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April 2009

Investment Advice For Now and Then

We're often asked for specific advice regarding the purchase of investments and investment products, types and "brand names" of funds, stocks and other special investments.

But more often, these days, we are being asked about generalities. Investors are asking what basic fundamental strategies and concerns should be uppermost in our minds.

Herewith our thoughts:

Retirement must be a top priority, no matter how old you are right now.

While it sometimes gets a bit muddled due to other requirements in the early and middle years (e.g., buying a home, college tuition for youngsters, accommodating aging parents), retirement must be an important part of your investment thinking from the beginning of your earning years.

Don't invest in things you don't understand. Either learn about it on your own or get some professional assistance for all of your investments. Ignorance is never an excuse.

Periodically take a fresh look at your portfolio and **re-vitalize your goals and objectives,** even if one of life's great changes does not occur.

Shop for the best yield rather than chase after it. For your liquid investments, it is appropriate to search for ways to increase your return. But searching is different than chasing; don't inadvertently increase your risk.

Invest a windfall with care and caution. Many people who make investment decisions in the face of family death, retirement, sale of a business or other special circumstances are not always thinking as clearly as they might. Move slowly and deliberately with new-found money.

Always look for investments that are right for you, regardless of the tax consequences. While paying less in taxes might be a priority, making the correct investment decision must carry the most weight.

As always, call me for assistance.

Some Tips to Save on College Costs

We know a young woman who was set on going to either Catholic University or Fordham, both pretty pricey institutions. Mom and Dad looked at their assets / savings and estimated that they could not afford to send their oldest daughter to either of these schools for four years.

So they came up with a deal for her: participate in an "advanced" program at a local community college for two years, stay at home and we will buy you a car! Well, at first, the idea of going to a community college was unattractive to the daughter, but considering the offer of a vehicle all her own and the chance to transfer to one of the colleges of her choice for the last two years didn't sound so bad. She not only got a full scholarship at the community college, but was able to get a lot of those "required" courses out of the way and was the editor of the school paper. Everyone was pleased.

Some other ideas:

- Tap grandma, grandpa or other relatives. In 2009, they can contribute up to $13,000 per year (or $26,000 per couple) for each child without incurring any gift taxes. In addition, there is no gift tax on tuition payments made directly to a qualifying educational organization.
- If your student is not old enough to start at college right now, consider a prepaid plan, now offered by many colleges and universities. You pay today and lock in today's tuition prices.
- Search everywhere for scholarships: most institutions are required to give away a certain amount of money every year, so they often go begging for recipients. Check out local companies, as well as service organizations and, of course, www.collegeboard.com.

Questions & Answers

Q. I've lost money recently in my traditional IRAs. Even though I deducted my contributions, may I claim the losses?

A. No. Since you are not taxed on income earned within those IRAs, you may not deduct the losses in your traditional and tax-deferred IRAs.

Q. Might recessionary times be good for converting a traditional to a Roth IRA?

A. Well, we don't know your individual circumstances, but from a simple tax point of view, when you make the conversion, you end up paying ordinary income taxes on the amount you transfer from a traditional IRA to a Roth IRA. Since your portfolio has decreased in value due to the recession, your tax bill will be less than it was when markets were booming.

Not everyone may convert; compare your adjusted gross income against limitations on Roth IRA conversions. Also, consider paying taxes with non-IRA funds so the amount you contribute to your new Roth is the maximum.

Q. I've heard about an awful array of scams and unfair / expensive treatments for senior citizens when it comes to health. Is there a source for guarding against these unfortunate situations?

A. Yes. The Federal Trade Commission has a new, free guide available that compiles resources on specific "senior" health topics — a source book that can save you money.

The booklet, ***Who Cares: Sources of Information About Health Care Products and Services,*** covers topics like dietary supplements, hearing aids, medical ID theft, buying prescription drugs online, how to file a complaint, etc.

You may download a free pdf copy of the booklet at www.ftc.gov/whocares or by calling 866-382-4357.

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

Inflation, Deflation and Investments

Inflation occurs when there is a rise in the price of goods and services. This happens when spending increases relative to the supply of goods on the market. In other words, too much money chasing too few goods. Moderate inflation is often considered a "benefit" of economic growth, but high inflation causes people to lose confidence in currency and is destructive to the marketplace.

Deflation occurs when there is a decline in the price of goods and services. The economic results of deflation are the opposite of inflation, with two notable exceptions: a) some prices (e.g., union wages) that increase with inflation do not decrease with deflation and b) deflation has always negatively affected output and employment.

A well-balanced portfolio would take both of these potential economic events into consideration and include both inflation-friendly (those investments that would tend to increase in value in moderate or high inflationary economic times) and deflation-friendly investments (which would tend to perform better when prices of goods and services are in decline).

