CIA Report

Financial Intelligence

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The newsletter isn't out for the April Showers, but we hope you enjoy the May Flowers.

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Some Principles of Investing

Some of the most common questions we hear include queries such as, "what do you think of XYZ stock?", "do you think it's a good time to invest?", or "what is your opinion regarding the future of interest rates?". Good questions by people who want to be successful with their investments. But experience has taught us that no matter how critical those questions are, they often lead both the client and the advisor down the wrong path. Answering the wrong question, even with the right answer, can lead to unexpected bad results.

Investing is not an exact science. If it were, everybody would be financially successful. Even though investing can be risky, there are basic principles which can reduce the amount of risk to an acceptable level. This article's objective is to share some of those principles with you in plain English.

The first principle was referred to in the opening paragraph. It is - ask the right questions. One wouldn't ask their physician which antibiotic is best. That would depend upon the circumstances. The physician would want to do a medical examination and full work up to first make a diagnosis. Prescription without diagnosis is malpractice.

So when an affluent client wants to know what securities have the most growth potential, a good advisor with knowledge of the client's wealth will be thinking about net growth. What will the return be after a bevy of taxes that might be levied on not only the profits, but on the investment itself.

Of course, not everyone is wealthy and has that kind of problem. But it does illustrate the point we're trying to make. Ask the right questions!

Naguib Mahfouz once said, "You can tell whether a man is clever by his answers. You can tell whether a man is wise by his questions." Our goal is to ask the right questions to help get you the answers that are right for you.

A good financial advisor is a good listener. The principle of asking the right questions is the responsibility of the advisor, not the client. The client should be encouraged to not be concerned about questions until a complete financial evaluation is made. It is the same principle that your physician uses. No prescription without diagnosis.

Once the financial results are accumulated, that is the time to discuss and prioritize objectives. There is no cookie cutter. Some clients worry about retirement, some worry about taxes, some worry about legacy, some worry about old age, - some worry about everything. There are many financial obstacles and taking them in the entirety, with prioritization, can help.

Once the financial analysis and the prioritization of objectives has been accomplished, that is the time to review possible recommendations. With all of the facts on the table a good advisor may have many tools to help you with your goals. More than just investment planning, the toolkit may contain tax planning instruments, legal documents, risk management, and coaching on topics like Modern Portfolio Theory. You should expect to be an active participant in planning your financial future.

Even if an investment looks like a "good buy" there could be other reasons a specific client might not want to invest in it. It could correlate too heavily with other holdings. Maybe the company is based in a foreign country with riskier ownership laws, or possibly the company does business in a way that conflicts with the client's morality.

We have developed strong interests in legacy planning and socially responsible investing. You may not have any interests in those topics and, certainly, you don't need to. But we think there are strong arguments that SRI makes good economic sense in the long run. We would appreciate the opportunity to see if it might make sense to you - after appropriate diagnosis!

We wish you success with your planning.

Real-life Financial Tips for Different Generations

Do you remember The Game of Life®? In Milton Bradley's popular board game, players progress through life stages making decisions that affect their prosperity. Like those players, today's generations face financial decisions with lasting effects. Here are some tips for staying focused despite life's ups and downs.

Generation Z (teens to early 20s):

Accustomed to instant gratification, the "Digital Generation" may need to recognize that financial success takes diligence and patience. Consider sharing the following advice with the Gen Zers in your life:

Live within your means. Your first paycheck provides the chance to learn valuable lessons, such as creating a budget and spending less than you earn.

Build a saving habit. You have one powerful advantage over other generations--time. Why not make saving automatic and direct a part of your paycheck into a savings or investment account?

Understand credit and credit reports. A good credit history helps you get a car loan and a mortgage, but a bad one can ruin your borrowing chances for years. Reviewing your credit report regularly can help you manage your finances and protect your identity.

Generation Y (20s and early 30s):

In this group, you could be juggling your first "real" job, college loans, marriage, a first home, and young children. Three points for you:

Risk management isn't just for companies. Save 6 to 12 months' worth of living expenses in a savings account for unexpected emergencies. Review your insurance, and at a minimum, have health and property coverage. Also consider disability insurance, which helps pay the bills during a health crisis.

Start saving for retirement ... Like Generation Z, time is your strongest ally. Participate in a retirement savings plan at work, if offered, and if your employer offers a match (free money!), contribute enough to get all of it. If you don't have a plan at work, open an individual retirement account (IRA) and invest what you can (up to annual limits).

... And your children's college. In 18 years, a four-year degree could cost as much as several hundred thousand dollars. Give your children a head start by saving now.

Generation X (30s and 40s):

Home ownership, older children, a career in full swing--if you're in this group, your finances may take a back seat to life's daily demands. To help stay focused, consider the following:

Retirement savings trump college savings. Don't risk your future to pay for your children's entire education. There's no financial aid office in retirement.

Don't neglect your health. Are you experiencing new aches and pains? At this age, medical issues can begin to surface, demanding time, energy, and financial resources. Take care of yourself, and before an emergency arises, review your health and disability coverage.

Create a will, if you don't already have one. This important document can help ensure your children are cared for and your assets are distributed according to your wishes. Medical directives should also be established now.

Baby boomers (50s and 60s):

If you're in this age group, you may have both adult children and elderly parents who need assistance, as well as an impending or current retirement. Pointers for you include:

Shift your retirement savings into high gear. People over 50 benefit from higher savings limits on 401(k)s and IRAs. Strive for the maximum.

Visit a financial professional. When should you tap Social Security and your retirement savings? How should you invest your assets to potentially provide a lifetime of income? A financial professional can be a critical coach at this time of your life.

