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A Creative Personal Finance Report



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Does Retirement Require Quitting “Completely?”

Work is such an important part of our lives, that the idea of not working any more — quitting “completely” — can be frightening. Although we found no scientific evidence, it is probably wise to stay active and challenged in retirement. And, while some retirees keep busy with sports, hobbies or travel, keeping your hand in the work force is another way to stay involved while providing the opportunity for your retirement funds to last a bit longer.

Check out the graphic below/right: Assuming a starting retirement fund of



\$500,000 (earning an illustrative and hypothetical 4 percent return — neither guaranteed nor indicative of the return on any investment) and assuming an additional \$2,000 a month are needed for living expenses over and above Social Security and pension, see the difference in your fund if you **EARN** \$500 per month and withdraw only \$1,500 or don't work and withdraw the full \$2,000 per month.

Taxation of earnings is not considered.

How You Think Has An Impact on Your Investment Decisions

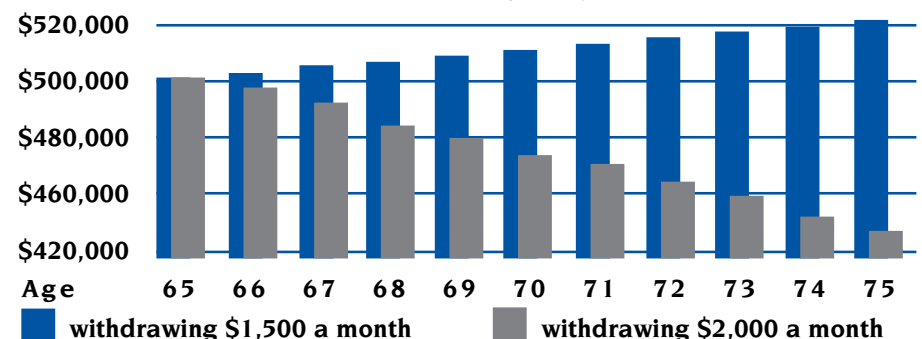
Although you may not realize it, your personal history, perceptions and emotions all have an impact on your investment decisions. Research conducted by Shlomo Bernartzi of UCLA and Richard Thaler of the University of Chicago found that investors tend to psychologically exaggerate investment declines and downplay gains. We are creatures that come packaged with preconceived views and the human instinct to move to safer ground.

Your personal history or life experiences shape your perceptions of money and investing. For example, if you came out of the Great Depression era or were raised during WWII you may have more of a conservative investor mindset, relying on very safe investments made over time. However, if your investment experiences began in the mid-1990s, when typical stock gains came fast and furious, you are more likely to be an aggressive, risk-taking investor with high expectations for market gains.

Your preconceptions influence the way you view and process information. Researchers have found that investors' choices are also highly influenced by how information is presented to them. For example, an investment alternative that is presented as having an 80% chance of yielding positive returns is more likely to be perceived by investors as a good choice. If instead, the very same alternative is presented as having a 20% chance of yielding negative returns, it is likely to be viewed as a poor choice.

So, how do you see the cup? Half-full or half-empty?

The Difference Between Withdrawing \$1,500 and \$2,000 a Month From A Retirement Fund Earning A Hypothetical 4 Percent



Questions & Answers

Q. All of the general media (and, of course, *Financial Insights*®) harps on diversification as an important aspect of investment strategy (although always informing that it is not a panacea). However, in 2008 my retirement funds did not fare well even though they were more than adequately diversified. What do you say?

A. Generally, retirement funds, invested across many different market sectors, usually, but not invariably, limit the downside problems during a bear market.

2008 was an anomaly — quite extreme — and unlike most bear markets in recent memory. So, you are right, diversification proved only somewhat helpful but, as we have said in the past and will continue to repeat, was not a cure-all (or answer to all the risks) of investing.

Does that mean that diversification has no place in your portfolio now? We think you would agree that, even though it did not work optimally in 2008, it should NOT be a “throw-away” concept.

We do not know exactly what you did in response to your unhappiness about diversification in 2008, but if you, in fact, left your investments intact, one year later, in 2009, those same investments were probably doing pretty well, mainly due to that very same diversification in which you were disappointed in 2008.

So, over the longer term, it worked. But here is our caveat once more: **diversification cannot assure a profit or protect against loss in a declining market.**

Also remember that 2009 was an anomaly too. So don't expect or bank on the idea that diversification will provide such over-performing benefits as it did in 2009.

Always remember that diversification, without guarantees, may only smooth out the highs and lows of market fluctuations, not eliminate 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

A Not-So-True Truism

Recently, we read a little booklet that had some cute, pithy sayings that the publishers called “truisms.” Among others it included “Next to surviving an earthquake, nothing is quite so satisfying as getting a large refund on your income tax.”

One can't get farther from the truth.

A refund from the IRS means that you have loaned otherwise discretionary dollars to the government for at least a portion (if not all) of a year, **interest-free**. Those are definitely dollars that do **you** no good sitting in government coffers.

A more relevant truism may be, “Never an idle dollar.” Consider adjusting withholding to allow you more dollars now and a less grandiose refund check next year. Invest the money now for you and your family . . . not with Uncle Sam.

Procrastination

You've heard the words here before: the single greatest barrier to achieving financial goals is procrastination.

What causes procrastination? The greatest single cause in the investment arena is confrontation with a task so large and important (e.g., an independent retirement, funding children and grandchildren with the best college education available) that it seems too overwhelming to tackle.

