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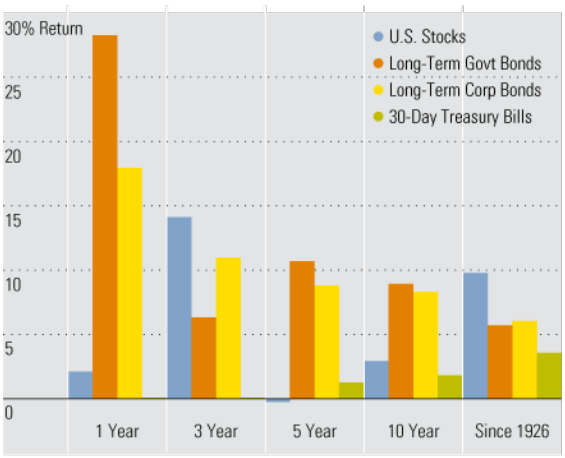
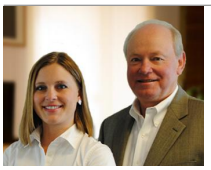
Recent Bond Performance Explained

For investors, it comes as a surprise that bonds have recently outperformed stocks. Investors often assume that stocks offer higher returns compared with bonds. Recent market conditions, however, have proved otherwise. The image shows that while stocks have outperformed other asset classes from a return perspective since 1926, they have struggled over the last 10 years. Don't be surprised at the higher bond returns in the past 1-, 5-, and 10-years. Besides the dot-com bubble and subprime mortgage crisis in the past decade, several unique events in 2011, such as the Arab Spring, U.S. credit downgrade and the sovereign debt crisis, led to a flight to safety into government bonds. Under these circumstances, investors are advised to stick with their long-term investing strategy and be aware that asset class characteristics may deviate in the short term based on current market conditions.

Unusual Stock and Bond Behavior
1926–2011



Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. U.S. stocks are represented by the Standard and Poor's 90 index from 1926 through February 1957 and the S&P 500 index thereafter, which is an unmanaged group of securities and considered to be representative of the U.S. stock market in general, long-term government bonds by the 20-year U.S. government bond, long-term corporate bonds by the Ibbotson® Long-Term Corporate Bond Index, and 30-day Treasury bills by the 30-day U.S. Treasury bill. Government bonds and Treasury bills are guaranteed by the full faith and credit of the United States government as to the timely payment of principal and interest, while stocks are not guaranteed and have been more volatile than the other asset classes. With corporate bonds an investor is a creditor of the corporation and the bond is subject to default risk. Corporate bonds are not guaranteed. Returns are compound annual returns.



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Chambers Financial Group is a comprehensive financial services firm that was founded in 1984 with the goal of assisting our clientele with a holistic financial view in mind. We integrate many of the financial areas in your life, including investment planning, portfolio management, retirement planning, estate and tax planning.

We are an independent family practice dedicated to providing objective, responsible financial planning assistance to a broad range of clients. Our objective is to help our clients live the life they wish to, both now and in the future. Our clients' success is our success.

We believe in building long-term relationships with our clients. We believe in the value of building trust and confidence with long range plans to achieve your financial goals. We give unbiased, honest advice and believe patience along with discipline is crucial in the achievement of defined investment goals.

Social Insecurity

All of us who work feel the bite that Social Security taxes take out of our paycheck. Most of us take comfort in the hope that when we retire, Social Security will be there, giving back all the money that we paid into the system over the course of our careers. Isn't that how it works?

Well, the short answer is no, it doesn't work that way. The Social Security taxes deducted from your paycheck are not sitting in a special account someplace, earmarked to be returned to you upon your retirement. Instead, the taxes you pay today are used to pay benefits to today's beneficiaries, just as when you retire, the benefits you receive will come from the taxes paid by people who are still working. This arrangement works as long as there are enough people sending in taxes; it doesn't work so well if the number of current workers per retiree is decreasing.

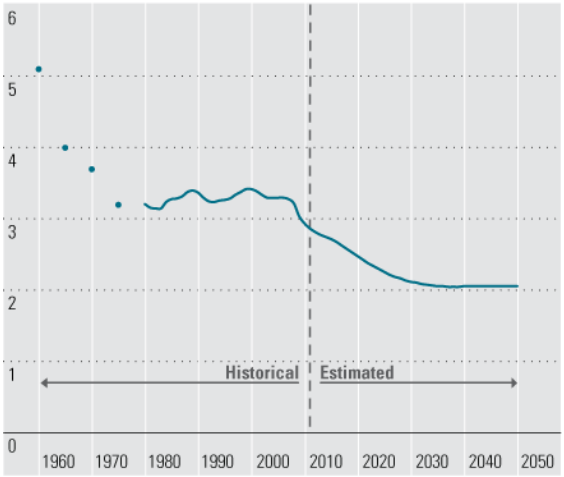
The baby boomer generation (those born between 1946 and 1964) have started to retire in 2010. This large group's retiring, coupled with increasing life expectancies and decreasing birth rates, means that the number of retirees will grow faster than the number of workers. According to the Social Security Administration, the number of workers sending in Social Security taxes to pay each retiree's benefits has plummeted from 42 workers per beneficiary in 1945 to 2.9 in 2011. What is more is that this number is projected to go down even further to 2.1 workers per beneficiary by 2035. Since the ratio of workers to retirees is expected to continue declining, a shortfall in future Social Security funding is likely.

Annual cost for the Social Security program is projected to exceed non-interest income in 2011 and remain higher throughout the remainder of the long-range period. Social Security funds are projected to increase through 2022, and then to decline and become exhausted and unable to pay scheduled benefits in full on a timely basis in 2036.

