

# CREATIVE

## Wealth Maximization Strategies

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***“Those who lack knowledge about money usually don't have any.”***  
- Steve Kroening

## Hindsight Insight: What do you do now?

In the past five years, the economy has given many Americans a kick in the teeth. Their home has declined in value (or has been foreclosed), the growth of their retirement account has slowed or reversed, they have more debt, and their cost of living is up. In short, they are losing money.

The tough times are causing many to reflect. “How did we end up here?” they ask, “and how do we get out of it?”

It's good to reflect on the past, because most events are better understood after they happen. But often the wisdom that comes from reflection arrives too late. Consider this March 26, 2008 headline from the *Wall Street Journal*:

### Stocks Tarnished By ‘Lost Decade’

The article, by E.S. Browning, begins:

***“Over the past 200 years, the stock market's steady upward march occasionally has been disrupted for long stretches, most recently during the Great Depression and the inflation-plagued 1970s. The current market turmoil suggests we may be in for another lost decade.”***

What decade is Browning talking about? The one that's almost over.

***“The stock market is trading right now where it was nine years ago. Stocks, long touted as the best investment for the long term, have been one of the worst investments over the nine-year period, trounced even by lowly Treasury bonds... Over the past nine years, the S&P 500 is the worst-performing of nine different investment vehicles tracked by Morningstar, including commodities, real-estate investment trusts, gold and foreign stocks.”***

Great news to know *now*, huh? After nine years of



evidence and analysis, it's now possible to “suggest” the 10-year report card might not turn out so good? You can almost hear the anguished cries of some stock market investors: “I would have been better off just leaving my money in a savings account at the bank!” With the perfect clarity that comes from hindsight, many may now regret their financial decisions.

But even with perfect clarity about the past, this information doesn't necessarily provide much direction about what you should do in the future.

Go back to the stock market information reported in the *Wall Street Journal*. If the lost decade is almost over, hindsight might also suggest that *now* is an opportune time to invest in stocks. After all...

***“Historically, stocks rise about two years out of every three, for an average gain of almost 7% a year when controlled for inflation, according to Professor Jeremy Siegel at the University of Pennsylvania's Wharton School. Stocks have shown gains for almost every ten-year period since 1925 – 98.6% of the time, according to Ned Davis Research.”***

So, after processing this information, what do you really know? You know that stock market investments may lose money for the decade from 1999-2008, but also that today's probable loss might be an indicator to stay in stocks for the future. In other words, if you decide to cut your losses from the "lost decade," there's the possibility that ten years from now, you'll be saying "I would have been better off leaving my money in the stock market!"

### The Blind Spots in Hindsight

Hindsight isn't worthless. Valuable things can be learned from studying past events. But our willingness to accept hindsight insight as a basis for future decisions can sometimes make a mess of things.



Combined with historical information, it's possible to develop an infinite number of statistical and theoretical models to explain what happened and why. Those models can be helpful. But there's a "blind spot" in this type of hindsight thinking.

Hindsight can make you believe there's a "secret formula" that delivers a perfect outcome every time. It's a fascinating idea, and hindsight insight feeds into this fascination because it can always produce past scenarios with maximum results. (i.e., "This is the path that would have been the most profitable – if only you had followed it!")

Some people are so sure they understand the past that they begin to believe it is possible to control or determine the future. They are convinced that their new insights make it possible to defy the odds and deliver "automatic" returns from non-guaranteed investments – in the stock market, in real estate, precious metals, etc.

Every day, hindsight seduces people into believing these fundamentals can be ignored because someone has found a "secret," made a "breakthrough discovery," and knows the new, better way.

Two financial events from the past decade have caused major repercussions for Americans. In both instances, much of the problem can be attributed to over-confident, misguided hindsight:

**One:** When stock values soared to unprecedented levels in the late 1990s and into 2000, some cautious analysts warned that the market was over-valued according to historical measures, and was ripe for a downturn. But proponents argued that the high prices were legitimate, because they represented a "new economy." Hindsight showed it was time to reinterpret investment history using new formulas and new financial logic. For awhile the returns kept coming, and the market bulls said, "see, we told you we were right."

And then the stock markets corrected. The Internet

bubble burst. And for one of the few times in the past 200 years, the 10-year average return for stocks will be almost nil.

**Two:** The current mortgage and real estate meltdown is another consequence of a flawed hindsight perspective. Both lenders and borrowers looked at skyrocketing real estate prices and thought, "with this new trend, who needs down payments or good credit history? Even if there's a default, we can always get out of it by selling the property for a profit." Skeptics were dismissed as not understanding the "new way to make money in real estate."

"Secrets" and "discoveries" are beguiling words. Improperly applied, hindsight can create all sorts of erroneous secrets and discoveries. Believing and acting on erroneous hindsight can result in unprofitable financial decisions.