While the short lists below might tend to minimize the risks of inflation / deflation, virtually all investments come with risk, including, but not limited to, principal risk (that your original investment might decline in value), interest risk (that an investment may not return an anticipated interest rate), credit risk (chances that a borrower might default on an obligation), market or volatility risk (that an entire category of investment might decline in value) or liquidity risk (the possibility that you won't be able to sell or convert your investment to cash).

Inflation-Friendly Investments	Deflation-Friendly Investments
Equities / Common Stocks	Fixed-Dollar Investments
Real Estate	Corporate Bonds
Variable Annuities	Municipal Bonds
Mutual Funds	Utility Stocks
Treasury Inflation Protected Securities	Preferred Stocks
Oil and Gas	Fixed Annuities
Hard Assets	Savings Accounts
Precious Metals	Certificates of Deposit
Precious Gems/Rare Coins	Treasury Bills
Collectibles	Government Securities

Quotable Quotes

Experience is a hard teacher because she gives the test first, the lesson afterwards. **– Unknown**

No price is too low for a bear or too high for a bull. **– Stock Exchange Proverb**

Money is a singular thing. It ranks with love as man's greatest source of joy. And with death as his greatest source of anxiety. **– J. K. Galbraith**

Within certain limits it is actually true that the less money you have, the less you worry. **– George Orwell**

Money is better than poverty, if only for financial reasons. **– Woody Allen**

Calculations and Ideas

On Investing $5,000 a Year At Different Rates of Compound Interest

Sometimes, investors think that accumulating a substantial amount of money is beyond comprehension or just the stuff that "fancy" is made of: like winning the lottery or inheriting a long lost aunt's immense fortune.

But it is not "thinking out of the ballpark" for many of us if we understand and use the compounding train, start early enough and keep building the base of our wealth.

A ten percent annual contribution to your own wealth accumulation fund, either inside or even outside a tax-deferred or qualified retirement plan will enable you to accumulate future retirement dollars. In our example below, we've assumed an annual income of $50,000.

In the graphic below, we show what might happen to a $5,000 annual investment that compounds at varying rates of return. The path across the bottom of the chart are the number of years in which the investment is made.

You'll note that the growth curve is virtually minuscule at the lower left (the early years of the investment) and shoots up to geometrically compounded figures in the later years.

This lesson is hard for most of us to learn, however. So many Americans wait until it is too late to start accumulating wealth.

Let's make sure that you, your children and your grandchildren are NOT among those who wait too long. Start (or continue) that investment today.

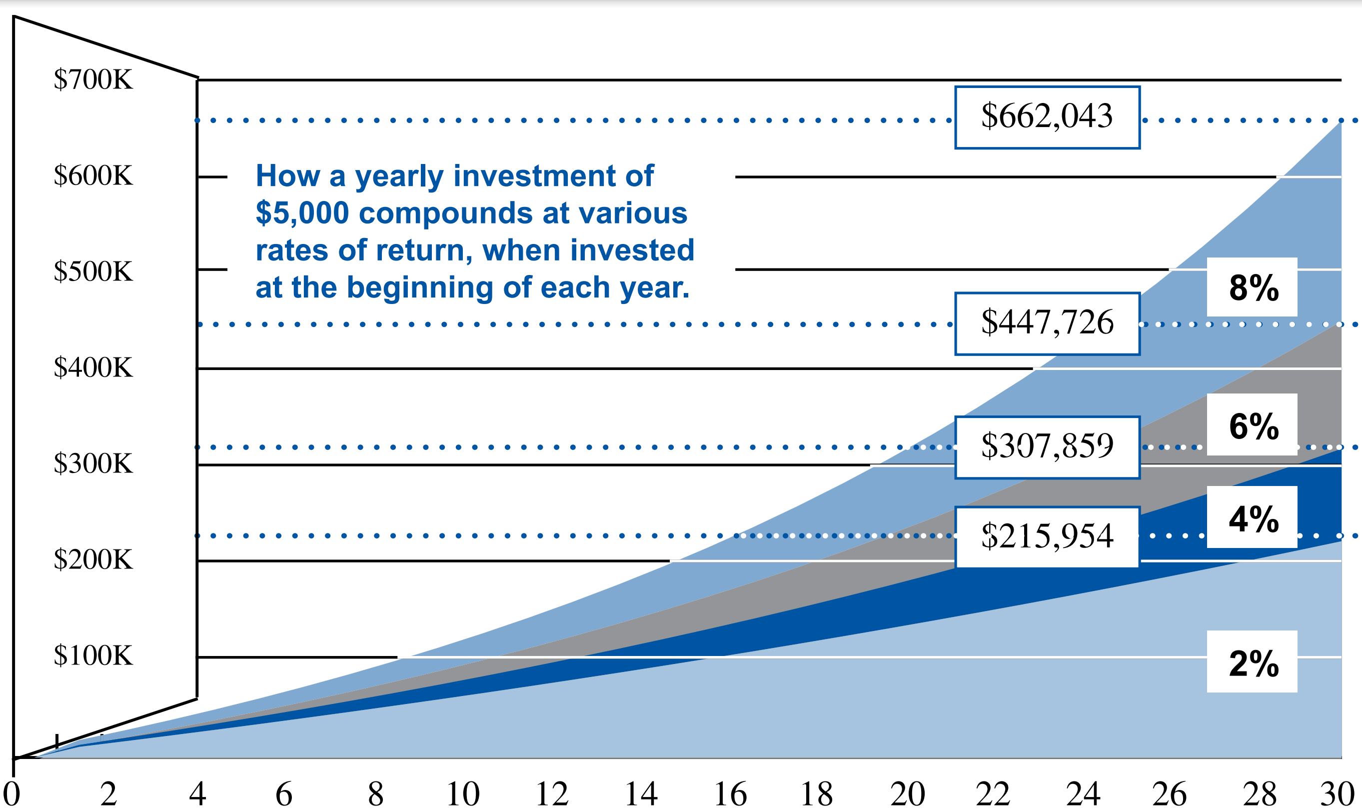
All the figures below are hypothetical; your investment returns will vary, depending on market and other economic conditions.

