	6%	7%	7%	8%	6%	7%	5%
Somewhat confident	27	19	16	26	28	23	27	24	21
Not too confident	44	41	31	35	31	33	33	34	34
Not at all confident	24	33	44	31	32	35	34	34	37

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2008 Retirement Confidence Survey.®

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