### The Value of Hindsight

However, there are some valuable insights that hindsight can provide. For example,

- Hindsight proves that if some financial vehicles are described with the phrases "returns are not guaranteed" and "account values may fluctuate," it means they *are not guaranteed* and *will fluctuate!*
- Hindsight proves that the disclaimer: "past performance is not an indicator of future results," is true.
- Hindsight proves that secret formulas or special strategies cannot make non-guaranteed financial vehicles deliver guaranteed returns.
- Hindsight proves that no one can predict the future. No one.

These statements represent sound financial principles. They are easy to understand, financially logical, and time-tested. You can plan for a solid financial future based on these principles, because they accurately reflect the risks associated with planning for the future.

### What Do You Do Now?

When things go bad, the temptation is to look for silver bullet solutions. But that type of thinking just perpetuates the problems. If you want to right your financial ship, the best plans aren't gimmicks.

Have your financial plans been dictated by poor hindsight thinking? Have you been chasing the next trend, or just missing the last one?

Maybe it's time to contact us - we specialize in helping you to re-orient your financial perspectives and build stability and balance into your future.



## A RETURN TO BASICS

As being burned by hot financial ideas, some neglected financial vehicles are suddenly the object of increased attention. Take whole life insurance, for example:

- A January 31, 2008 *Business Week* article (“The Right Insurance for a Rocky Economy”) leads off by stating “buying a whole life policy could be one way to get your financial house in order.” The article notes that whole life insurance is enjoying a resurgence of popularity because of its stable investment performance and availability for unexpected expenses or emergencies.
- An April 7, 2008 headline in the *National Underwriter* declares “Now’s The Right Time To Reintroduce Whole Life.” The article notes that stock market volatility is prompting more people to seek alternative products for wealth accumulation and preservation.

Interesting news. But whole life insurance hasn’t suddenly become a “right now” product. It’s been an “always” product for those who understand its place in a financial program.

insurance you can obtain to a percentage of earned income. This percentage limit, (typically around 60%, but possibly as high as 75% in some individual circumstances) exists in part to ensure there aren’t adverse incentives that would inflate claims. (If someone could make as much – or more – from being disabled, where’s the incentive to return to work?)

Additionally, the real costs of living with a disability can be significantly greater than the costs of “ordinary” living. These extra expenses may be for therapy, rehabilitation, medication, etc. And some of these items may be regular on-going expenses for the rest of one’s life.

Thus, between a reduced income and increased expenses, the ability to save for the future may be severely diminished or impossible. Hence, the development of retirement-contribution insurance.

## A brief overview

Retirement-contribution coverage can be obtained on an individual basis, but may also be available for employee groups. For individuals, the coverage may be provided as a stand-alone policy, or as a rider to a regular disability income policy (As an example, Guardian Life Insurance Co. of America, through its subsidiary, Berkshire Life Insurance Company of America, offers a Retirement Protection Plus Disability Benefit Rider, which can be part of a disability contract, or purchased as a separate policy).

In order to be eligible for coverage, the insurance company may require proof that you are currently contributing to a defined-contribution retirement plan, such as a 401(k), IRA, ESOP or SEP. The amount of coverage you select is optional, but usually limited to the amount of last year’s contributions. This amount may also include an employer’s matching contributions as well. There may also be a cost-of-living provision to increase contributions over time.

***Between a reduced income and increased expenses, the ability to save for the future may be severely diminished or impossible.***

Similar to regular long-term disability insurance, pricing is typically dependent on one’s age, gender, health status, the amount of coverage, and the elimination period (how long you must be disabled before receiving benefits). A typical contract has contributions usually beginning after six months of disability.

Group retirement contribution benefits are deposited directly to the existing retirement plan just like regular contributions from earnings. In contrast, benefits from an individual policy are deposited to an irrevocable trust, with the investment options varying, depending on the



## “Nest Egg” Insurance

**Question #1: If you were disabled, what would happen to your ability to earn an income?**

For many individuals, the answer to that question is to have disability insurance to help replace the lost income.

**Question #2: If you were disabled, what would happen to your ability to save for the future?**

Regular disability insurance may answer the first question, but not the second. That’s why there’s a growing interest in retirement-contribution insurance.

When a disabling circumstance takes away your income, a disability income replacement policy can deliver benefits to make sure the mortgage is paid and groceries are on the table. But while those benefits may keep you from poverty, they may not be enough to protect your financial future. Here’s why:

Insurance companies restrict the amount of disability

insurer. Because these contributions are made to a trust instead of a qualified retirement plan, distributions of interest, income or capital gains are subject to taxation on an annual basis. Taxes may be paid out of the trust from the accumulated assets. Retirement contribution insurance is not a pension or a substitute for one.