The figures in the graph do not imply or guarantee that your investments will achieve these returns. Nor do the figures represent return for any particular investment.

The figures do not take taxes into account and the graphic is provided only to show the power of compounding and the results that different returns might achieve over time.

Source: The Walsh Group

If you invest $5,000 a year . . .



Number of years $5,000 is invested annually

Ideas from the Experts

Some Thoughts About the Recession and How to Respond as Investors

We know we promised not to talk about it all the time (and we haven't), but it really is getting old. At this writing (the first week of March), the Dow has lost just over 50 percent of its value from peak and investors have lost an immense amount of value in their total portfolios.

While specific advice regarding what to do now is based on so many individual, specific and personal investor circumstances, there are some basic ideas that will make us at least feel better than we currently do about our predicament.

We talked to a lot of the experts and googled around the internet to find out what they are.

Here is what we found:

- **Make sure you know exactly what you have.** An inventory of assets, down to the last penny in that little account that you never closed at your former bank, is in order.

Most investors, these days, who look at the amount of loss suffered by the indices, glance at their own portfolios and find that their losses are not quite as bad. Most indexes are very specific and, if you have been diversifying (like we've been harping on for years), even though some indexes are way down, your losses should not be as great as the general economy would reflect.

Regarding diversification, this exercise will let you know how well you have done that over the years and can be a bell-weather for the use of future, uncommitted dollars.

Many people are thinking of moving from one type of investment to others. If that is your desire, do so very slowly, in tiny increments and consider not abandoning completely the investments that treated you well for so many years.

- **Make portfolio changes with new investment dollars, not with the investments that have grown like weeds in different circumstances.**

Harken back to the warm summer days in 2007 when the Dow hit 14,000. We weren't complaining then, were we? Our portfolios were sitting pretty and life was good.

To walk away now, from, say a dismally performing 401(k), is locking in losses for sure. Some experts are suggesting that we may want to consider avoiding the currently toxic markets with those contributions that are coming from our next paychecks, directing them into investments that might increase the diversification of our portfolios even more.

- **While you are welcome to bash and complain about the "volatility" of the markets and their inconsistent and erratic behavior, learn to live with it.**

Uncertainty is here to stay and, no matter what you do, the markets will always reflect those characteristics. If it weren't that way, who would ever be on the other side to buy something you were selling, or sell something you wanted to buy?

That uncertainty is also what makes the investment in equities markets somewhat exciting (the thrill of hitting it big or the agony of defeat and, on occasion, returning to less risky alternatives).

If sleeping soundly is all you want, steer clear of uncertain markets.

- **Even though we are likely more happy (when the markets are booming) with equities positions, consider the idea of dedicating at least a small portion of your portfolio to relatively risk-free investments.** Call me to discuss your specific options in this area.

- **Above all, behave cautiously.** While that may seem silly and overly simplistic, it is a serious consideration.

Often, when we are not feeling "up to snuff" — when things are not going the way we would like — we act precipitously. We act on impulse. We act with our hearts (or our guts, if you wish), rather than with our heads.

No matter what you ultimately decide to do, make sure it is done in gradual baby steps and with incremental, deliberate, careful and critical thinking behind it.

Was it Aesop who said "Slow and steady wins the race?" It doesn't matter.

While panic is never an appropriate mode in which to operate as an investor, thoughtful and incremental panic is better than impulsive panic.