

# Financially Speaking

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*Live Well, Laugh Often*

Providing Professional Guidance for the Future You Deserve

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## What to do with a Windfall

### *A Windfall Comes in Many Forms*

It can be an inheritance, a gift, winning a money prize, or in the latest case, a stimulus package from the federal government.

Many of us will be receiving \$300 to \$600 (double those amounts for married couples who jointly) later this spring. To receive stimulus money you must file your 2007 tax return. Even if you did not earn enough money to file, you will need to do so. This especially applies to people receiving Social Security payments. For more information read (yes, it is in regular English) the IRS online fact sheet with the basics of eligibility at <http://www.irs.gov/newsroom/article/0,,id=179181,00.html>. If you do not access the internet, you can call the IRS, 800-829-1040 and request that information be mailed to you.

So, what should you do with your stimulus check? Well, the government wants you to spend it to buy things as fast as you can. I suppose that is the most patriotic way to handle this windfall. But, patriotism aside, I believe the most personally responsible way to use your stimulus check is in the following manner. It's not as much fun as heading straight to the mall, but over time, it might enable you to spend more later on.

1. Pay down debt including credit cards, car payments, college loans, personal loans and past due mortgage payments.
2. If you are debt free, save for retirement. Use the money to add to or start a Roth IRA or Traditional IRA.
3. If your retirement savings are on track, build up your emergency reserve account totaling 3-6 months of your basic expenses.
4. If your reserve account is funded, use the money to finally meet with an estate planning attorney for wills, living wills and/or trusts as your situation requires.
5. If your estate planning is done, use the funds for college funding for your children.
6. Now, if all of the above are already done, well then do your patriotic duty and go shopping. But, there is another way to spend your stimulus money before you head to the store. Consider donating the money to charity, letting the charity spend it on things to stimulate the economy while you get a tax deduction on your 2008 tax return. A real win-win situation for the government, the charity and you.

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## Market Volatility

### *Up & Down, Up & Down go the Markets*

I say markets, because when we say "The market was up today", we are usually referring to the stock market, but there are several markets in the investment world. Even the stock market can be divided into many markets including U.S. stock market, total International stock market or individual country markets.

Other major markets include real estate, US government bond market, corporate bond market, international bond market, municipal bond market and commodities market. And, this is only a partial list.

So, when you hear folks say that the market is up or down, ask which one they mean.

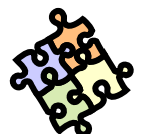
But, many major markets of late have been on a roller coaster ride, up one day and down the next. Real estate, as you know, has taken the most recent significant slide. All of this volatility brings to mind the need to have an investment portfolio diversified among several markets. Further diversification within each of these markets also helps to lessen the volatility of the portfolio. The general feeling, as indicated in several financial publications, is that significant volatility will be with us for the foreseeable future and the returns of several markets will be lower than their traditional returns with continual swings. Diversification within a portfolio which is matched to time horizons (when you will need to access money in your portfolio in the near, mid and long terms) will help you stay buckled in during roller coaster ups and downs.

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## The pieces of the puzzle necessary for planning your financial life include:

- Setting goals for yourself which will give you a life worth living
- Retirement planning
- Making sure you have adequate insurance
- Planning for end of life through estate planning
- Considering how taxes affect your finances
- Investing your money, both retirement and non retirement money, so it works for you

Is your puzzle complete so you have a clear picture?



## NOT TO GET POLITICAL, BUT.....

### *Pay Attention to What the Candidates Are Saying*

In an election year, it is wise to pay attention to what the candidates are saying. One area that significantly affects us all is the rising cost of health care. The latest Health Confidence Survey from the Employee Benefit Research Institute has some sobering information which can be summed up this way: Health costs across the board are rising and impacting our physical and financial well being. Without some form of reform in the near future, the impacts will continue and increase.

### **Here is some of what the survey found:**

Fewer employers are offering health insurance due to costs. They want to offer it, but cannot afford to.

Sixty percent of Americans with employer-based health insurance reported increased costs or fewer benefits.

The good news is that because of rising costs 81% of covered employees say they are taking better care of themselves and spend more time talking with doctors about their health care options and costs.

On the other hand, higher costs have kept two thirds from going to doctors unless they considered their condition as serious and 28% have skipped taking medications to stretch our prescriptions or have not filled them at all.

Because of higher costs, about 30% of Americans have stopped or reduced their contributions to retirement funds and an equal number are having trouble paying for basic living expenses.

The impacts are immediate for those who are struggling to pay for health care and will be felt for years to come by all of us due to the lack of the ability of many to save for retirement. What affects some in our country can eventually affect the majority over time by increased taxes and standard of living reductions.

This isn't meant to scare you, only to create awareness. This is a problem that is solvable with political will by our President and Congress. As you decide who you want to represent you, take the time to investigate how committed they are to health care reform and if you agree with the program they present. I certainly am not advocating for any one candidate or program, that is for you to decide. But, due to the negative impacts of escalating costs of healthcare, I hope you will take the time to learn candidates' ideas and what they will advocate for and make your views known with your vote.

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## MONEY.....

