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Alphabet Soup 101: Economic Acronyms

We study a variety of indicators to help us make investment decisions, especially in the sort of economy we have been experiencing of late. Among the most frequently referred to:

Consumer Confidence

Two major consumer analyses attempt to ascertain how you and your neighbors feel (and act) regarding the current economy and its future. One, titled **The Consumer Confidence Survey**, examines 5,000 households and is conducted by the Conference Board



(www.conference-board.org), an international, non-profit management and business information source. A second source, **The Index of Consumer Sentiment** is compiled by Reuters (www.reuters.com) news service and the University of Michigan. Since both surveys look at future spending strategies, they are called **leading economic indicators**.

Consumer Price Index (CPI)

The CPI measures about 80,000 ser-

Are You Ready for Retirement?

Are we saving enough? If savings (and their subsequent investments) are required to provide the lion's share of retirement income, how are Americans doing at putting money aside? Not well, it seems, although it is up for debate. While citizens of other countries seem to save cash at a much higher rate than Americans, it is true that we are saving in a different way: e.g., current residences, second homes, businesses we own and pensions. "National Savings Rate" statistics don't consider those items "savings." So, while the number has hovered at one percent or less since 2005, the latest figures have shown an increase, according to the Bureau of Economic Analysis: just above 4 percent for the last few quarters. So, American saving rates are far from sour, frightening or requiring a "sky is falling" panic response.

The trouble is that up to one-third of Americans don't put ANY money toward savings. We know you do, but are you saving **enough**?

Do you participate to the maximum amount possible in your employer's retirement savings plan and by contributing to an IRA if you're eligible? Do you save after-tax money, perhaps in a tax-advantaged account? Do you save at least 10% of income every year — more if you're close to retirement? Two or three "yes" answers? You may be on your way to a retirement worthy of your savings and investing effort. If not, here's something you can do now to get on track: **contribute to the maximum extent possible!**

We all need to take responsibility for saving, investing and teaching our children and grandchildren about the idea. Whether you're 20, 40 or 60 years old, the time to begin (or continue) is **NOW**.

vices and items and provides information about changes in what consumers pay for them, covering everything from cheese to heating oil. The Bureau of Labor Statistics (www.bls.gov) provides us with a new CPI figure every month. Since the CPI is reporting on the prior month's price changes, it is considered a **lagging economic indicator**.

Gross Domestic Product (GDP)

The GDP measures the size of the

entire U.S. economy by totaling the value of all the products and services it creates and is often expressed as both "nominal" and "real" GDP. GDP figures are provided by the Bureau of Economic Analysis (www.bea.gov).

Nominal GDP measures the current dollar value of everything, real GDP measures those values and inflation.

Because it reports on the current state of the economy, GDP is considered a **coincident economic indicator**.

Questions & Answers

Q. I'm 75 and have been taking required minimum distributions (RMDs) from my IRAs for a couple of years. Someone told me I don't have to do so for 2009. True?

A. Yes. Last December, Congress passed and the president signed the **Worker, Retiree and Employer Recovery Act of 2008** which allows retirees to forego their required minimum distribution payments from their IRAs, 401(k)s and or 403(b)s for 2009 if they so desire.

Generally, retirees with these accounts are required to withdraw a minimum amount on an annual basis once they have reached age 70½. That requirement was temporarily lifted by the legislation to allow retirement accounts additional time to recover from the most recent market glitches.

The decision is not a simple one, however, so if you have concerns, please contact me to discuss your options.

If you opt to forego your RMD for 2009, it is, of course, your responsibility to ensure that your RMD requirements are met in years 2010 and beyond.

Q. If I claim my daughter as a dependent because she is a full-time college student, can she claim herself as a dependent when she files her return?

A. No. If you claim your daughter as a dependent on your tax return, she may not claim her own personal exemption on her tax return.

In this case, your daughter should check the box on her return indicating that someone else can claim her as a dependent.

As a note of interest, the U.S. Tax Code, all 13,476 pages of it, is available for a bargain price of \$974 from the government printing office, and will be delivered to your door with FREE shipping.

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 Things You Might Do For Your Children

Financial decisions and activities of parents affect their children and their children's lives, most often when the children are young, but even after they've grown. Review the following list of possibilities; some may be appropriate for you.

✓ It is really important that your child have a Social Security number. As we have written before in these pages, it is important to the child, but also provides you with the tool needed to reduce your income taxes. Uncle Sam still provides a little help with dependent exemptions as long as your child has a Social Security number.

