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Happiness and Money

Generally speaking, psychologists, in our brief review of the contemporary literature, are in agreement: money absolutely provides a high degree of happiness when it brings people from, say, abject poverty (or close to it) into the middle class. After that, however — after the “basics plus” are taken care of — there is little data to show that happiness increases, either mathematically or geometrically.

But the theory that money does not buy happiness seems contrary to contemporary thoughts regarding intuition and economic theory. For instance, when we think about selling something,



don't we automatically think about getting the MOST money that we can for the item? And, when we are considering a purchase, don't we think about paying the least amount of money that we can? Yes to both. Intuition can't be all wrong.

And what does additional money get us? It gets us more choice. But the research also says that, while having the

Saving . . . and the Intention To Do So

Most research on saving tends to compare groups of savers and non-savers and not give much consideration to their INTENTIONS.

So what happens when the researchers look at the relationship between saving INTENTION to actual savings?

The research finds that three factors come into play: time horizon, usage of certain expenditure control techniques and perceived “ease” of expenditure control. In several recent tests (the 2009 DNB Household Survey and a questionnaire survey held in 2008 . . . the most recent data available), two groups of respondents were compared: those who planned to save and implemented the intention (the “plan-and-do” group) and those who planned to save but failed to realize the plan (the “plan-in-vain” group). The data support the significance of time horizon and control techniques while the third factor (perceived “ease” of expenditure control) received mixed support.

The successful savers differed from the failed savers in “time horizon”: the time they said was most important to them tended to be further in the future. The successful savers also used effective techniques to control their spending, such as setting up an automatic transfer of funds into a saving vehicle. All techniques used by the successful savers had one thing in common: **they made the saving process partly automatic and less dependent on will power.**

Of particular note: researchers predicted that people who THOUGHT saving would be easy would turn out to be more successful at saving, assuming that their confidence stemmed from having good self control. Actually, perceived ease of saving was not related to saving success or failure.

ability to choose between 4 or 5 different cheeses is WONDERFUL, having to choose between 25 different cheeses is difficult and anxiety producing.

A recent Gallup poll shows that, worldwide, the percentage of people who indicate that they are “thriving” runs the gamut from 82 percent in Denmark to 1 percent in Togo. And yet many people without sewer or running water indicate that they are quite happy and content with their lives, thank you.

So, while gaining more money is

wonderful for the economy, for world trade and other economic trends, it doesn't necessarily increase our individual sense of well-being.

Some cute quotes about this: **“Whoever said money can't buy happiness simply didn't know where to go shopping,”** (Bo Derek), **“Money can't buy happiness, but it can make you a lot more comfortable while you're being miserable,”** (Clare Boothe Luce) and **“Money can't buy happiness, but neither can poverty.”** (Leo Rosten).

Questions & Answers

Q. *I have a retirement portfolio worth about \$500,000. About \$100,000 of that amount is nondeductible contributions. If I withdraw, say, \$50,000, could I consider that amount part of that nondeductible \$100,000 and pay no taxes?*

A. Sorry, but "No."

The IRS thought about that, so any money that is taken out of an account where pre-tax and after-tax money is mixed, the withdrawal is considered to be a combination of the two. In other words, since 80 percent of all your money in the IRA is in deductible amounts, you will be required to pay taxes on \$40,000 of your withdrawal or distribution. Even if you have separate accounts for your IRAs, the *pro rata* requirement still applies, since you must include the amounts of all your traditional IRAs when calculating taxes on withdrawals or distributions.

Q. *What are the characteristics of an "average" American millionaire?*

A. According to the United States Trust Company, typical affluent Americans come from humble or moderate-income families, work their way through college, average a 50+ hour workweek and have been at their jobs for 30 years.

Continuously living in the same town and owning a factory, a service firm or a chain of stores puts you on the list.

On the marriage front, most millionaires have been married twice but then remain married.

Average millionaires live in middle-class neighborhoods, right next door to people with a fraction of their wealth.

Almost 80 percent are first-generation rich and spend less than they can afford on cars, vacations and entertainment.

Finally, self-made millionaires develop their own goals, write them down, create a series of benchmarks and make every effort to reach them.