### Another type of retirement-contribution protection

In addition to qualified retirement plans, some individuals, for a variety of reasons, may consider a whole life insurance policy as a vehicle for long-term accumulation. In this situation, the annual premiums can be substantial, perhaps equaling or exceeding contributions to a retirement plan. In the event of a disability, the ability to maintain a program of this type might also be at risk.

There is a solution. A typical whole life contract offers a savings protection feature, called *waiver of premium*, which guarantees on-going premium payments in the event of a long-term disability. These payments will not only keep the insurance benefit in-force, but also increase the cash values according to the terms of the policy.

Because a disability can be both physically and financially devastating, obtaining disability insurance, either through your employer or on your own, is a prudent response. As you evaluate your disability protection, don't overlook the value of ensuring your retirement contributions at the same time. If you really want to secure your ability to save under all circumstances, ask about the ways you can build some "nest egg" insurance into your financial program.

### Sandwich Generation Faces a Financial Squeeze



As life expectancy increases around the world, extended families with grandparents and even great grandparents are becoming more common. The result is the emergence of a Sandwich Generation: Adults who are caring for their parents while still raising children. And this new cultural phenomenon is creating some strong financial consequences.

An April 2008 survey by the independent research company Opinauri for The Hartford Financial Services Group polled almost 4,000 consumers over age 45 in Great Britain, the United States, Germany, Japan and South Korea. Among the most provocative findings: Between one-fourth and one-half of all adults over 45 are currently caring for both children and parents or

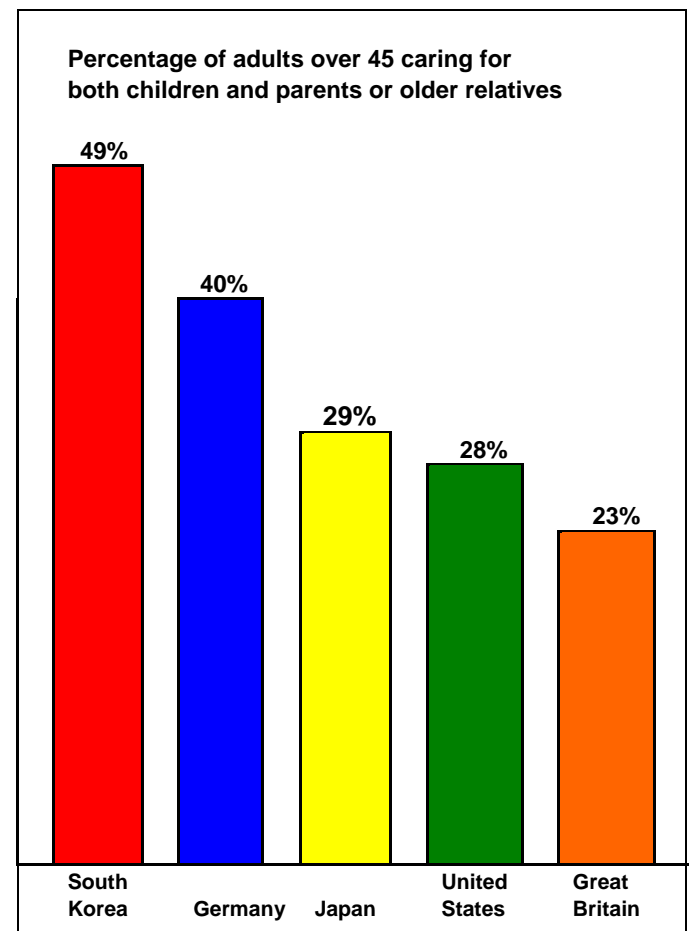
older relatives. (See chart) Furthermore, the results reflect a global rather than cultural trend, affecting conditions in developed countries on all continents.

Those surveyed reported several significant economic effects from being caught in a sandwich situation. Nearly half of these families found themselves making lifestyle changes, such as cutting back on entertainment, putting off vacations or holidays, and reducing discretionary purchases. For approximately one-fourth of the respondents, the financial strain was great enough that meeting day-to-day expenses was a real concern.

Especially in the United States, the additional family obligations have prompted some sandwiched adults to put off saving for the future. As a result, they expect to be working longer and anticipate a less leisurely retirement. In light of their experiences with parents or other older relatives, sandwiched adults felt it was either "important" or "very important" to have a guaranteed income in retirement.

Apart from the financial issues, the study noted that extended families can be a source of great blessings. Indirectly, the study suggests that if the financial issues are resolved, the family benefits are more easily realized.

If your family situation has the potential to "sandwich" you, the prospect might alter some of your saving and retirement plans. Have you considered how you would like to respond to a parent living with you?



What options would work best for the care of a relative living out-of-state? Since better preparation usually leads to improved performance, a discussion of some of these sandwich issues might be worth discussing the next time you meet with your financial advisers.