✓ Prepare a will and name a guardian for your children. Dying intestate (without a will) means that the courts (state) will decide many things (e.g., asset distribution and appointment of a guardian), things you don't want left to the whim of the state.

✓ Unless you a) are a philanthropist or b) own the college your child will be attending, begin saving for educational expenses as soon as you can (when the child is born seems appropriate these days). According to the College Board, we can expect college expenses to go up five to seven percent annually. Even at the lower rate, college expenses will double in a little over 14 years!

✓ Prepare for unexpected and high cost potential risks with sufficient insurance. Life insurance might be considered a necessity for parents with families to cover the loss of income that accompanies premature death. Also consider disability insurance to replace income if you are unable to work.

✓ Take the time to learn about money yourself and teach "money" to your children. This item does not suggest formal lessons in finance at early ages, but it does propose that you take advantage of daily opportunities to talk about saving, the use of credit and checks, how bills are paid and the importance of money in the smooth running of a household and family. An allowance, an individual bank account or other methods of practicing "financial things" are appropriate.

✓ Take care of your retirement. (We certainly do harp on this don't we?). Not only is it important for you that you prepare for an independent and dignified retirement, but it is one of the most thoughtful gifts you can give your children. When it comes time for you to retire, your children will be buying homes, establishing their own retirement accounts, saving for their children's college tuition, etc.

✓ Assuming that you are going to pass some of your assets on to your children, do so sooner, rather than later. You can help children with a down payment on a home or with a mortgage. You can help grandchildren pay for college or open IRAs for both children and grandchildren to help establish a nest egg for their retirement.

✓ Last, but not least, take care of yourself. While this article refers mainly to "selfless" things like giving and teaching and saving, there is also an argument for treating yourself with dignity and respect. For all the kindnesses, lifetime sacrifices and other events where your children and grandchildren came first, they will not begrudge you having some fun and enjoying yourself as well.

A client recently commented that her father had always "sacrificed, saved and planned to pass as much as possible on to me. I wish that he had spent more of his money on things he enjoyed. Seeing my father happier at the end of his life would have been wonderful!"



Upward Mobility: Is It Dead? Still Possible? Probable?

Short- and Long-Term Income Losses; Recovery Rates and Economic Mobility

As Americans face the current economic downturn, a new Pew Charitable Trust report investigates the extent to which the American economy promotes upward economic mobility (income growth) and prevents downward economic mobility (income declines), and whether it does so to the same degree as in the past.

There is widespread consensus that the current recession is likely to affect more families than any since the Great Depression. But more fundamental than the impact of any one recession is whether the United States has entered an era in which families must permanently lower their expectations for income growth and brace themselves for more and bigger income losses.

Focusing on the household incomes of working-age adults (those aged 26 through 59), the report assesses how income gains, drops, and recovery have varied from 1967 through 2004. The analyses include both short-term and long-term fluctuations in income, examining how many people are able to recover from income declines, how long their recovery takes, and differences across demographic groups in both.

The findings indicate that the American economy promotes upward mobility over two- and ten-year periods just as well as it has in the past. Americans are no more likely to experience income drops than they have been in the past, and they recover from those drops at similar rates. Nevertheless, for many Americans — today as before — an income drop is a significant and permanent financial setback, and the current recession — like previous ones — will prove to be a turning point for millions of families.

While statistics are only that — statistics — and what has happened in the past is no guarantee of what will hap-

pen in the future, the report provides some interesting ideas and conclusions:



Family income fluctuations are the norm, but Americans are more likely to experience income gains than income drops.

- Over a given two-year period, roughly 45 percent of working-age adults have their real family incomes increase or decrease by more than 25 percent, a rate that has been relatively unchanged since 1969.

- About one in five experienced an income decline of more than 25 percent between 2002 and 2004, while one in four experienced such a decline between 1994 and 2004.

- In the most recent two- and ten-year periods analyzed (2002–2004 and 1994–2004 respectively), just over a third of working-age adults experienced an income decline of at least 5 percent.

- However, almost half (46 percent) experienced a two-year income gain, and substantially more (58 percent) experienced a ten-year income gain.

Half of adults who experience a one-year income loss of more than 25 percent recover within four years, a recovery rate that has been stable over time.

- Of those experiencing such a loss

in 1994, a fifth (19 percent) recovered within one year (by 1995), and another third (31 percent) recovered within four (by 1998).

- Among adults experiencing a loss of 25 percent or less, 70 percent recovered fully within four years, and just 16 percent were unable to recover within 10 years.