What does all this mean for you? Well, that depends on how old you are and what changes the United States government decides to implement. If you are nearing retirement, it is unlikely that your Social Security benefits will change dramatically. Younger workers, however, are more likely to see sweeping changes in the way Social Security works in the form of higher taxes, lower benefits, or a combination of the two.

Bear in mind that Social Security was never intended to provide Americans with all of the income they would need in retirement. Social Security is only one leg of a three-legged stool that also includes pension plans and personal savings. With concerns mounting over the stability of one leg of the stool, you need to take control of your retirement by investing in personal savings plans such as IRAs and 401(k)s.

Ratio of Workers to Beneficiary



Source: The 2011 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, May 2011, Social Security Administration.

Five Key Questions About Long-Term Care Insurance

In addition to typical medical expenses in retirement, you should also consider the cost of long-term care arrangements should you need professional care in your later years, either in-home or in an assisted living facility. There's a good chance you'll need assistance, and it won't be cheap.

According to the 2011 MetLife Market Survey of Nursing Home, Assisted Living, Adult Day Services, and Home Care Costs, the average annual cost for a private room at a nursing home in 2011 was $87,235. The national average for a semi-private room was $78,110. The national average for an individual living in an assisted living community was $41,724.

In most cases, long-term care health insurance coverage provides benefits for nursing homes, assisted living facilities, and home care. If you can afford the premiums, you may want to consider purchasing long-term care insurance. Here are some of the key questions to keep in mind.

How Likely Are You to Need It? This depends on your general health, family history, and expected longevity. For example, if your family has a history of serious medical conditions, dementia, or Alzheimer's disease, you may have a stronger reason to consider this type of insurance.

What's Your Asset Level? Those who come into retirement with less than $250,000 in assets will probably have better uses for their money than paying premiums for long-term care insurance; they may also be eligible for Medicaid if they should need long-term care. Those with more than $2 million in assets may be able to pay for this type of care out of pocket. If your portfolio falls in the middle of this range, however, you may be a good candidate for this type of coverage.

What Kind of Coverage Do You Need/Want? The key differentiator in the pricing of long-term care insurance policies is the amount of daily benefit you're buying; you'll obviously pay more for a policy that pays $150 of your long-term care costs per day versus one that pays just $100. You'll also be able to specify whether you'd like your daily benefit to step up with inflation; even though such a feature will cost you, it's highly advisable given that health-care inflation rates have been far outstripping inflation as a whole during the past few decades.

Another factor to evaluate is the total lifetime benefit. For example, a policy may cover $250,000 in lifetime long-term care benefits, or the lifetime benefit may be unlimited. Some policies are comprehensive, meaning the patient can obtain care in a variety of settings, from a traditional nursing home to care at home. Cheaper policies, however, will only pay for care in a traditional setting, usually a nursing home. Policy costs can also vary based on the length of your elimination period, which is similar in concept to an insurance deductible. If your policy has an elimination period of 30 days, for example, that means you'll have to pay for any long-term care costs you incur in the first 30 days of your illness; after that period has elapsed, your insurer will pick up all or part of the tab, up to your daily benefit amount.

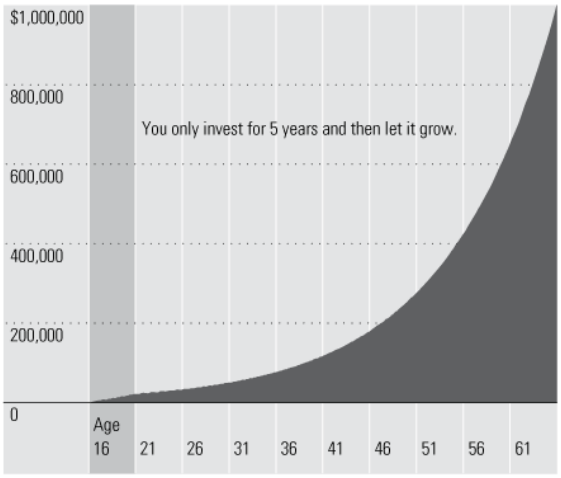
How Would You Like to Pay for That? Under a traditional long-term care policy, you make regular payments during the life of that policy. But you can also customize your payment program, paying for your policy in a single payment, over 10 or 20 years, or until you hit age 65. Such payment options allow you to front-load your payments and reduce your fixed costs in retirement.

How Likely Is the Company to Pay? It probably is a good idea to check up on the insurer's financial strength. Also ask your agent about the insurer's history of raising client long-term care premiums. Although such maneuvers can improve a firm's financial health, they can also present a financial hardship to the insured, a lesson many long-term care policyholders learned the hard way during the past few years.

Retirement: The Next Generation

If you had a dollar for every time you heard the phrase "Start investing early," you could retire with a million. If you actually acted on that phrase, you are probably retiring with more. Now is the time to encourage your children and grandchildren to start saving as soon as they get their first job. Let's assume that your teenage child or grandchild is employed for five years from age 16 to age 21. During this time, he or she saves $276 per month ($3,315 per year) and invests the money in a Roth IRA (paying taxes, of course, but at a low tax bracket). This may be a serious sacrifice for a teenager, so any contribution from you would be of great help. Assuming the money returns the historical equivalent of a diversified 60% stock/40% bond portfolio, your child can retire at 65 with $1 million tax-free, without having to invest another dollar after age 21.

Retiring With $1 Million



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Source: Stocks in this example are represented by the Standard & Poor's 500®, which is an unmanaged group of securities and considered to be representative of the stock market in general. Bonds are represented by the 20-year U.S. government bond. An investment cannot be made directly in an index. The data assumes reinvestment of all income and does not account for taxes or transaction costs. The diversified portfolio was rebalanced every 12 months. The return used for calculations was the average of 50-year rolling returns for 1926–2010.

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