*“Money is important, but what we do with money we have is much more important. However much you have, use money wisely to fund the kind of life that gives you meaning.”*

## TARGET RETIREMENT FUNDS

### *Target Date Funds*

One of the new kids on the block in the mutual fund world are Target Retirement Funds or Target Date Funds. Simply put, these funds target a date in the future and as that date grows closer, the fund becomes more conservative. For example, lets say you plan on retiring in 2020. The fund may hold 65-75% in stocks and 25-35% in Bonds now. As 2020 draws closer incrementally, each year, the fund shifts its holdings to a much less aggressive position so that at 2020 the holdings might be more like 15-25% stocks and the balance in bonds. Seems a reasonable, simple, no-brainer plan, right?

Well it could be a great strategy, and it would be if you needed all your money in 2020. But, today's retirement might last 20-30+ years. With a time horizon like that, unless you have significant resources such as a large pension that increases with inflation and additional savings, you may not be able to keep up with inflation with the vast majority of your portfolio in bonds. It is the stock portion of your portfolio that provides pace setting growth.

Some other concerns with target funds include a few practical matters which involve mutual fund investing in general. As with all mutual fund investing, you should investigate fees, management tenure and the strategy of investing the fund engages. Because they are relatively new and many companies are just getting started with target funds, there is often less than three years of history. One way to judge the management of a fund is to look at its track record over a long period of time. Expenses, both management and added fees, are important to the overall return of any fund. With lower fees, more of your money stays in your account working for you. Because many target date funds are managed or are “fund of funds” the expenses may be higher than a diversified portfolio of passively managed or index funds. An additional issue concerns diversification. Pay attention to what exactly the strategy of investing is. Yes, it invests in stocks and bonds, but what kinds of stocks and bonds. What proportion of large, mid, small and micro capitalization domestic and international stocks are represented? How much real estate, if any is in the portfolio? What types and quality of bonds are held by the fund? Do some research before you invest.

Target Date Funds are marketed as a be-all and end-all for retirement planning, but they are not there yet. However, target date funds could be valuable for some investors for part of their portfolio. To determine if they could be for you, remember the following general advice about long term investing. Each person needs to determine when money will be needed over their life and create a portfolio that will match that need. Having enough money to last your lifetime requires several key steps. Save diligently until retirement, keep investment expenses low, understand your personal tolerance for market volatility and risk, find quality management, diversify among and within asset classes to meet your asset allocation, live within your means, invest for different time horizons and rebalance back to your asset allocation as needed.

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## Older Workers Making a Difference

### *Boomers are Redefining Retirement Again*

They are really taking “60 is the new 40” to heart. By choice, as well as by need for some, more older Americans are working full time than 15-20 years ago. The Employment Benefit Research Institute reports that the trend will continue. In part, the lack of pensions and rising health care are the cause, but also, many want to work and contribute. Employers are responding by creating ways to retain older workers. With fewer younger workers available, employers recognize a need to keep the old folks around longer. They are introducing mentoring programs and flexible hours, wellness programs and enhanced vacation schedules. This has benefited older workers and employers who keep well skilled, loyal employees.

## Facts About \$1 Notes

- The first \$1 notes (called United States Notes or “Legal Tender”) were issued by the Federal Government in 1862 and featured a portrait of Secretary of the Treasury Salmon P. Chase (1861-1864)
- The first use George Washington’s portrait on \$1 notes was on Series 1869 United States Notes.
- The inclusion of “In God We Trust” on a currency was required by law in 1955. The national motto first appeared on paper money in 1957 on \$1 Silver Certificates, and on all Federal Reserve Notes beginning with Series 1963.
- The life span of a \$1 Federal Reserve Note is 21 months.

## Trivia

- Wall Street gets its name from a defensive wall that was put up to protect New Amsterdam (now New York) from New Englanders. Source ([The Great Game--John Steele Gordon](#))
- Arnold Schwarzenegger was a finance major. Source: [www.uselessknowledge.com](http://www.uselessknowledge.com)
- The Dow Jones Industrial Average is an average of 30 stocks. When it started there were only 12 stocks. General Electric is the only company of the original 12 still in the index.
- In 1069 China imposes a tax to slow inflation. (The People's Chronicle)
- Martha Washington is the only 1st Lady to appear on US currency. She appeared on a \$1 silver certificate in 1886 and 1891, as well as on the back of the \$1 silver certificate in 1896.

## Forever Stamp

*a penny saved...*

The U S Postal service announced that it will raise the cost of a first class stamp to 42 cents starting May 12. You save a few pennies by purchasing “Forever Stamps” at the current price of 41 cents prior to May 12. This stamp, which will always be valid as First-Class postage on standard envelopes weighing one ounce or less, regardless of any subsequent increases in the First-Class rate, is available at any post office or by going online to: <http://www.usps.com> and search for Forever Stamp.

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Mary L. Gibson is the principal of MLG Financial Planning, a Fee-Only financial planning and personal coaching service. Located in San Juan Bautista, CA and serving the greater Central Coast area, Mary is committed to her clients: individuals, families and small business owners. *"I really care that my clients understand what their financial future can be."*

As a CERTIFIED FINANCIAL PLANNER™ I offer my knowledge and expertise through a fee-only, hourly advisory service. Because I do not accept commissions, I can offer unbiased financial advice.”

It is my mission to empower people, by providing them with knowledge, planning and advice, to believe they can take control of their financial lives to achieve their lifestyle goals. To give my clients a greater understanding of the use and power that money has in their lives.



*Mary Lacey Gibson, CFP®*