Half of those experiencing large ten-year income losses subsequently experience large ten-year income gains, but half also fail to fully recover in the subsequent ten years.

- About half of those who experienced an income drop of more than 25 percent between 1984 and 1994 saw gains of more than 25 percent over the next ten years (1994–2004).

- However, because an increase of 25 percent from a smaller income is less than a 25 percent drop from a larger income, some of these Americans fail to fully recover over the 20 years. Among all adults with an income drop of more than 25 percent between 1984 and 1994, 51 percent recovered by 2004.

Despite low recovery rates, Americans who experience income drops over ten years are just as likely or more likely to recover as in the past.

- The share of Americans recovering from an income drop of more than 25 percent, for instance, was 48 percent between 1978 and 1987, 48 percent between 1985 and 1994 and 51 percent between 1995 and 2004.

Source: Pew Charitable Trusts. You may download and/or read the full report at: http://www.pewtrusts.org/our_work_detail.aspx?id=596. Click on **Ups and Downs: Does the American Economy Still Promote Upward Mobility?**

Getting Through the Difficult Times

On Maintaining a Balanced Perspective

We did a thorough search of our souls, our intellect, our experience, the internet, books and magazine articles and, below, attempt a synopsis of the best advice we gathered from the many sources available regarding balancing what we think and do in difficult times.

1. Don't panic or make emotional moves. During an economic crisis, experts seem to agree: while people have valid financial concerns, they multiply those negatives with unnecessary angst and worry.

Remember that worry will not change the situation, bring back lost value or decrease current stress levels. Increased stress is considered a primary CAUSE of irrational thinking! Don't become part of the problem.

2. Look at things from a long-rather than short-term perspective. This is virtually unanimous as one of the top ideas from all of the sources we scoured. Although it is easier said than done, hang in there and take your current lumps. Absorbing current losses is often called "chasing your losses." Although it may not be immediate and past performance is no guarantee for the future, history shows that markets return to basic levels sooner or later.

3. Take stock of your current situation and appreciate what you have. You know that famous statement, "The grass is always greener on the other side of the fence." Well, it could be greener or it could be another color altogether. So, take stock of all of your assets (and this includes your health (a sound mind and sound body is an asset worth being proud of), your creature comforts and personal items that are important to you and your friends and family. Be appreciative and grateful.

4. Rethink all of your personal

goals, including the financial ones.

Ensure that they are consistent with your perspective, especially if that perspective has changed due to #3 below. Does your new perspective take into consideration the fact that your current lifestyle is, maybe, not as "sure" as it was during all those years of financial growth? all the "bubbles" we enjoyed?

If nothing else, this recession has taught us that our investment life can be uncertain. Sometimes things don't go the way we wish. Are you better prepared now to take the detours, fill the potholes and circumnavigate the roadblocks along the way? Obstacles are sure to come.

As you reformulate your goals you might consider showing gratitude, forgiving (or at least eliminating the little grudges) and doing nice and kind things for others. We know those activities are a certain source of happiness.

5. Maintain your financial strategies (or, possibly, develop new ones to replace the outdated or outmoded ideas). If you do not currently have a sound course of action in mind, create one. Ensure that your strategies include weathering a wide variety of situations, both positive and negative.

If your financial strategies need to change, make those changes carefully and with plenty of forethought. Quick or unthoughtful decisions are usually not the best ones we can make.

6. Turn a deaf ear to the constant negative news. For the most part, you select what you see, what you hear and what you read. Do so carefully and when the news is continuously bad, use the remote.

7. Focus on what you can change, not on what you cannot control. This is also listed by our numerous sources as one of the most difficult things to do, but remember that there is no use worrying or fidgeting or stressing when you have no way of changing the outcome. Pick something that you know

you can change and invest the majority of your energy in that.

Keep a running inventory of all the good things you do at work, at home and at play. The list could come in handy when you might seek different employment or when you just need a reminder

of how good you are!

8. Spend lots of time with family and friends. Studies have shown that people who have rich and rewarding relationships with others a) manifest less stress, b) live longer and c) are definitely measurably happier.

9. Be creative and cheerful. Is it time to develop new joys and hobbies? Develop a new friendship? Join a group that does things you cannot do on your own? Learn a new skill or two?

10. Finally, visit authentichappiness.org and take the short version (or long version, if you wish) of the signature strengths test.

It will tell you what your highest strength is. Utilize that strength in your activities for a week. It is an amazing experience and is almost guaranteed to raise your happiness by a notch or two.