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 On Setting Exciting Goals

Lots of financial media talk about goals and almost all, including us, discuss ensuring that your goals are attainable, reasonable, and have strategies attached that will make them work. We also suggest dividing your goals into long- and short-term categories and clearly defining and distinguishing between your wants and your needs.

But not many people talk about **exciting** goals. As you've probably guessed by now, we're about to change that.

Choose and set goals, whenever you can, that you can get excited about. Why? Excitement breeds determination and determination gets things done! For instance, while "financial security" sounds like a positive and worthwhile goal, does it excite you? Probably not. Why? Because it is vague and undefined; the words lack luster, vitality or excitement.

How about something like "I want to have enough money in my retirement accounts by age 55 that at a reasonable return of, say, 4 or 5 percent, my annual income will be over \$90,000!"

Now there is a goal that has some meat and bones, something you can really sink your teeth into. Something, in short, that has **excitement!**

Or how about, "I want to be able to send each of my children (grandchildren) to an out-of-state college which enjoys a national reputation and costs over \$40,000 a year!" More specificity and excitement.

How about, "I want to retire to a villa in Spain, on the Mediterranean Sea which I know will cost several million dollars and will likely increase in value by 20 percent by the time I am ready to retire." Calculate the numbers and you know exactly what you must achieve. The excitement builds.

These are exciting times. Let our goals reflect them.



Emergency Fund Is Crucial To Plan

Financial independence should allow us to protect ourselves and our families against financial losses that unexpected events can cause. Although we cannot eliminate all the negative effects of emergencies, we can do several things.

We can insure ourselves against catastrophes. But we can also maintain sufficient cash in an emergency fund to allow for the meeting of small, unexpected obligations. These items could include less than catastrophic disability losses, medical emergency and travel expenses, and property losses not covered by insurance. Most of us need a financial "backup" against losses that might come from an inability to earn income. In an era of recession and employment cutbacks, emergency funds take on a new meaning. The dollars in an emergency fund should be readily available and spendable dollars. When that rainy day actually comes, there's no substitute for cold, hard cash.

Quotable Quotes

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

College is part of the American dream. It shouldn't be part of a financial nightmare for families. – **Barbara Mikulski**

Great Ideas To Implement Today!

Preparing Our Children For Financial Competence

We asked lots of parents regarding how much THEIR PARENTS informed them about financial matters and a whopping 60 percent said that they received NO financial education from their parents. When asked about what they learned in school about handling money, the most they can remember was dealing with how to ensure they got the right change from the cashier — and that was in elementary school!

So, if parents can remember very little about “being taught” by THEIR PARENTS about how to deal with financial matters and yet there are precious few other sources for that information, then guess what? Our kids may be hardly informed at all!

Whether or not we speak specifically with our children about financial matters, they see, in many instances, **how we deal with them**. Do we sometimes argue about expenditures? Is one parent in the family a “spender” and the other a “saver?” Do the youngsters overhear conversations about credit, bill-paying, etc? What happens when the subject of how much to contribute to a certain charity comes up? Depending on how they are dealt with, our children learn from those interactions.

How can we, then, as responsible parents, ensure that our children grow up with at least the BASICS about money, saving, investment, etc? Here is a list of ideas that you might consider as you prepare to reach that goal:

1. First and foremost, we need to be open about family finances.

Now, this does not mean that children need to be privy to every financial decision that is made in a household, but if they are even slightly involved, for instance, in the family budget process, they will learn about trade-offs and other negotiations that allow family financial matters to get settled. One family we know sat the kids down and, with monopoly money, approximated the family's monthly income and had each child take a turn paying taxes, the cable bill,

the gas and electric bill, the mortgage, groceries, entertainment, etc. Another idea to bring the family into important decisions: does the fancy vacation take place this summer or should that money be set aside for the **ultra-fancy vacation** next summer?

2. Encourage children and grandchildren to save by setting an example and providing incentives. Work on goal-setting. One family we know works toward putting aside some money every month for a specific family goal, tracking progress, experimenting with different ways to make the goal-reaching more exciting (and fun) and, ultimately, sharing in the goal's fruition when it is achieved.

It is also important to distinguish between saving and investing, compound returns on investment and the important difference between long- and short-term goals like retirement / higher education or the flat screen TV.

3. Allowances are an important way to teach children about managing money. On a small scale (and, usually without disastrous consequences if not done well), the child's allowance is like a paycheck for an adult family member.