Investigate long-term care insurance. These policies help protect your family's assets from the potentially devastating effects of long-term care. The older you get, the more expensive these policies can be.

Retirees:

The Game of Life ends when players reach retirement, but not so in real life--you still have years ahead of you. Consider the following:

Review the basics. Whether you plan to travel to exotic locales or play board games with your grandchildren, a key to happiness is living within your means. Develop a realistic budget and don't exceed your spending limits.

Manage your income stream. A financial professional can help you choose vehicles and determine an investment strategy to help ensure you don't outlive your assets.

Plan for your family's well-being. A properly crafted estate plan can help you ensure that your wishes are carried out--for both your and your family's peace of mind.

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Questions and Answers about Social Security

Did you know that according to the Social Security Administration, 94% of all workers are covered under Social Security?

Whether you're close to retirement or years away from receiving Social Security benefits, you may not know much about the intricacies of this important program. Here are some questions and answers that can help you learn more.

Will Social Security be around when you need it?

You've probably heard media reports about the worrisome financial condition of Social Security, but how heavily should you weigh this information? While it's very likely that some changes will be made to Social Security (e.g., payroll taxes may increase, benefits may be reduced by a certain percentage, or cost-of-living adjustments may be calculated differently), there's been no proposal to eliminate Social Security. Although no one knows what will happen, if you're approaching retirement, it's probable that you'll receive the benefits you've been expecting. If you're still a long way from retirement, it may be wise to consider various scenarios when planning for Social Security income.

How does the Social Security Administration know how much you've earned?

If you work for an employer, your employer will deduct Social Security taxes from your paycheck and report your wages to the Social Security Administration (SSA). If you're self-employed, you pay your self-employment Social Security taxes and report your earnings to the SSA by filing your federal income tax return. To view your lifetime earnings record, you can sign up to access your Social Security Statement online at the SSA's website, www.socialsecurity.gov.

Will a retirement pension affect your Social Security benefit?

If your pension is from a job where you paid Social Security taxes, it won't affect your Social Security benefit. However, if your pension is from a job where you did not pay Social Security taxes (such as certain government jobs) two special provisions may apply.

The first provision, called the government pension offset (GPO), may apply if you're entitled to receive a government pension as well as Social Security spousal retirement or survivor's benefits based on your spouse's (or former spouse's) earnings. Under this provision, your spousal or survivor's benefit may be reduced by two-thirds of your government pension (some exceptions apply).

The second provision, called the windfall elimination provision (WEP), affects how your Social Security retirement or disability benefit is figured if you receive a pension from work not covered by Social Security. The formula used to figure your benefit is modified, resulting in a lower Social Security benefit.

If someone else receives benefits based on your earnings record, will your benefit be reduced as a result?

Your benefit will not be affected if other people, such as your spouse, former spouse, or dependent children, receive Social Security benefits based on your earnings record.

If you delay receiving benefits until after full retirement age, should you still sign up for Medicare at age 65?

Even if you plan on waiting until full retirement age or later to take your Social Security retirement benefits, make sure to sign up for Medicare three months before you reach age 65. If you enroll late for Medicare Part B (medical insurance) your coverage may be delayed or cost more later. Visit the Medicare website, www.medicare.gov to learn more.

Do IRA withdrawals count toward the Social Security earnings limit?

Prior to full retirement age, an earnings limit applies if you receive Social Security benefits. If you earn more than this amount, your benefit will be reduced. However, only wages from a job or net earnings from self-employment count toward this limit. Unearned income, such as IRA withdrawals, investment earnings, or capital gains, does not count.

What if you change your mind about when to begin Social Security benefits?

You have a limited opportunity to change your mind after you've applied for benefits. You can complete Form SSA-521, Request for Withdrawal of Application, and reapply at a later date. But if you're already receiving benefits, you can withdraw your claim only if it has been less than 12 months since you first became entitled to benefits, and you're limited to one withdrawal per lifetime. In addition, there are financial consequences--you must repay all benefits already paid to you or your family members based on your application, as well as any money withheld from your checks, including Medicare premiums or income taxes.

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How can my child get a better financial aid package?

If your child is accepted at a college, he or she will get a financial aid award letter that contains: (1) the college's cost of attendance (COA) (this figure is different for every college); (2) your expected family contribution (EFC), which is calculated from the federal government's aid application (this figure is constant); and (3) the specific types and amount of aid being offered. The difference between the college's COA and your EFC equals your child's financial need. The college's financial aid administrator will attempt to meet this need by offering aid that includes a mix of loans, grants, scholarships, and work-study.

Let's assume you and your child are comparing financial aid awards from several colleges. Is it possible to request a more favorable aid package? The answer is yes. Financial aid administrators have the authority to exercise "professional judgment" to reduce the loan portion of an aid award and increase the grant, scholarship, and/or work-study component. Your chances of prevailing are best in two situations:

(1) You have a special circumstance that affects your ability to pay. Examples include a recent job loss, high medical bills, or some other factor that puts above-average constraints on your income.

(2) Your child has been accepted at two competing colleges, and one has offered a more generous aid package. Many colleges don't mind losing an applicant to a more (or less) selective college, but they generally don't like to lose an applicant to a direct competitor.

Even if neither of these situations applies, you can still contact the college's aid administrator. In any case, the best approach is to send a polite business letter, with a follow-up telephone call or meeting. Explain in positive terms how much your child wants to attend that college and highlight your child's accomplishments. Your success will likely depend on whether your child will help the college meet its enrollment goals, and the amount of discretionary aid the college has available.