## An Outside-The-Box Idea

### Your Economic Stimulus Check: A Unique Spending Opportunity

It was a singular moment in marketing history when the IRS spent \$42 million on a mass mailing to advertise the government's intention to give out money in the form of Economic Stimulus checks, starting in May of this year. There is no truth to the rumor that Ed McMahon and an IRS agent will be delivering large cardboard checks to lucky citizens, but after filing their 2007 income tax returns, approximately 130 million Americans can expect to receive a \$600 check per person, plus an additional \$300 for eligible children under the age of 17.

The expressed purpose of this "rebate" from Uncle Sam: give the economy a boost by putting some spending money back in the hands of the people. So...

### How should you use this "windfall?"

Politicians are hoping you will spend it on consumer-type items – an HD television, a weekend vacation, a used car, or a tank of gas for your SUV. Consumer advocates would recommend paying some past-due bills, and cleaning up your credit score. Some sober-minded financial experts might suggest an extra deposit to a Roth IRA. Even comedians have their Top 10 lists. Since everyone has an opinion, here's another one:

### Complete (or update) your will.

Not the first thing you might consider, but it's a win-win scenario that makes sense for a lot of reasons.



- You are spending the money, so the economy gets a boost.
- You are improving your financial situation, so the consumer advocates and financial experts are happy.
- You get to check off one of the "things-I-should-do-but-never-get-around-to" on your list.

Making a will or establishing a trust is one of the things many people know they should do, but often never get around to doing. There's almost always something more urgent. But since you know you have a windfall coming, why not designate it toward a project you know will deliver some long-term benefits?

## Another Boomer Event: Could You Be "Orphaned" in Retirement?

- Are your financial professionals older than you?
- How much older?
- What would happen to your financial programs if they retired? (What if they don't retire, but simply make a career change?)
- If you lose one of your financial professionals, who's going to step in to help you with your financial affairs?

An October 9, 2007 article in the "Money Matters" section of the *Weekend Journal* noted another demographic blip because of the Baby Boom tidal wave: Just like most of their clients, Boomer financial professionals are getting ready to retire. According to Jeff Opdyke, "planners are getting older – the average age is 55, and nearly a third are over 60 – and they are retiring at an accelerating pace."

For many individuals, two key ingredients in choosing a financial professional are the personal relationship and the professional's experience. People connect with someone who understands and relates to their values, concerns and aspirations. They also appreciate working with a professional that has the qualifications and experience to get the job done right. Given the importance of these two characteristics, it's quite likely that financial professionals will often be close to the same age as most of their clients – or older. Thus, it's quite likely that just about the time the client is ready to retire, so is the financial professional.

For some people, especially those who will soon be dependent on their savings to live in retirement, the possibility of losing a trusted financial specialist can be disconcerting. After sorting through the options, the consensus says there are two effective responses to this challenge:

1. Plead with the financial professional to put off retirement so he/she can continue working with you.
2. Plan for a transition.

Option #1 might work, but you'd be better off working on Option #2. Here are several thoughts about ways to make a transition as smooth as possible.

**Identify the possible successors.** Does your financial specialist already have a successor in place? If so, you should begin evaluating his/her suitability for working with you in the future. Beginning this evaluation now will give you time to get to know the successor's philosophies and perspectives – and it will

give them time to know you as well.

If there is not an appointed successor, you might want to inquire about your professional's future plans. Are they planning to sell their business? What will happen to your account? If the professional is a part of a larger firm, will your account be absorbed by the firm and reassigned to another professional in the company? In the industry, accounts that are unassigned are often classified as "orphans," and their reassignment may be random. Orphan accounts may be assigned to newly hired representatives, whose abilities may or may not meet your needs.

#### **Establish other connections within the firm.**

Most financial professionals whose work includes providing insurance and securities products have an affiliation with a general agency and/or a broker-dealer. In the event your specialist either retires or leaves the business, most of your information and service needs can be addressed by these parties. It might be to your advantage to begin making the acquaintance of some of the other people in the firm. In fact, ask your current financial professional to introduce you. This may be a way for you to choose your own successor instead of becoming an orphaned account.

**Use technology.** It's true that 800 numbers and on-line access are poor substitutes for personal contact. But there are ways that technology can make a transition to a new specialist much smoother. The advent of personalized on-line "data vault," programs, make it much easier for you (and whoever succeeds as your financial professional) to access and track your important financial information. There are no paper files to copy and transfer, no statements or updates to reroute to a new agent – and more important, nothing that can be lost or inadvertently thrown out when the old representative boxes up and leaves.

In a perfect world, you'll work with one group of financial professionals for the rest of your life, and the relationships will be profitable for both parties. But even the best financial professionals will eventually pass on. Just in case you outlast them, take some time to consider a suitable successorship plan for your financial affairs.

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