Some advisors feel that allowances should NOT be attached to chores or other household activities based on the assumption that children should be required to assist in the activities of a household without having a monetary reward attached to each task. Others theorize that using an allowance as a pay-ment for household duties teaches young

people that there is no “free lunch.” Another alternative might be to find some middle ground with a basic allowance and a “consulting fee” for additional duties over and above the required tasks.

A *Consumer Reports* survey once showed that children who receive a regular allowance were more likely to save money and donate to charity. We leave that decision to you.

4. Teach youngsters about the proper use of credit. Children must understand, as we do, that credit cards do not equate to free money and they ought

to understand how interest accrues when credit cards are not paid off by the end of the grace period.

5. Ensure that your children think about alternatives. For

instance, if you have an impassioned spender who wants to buy everything s/he sees, provide an alternative: show the difference

between those single pieces of candy and the whole box (usually a substantive difference in price). This is especially apparent at the “big box” stores.

6. Finally, force them to make decisions. “You may have x or y, but not both. Make up your mind.”

Believe it or not, these little humans will grow up, have families of their own and will recollect the money management tools they got from you. Give them your time, a respect for the value of a dollar, the idea that they have to work for what they get and a saving /investing mentality and they will be vastly more likely to grow up as decent money managers.

They may not be particularly thrilled with the ideas now, but they will thank you in the future . . . for sure.



Credit Cards, Regulation Z, E and DD: What's the New Law Going To Do For Me?

The Federal Reserve Board recently approved final rules that would better protect credit card users by prohibiting certain unfair acts or practices and improving the disclosures consumers receive in connection with credit card accounts and other revolving credit plans.

The final rules prohibiting certain credit card practices were adopted under the Federal Trade Commission Act, and are being issued concurrently with substantially similar final rules by the Office of Thrift Supervision and the National Credit Union Administration.

Among other things, the rules will:

- **Protect consumers from unexpected interest charges**, including increases in the rate during the first year after account opening and increases in the rate charged on pre-existing credit card balances.
- **Forbid banks from imposing interest charges using the "two-cycle" billing method.**
- **Require that consumers receive a reasonable amount of time to make their credit card payments.**
- **Prohibit the use of payment allocation methods that unfairly maximize interest charges.**
- **Address subprime credit cards by limiting the fees that reduce the amount of available credit.**

In finalizing the rules on unfair credit card practices, the Board considered information obtained through consumer testing and more than 60,000 comment letters received during the comment period.

"The revised rules represent the most

comprehensive and sweeping reforms ever adopted by the Board for credit card accounts," said Federal Reserve Chairman Ben S. Bernanke. "These protections will allow consumers to access credit on terms that are fair and more easily understood."

The Board is also adopting final rules to revise the disclosures consumers receive in connection with credit card accounts and other revolving credit plans to ensure that information is provided in a timely manner and in a form that is readily understandable.

These rules amend Regulation Z (Truth in Lending) and conclude a comprehensive review of the open-end credit rules. The final rules under Regulation Z require changes to the format, timing, and content requirements for credit card applications and solicitations and for the disclosures that consumers receive throughout the life of an open-end account. Many of the changes reflect the result of consumer testing conducted on behalf of the Board during its review.

"Our intent is to increase transparency and fairness in how credit card and deposit accounts operate, thereby enhancing competition and empowering consumers to better manage their accounts and avoid unnecessary costs," said Federal Reserve Governor Randall S. Kroszner.

"The rules represent a significant step forward in consumer protection. By ensuring fairness and making credit terms easier to understand, these safeguards should allow more consumers to benefit from using credit."

The final rules addressing credit card



accounts take effect on July 1, 2010. The Board is separately proposing rules to protect consumers that use overdraft services offered by their bank. The rule solicits public comment on proposed amendments to Regulation E (Electronic Fund Transfers) intended to provide consumers a choice regarding their institution's

payment of overdrafts for automated teller machine withdrawals and one-time debit card transactions.

The Board is proposing two alternative approaches to providing consumer choice, including a proposed rule that would require institutions to obtain consumers' affirmative consent (or opt-in) before any overdraft fees or charges may be imposed on consumers' accounts.

In a related move, the Board is adopting final amendments to Regulation DD (Truth in Savings) to address depository institutions' disclosure practices related to overdraft services.

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