How to avoid that? Break the goal into smaller parts of the task until it becomes more manageable. Chip away at the goal rather than try to haul it away in one piece. Overcoming seemingly insurmountable barriers to reaching a goal are more easily accomplished with “baby steps.”

Other causes, all surmountable, include: hesitancy to address difficult issues, fear of failure, lack of expertise, lack of time, or a sense that there is still plenty of time.

To overcome procrastination, there is no time like the present!



Quotable Quotes

We have two classes of economic forecasters:
those who don't know and those who don't know they don't know.

John Kenneth Galbraith

The First Law of Economists: For every economist, there exists an equal and opposite economist. The Second Law of Economists: They are both wrong.

Anonymous

Never let the fear of striking out get in your way.

George Herman “Babe” Ruth

Not in the clamor of the crowded street, not in the shouts and plaudits of the throng, but in ourselves are triumph and defeat.

Henry Wadsworth Longfellow

In Hollywood, a marriage is a success if it outlasts milk.

Rita Rudner

Live in such a way that you would not be ashamed to sell your parrot to the town gossip.

Will Rogers

Spending in Retirement: Two Perspectives

How Much Do Workers Expect To Spend In Retirement? How Does That Compare To What Retirees Report They Actually Spend?

The 2010 Retirement Confidence Survey, published annually by the **Employee Benefit Research Institute** answers these and other retirement-related questions. Here are the results for the questions posed above:

Workers: More than half of workers expect their spending in the first five years of retirement to be a little lower (32 percent) or much lower (25 percent) than their spending in the five years before they retire. Furthermore, the percentage saying they expect their spending to be much lower increased from 20 percent in 2007 to 25 percent in 2009 and 2010.

Trend in Post-Retirement vs. Pre-Retirement Spending

Retirees: Retirees are as likely to indicate their spending in retirement is higher or about the same as it was before retiring (50 percent) as they are to say their spending is lower (49 percent). Part of the reason for this is that many retirees find they must spend more than they expected on health care expenses (40 percent in 2009).



Lack of employment-based retiree health insurance may make further demands on income in retirement. About one-third of workers expect to receive this type of insurance from an employer (35 percent, down from 40 percent in 2005), making workers as likely to expect insurance as current retirees are to report receiving it (34 percent). However, many employers are eliminating health care coverage for future retirees, so some workers who expect to receive it may find themselves disappointed.

EBRI's Retirement Confidence Survey 2010

The full details of the 2010 Retirement Confidence Survey appear in the March 2010 Employee Benefit Research Institute's Issue Brief, available at www.ebri.org/surveys/rcs/2010.

The report also includes information about changing expectations about and preparations for retirement.

Trend in Post-Retirement vs. Pre-Retirement Spending Among American Workers

	2007	2008	2009	2010
Much higher	2%	3%	3%	3%
A little higher	8	7	6	8
About the same	34	31	32	31
A little lower	34	34	32	32
Much lower	20	24	25	25

Source: Employee Benefit Research Institute and Matthew Greenwald & Associates, 2007 - 2010 Retirement Confidence Survey

2010 College Costs

Keep Rising Prices in Perspective

There's no escaping the fact that college costs are rising. According to recently released reports from the College Board, most students and their families can expect to pay, on average, from \$172 to \$1,096 more than last year for this year's tuition and fees, depending on the type of college.

But there is good news. There is more financial aid available than ever before — over \$168 billion. And, despite all of these college cost increases, a college education remains an affordable choice for most families.

“Sticker Price” vs. Affordability

Although some of the college price tags you hear about can be quite daunting — \$35,000 or more for yearly tuition and fees — most colleges are more affordable than you might think. For example, about 53 percent of students attend four-year schools with annual tuition and fees below \$9,000? After grants are taken into consideration, the net price the average undergraduate pays for a college education is significantly lower than the published tuition and fees.

And remember, financial aid will

further reduce the amount your family will actually pay.

Is It Worth the Investment?

According to the U.S. Census Bureau, people with a bachelor's degree earn nearly twice as much on average than those with only a high school diploma. Over a lifetime, the gap in earning potential is more than \$1,000,000.

In other words, whatever sacrifices might be necessary for a college education in the short-term are more than repaid in the long-term.

Average College Costs 2010

Four-year private: \$26,273 (up 4.4 percent from last year)



Four-year public: \$7,020 (up 6.5 percent from last year)

Students will pay, on average, from \$377 to \$420 more than last year for this year's room and board, depending on the type of college



Two-year public: \$2,544 (up 7.3 percent from last year)

The average surcharge for out-of-state or out-of-district students at four year colleges is \$11,528.

But Did You Know That . . .

- Thirty-two percent of full-time students enrolled in public four-year colleges and universities attend institutions that charge published in-state tuition and fees between \$3,000 and \$6,000?
- While private four-year colleges and universities have a much wider range of tuition and fee charges, only about 20 percent of all students attend colleges with tuition and fees totaling \$36,000 or higher per year?
- 31 percent of all students attend two-year colleges?
- More than \$168 billion in financial aid is available to students and their families (a record!)?
- About two-thirds of all full-time undergraduate students receive aid at two- and four-year public and private colleges and universities. In 2010, aid in the form of grants and tax benefits averaged about \$3,000 per student at public two-year colleges, about \$5,400 at public four-year colleges and about \$14,400 per student at private four-year colleges?

Source: The College Board (www.collegeboard.com) and the U.S. Census Bureau

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