WEALTH MANAGEMENT

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CBF
WEALTH MANAGEMENT
A Registered Investment Advisor

"HELPING YOU MAKE SMART CHOICES ABOUT YOUR MONEY"

LOSING FOCUS

We live in a constantly changing, fast-paced world. So with all of the negative financial and political news recently bombarding our lives, it may be easy to lose focus of the investment strategy that was established to attain your long-term financial goals.

Just for a minute, try to visualize that you are running a marathon. You have put in your training time, researched the designated route and know where the finish line is located. Since it is easy to become distracted you could decide to take an alternate route or sit it out for awhile. What is the likelihood that you will win the race or even finish? Winning the race would not be very likely, and finishing the race might happen but who knows how long it would take. If you had stayed focused on the finish line, you might have stood a better chance.

The same is true with investing. If you are easily distracted by all of the "noise" provided by the media, causing you to sit it out for awhile or take an alternate route, you may not be able to attain your long-term financial goals. A long-term perspective needs to be in place. It is important to know that the ups and downs in the daily markets have very little effect on a long-term financial situation.

We realize that the day-to-day markets have been a bit volatile and scary lately, but getting out of the market would

cause two problems. First, in order to maximize your returns you must have the foresight to get out at the absolute high point of the market and get back in when the market hits its low point. You would have to be right twice, and that is almost impossible. Second, human nature usually has investors doing just the opposite—buying what is doing well (at the high point-what is hot) and selling what is doing badly (at the low point-what is not). This is a recipe for disaster.

A better approach is to "stay focused" on your long-term goals by maintaining your asset class allocation and rebalancing when your investment in the various asset classes deviates from your target allocation. By doing this you are taking advantage of the market fluctuations—selling back to your target allocation those asset classes that have been doing well and buying those asset classes that are not doing so well for which you are short of your target allocation. Thus, you are buying low and selling high. Now that sounds like a formula for success! Rebalancing is part of what we do for you in managing your investments.

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> *"The average long-term experience in investing is never surprising, but the short term experience is always surprising. We now know to focus not on rate of return, but on the informed management of risk."*
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> *- Charles Ellis,*
> *Investment Policy, 1985*

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Losing Focus

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We understand that changes in your life can change your long-term financial goals. Those types of changes may change what your asset allocation should be and may require adjustment in your investments. However, what you read in magazines and the newspaper, watch on the television and the day-to-day fluctuations in the market should not influence your investment behavior or long-term perspective.

The lesson to be learned: Even though the daily news and markets may not always be great—stay focused on your long-term financial goals.

Mortgage Rates are Low Again!!

Has the thought of refinancing your home mortgage crossed your mind??

With the rates being so low, now is a great time to consider it. Talk to your mortgage banker to determine if refinancing would be a good time for you. They can work with you to check your current rate against the market rate.

Credit Card Debt Getting You Down? It's Time to Get Free

Americans live on plastic, and as the economy worsens their dependence is growing. A new survey by First Data Corp. found that dollars spent on credit cards increased in June by 10.7 percent over June of 2010, while transaction numbers grew by 6.8 percent.

The Atlanta-based credit payment processor said that consumers were using credit to buy more basics like gasoline and food.

"Consumers are increasingly turning to credit cards to fund non-discretionary purchases," said Silvio Tavares of First Data. "That's because there's been no other positive catalyst, like an increase in wages, to offset higher prices. It's a cash-flow problem."

He said the increase in gasoline purchases was "dramatic," up 39 percent from a year ago.

A growing debt load

Such spending is undoubtedly contributing to the growth in outstanding credit card debt.

About two-thirds of credit card owners do not pay off their balances on a month-to-month basis. It is even more disturbing that the average balance for households that do not pay off their cards has hit $14,687, according to CreditCards.com, which tracks industry statistics.

The average interest rate on cards with balances was 13.1 percent as of May, according to the Federal Reserve Board's most recent report on consumer credit.

Credit card debt is one of the worst forms of consumer debt: interest rates are high, interest payments are not tax-deductible, and the card companies offer minimum payment plans that enslave unwary users for many years.

Getting out of debt

There is good news for anyone carrying such debt: it is easier to eliminate than you may think. All it takes is a little conscious effort and planning.

The most obvious, yet often overlooked, first step is to stop using the card or cards on which balances are kept. It would be better to swear to do all future purchases by cash, check or debit card so that you don't add to the debt load.

If you have one card, immediately begin paying more than the minimum payment. A new law requires credit card statements to give you examples of how much interest and time can be saved by paying additional amounts. A box at the top of every credit card bill shows you the consequences—in time and total interest payments—of paying just the minimum amount each month. The second line in the box tells you how much you would have to pay monthly in order to eliminate the debt in just three years.

What if you can't increase your payment by that much? Just increase it by any amount: $10 more a month will eliminate time and interest.

Also, you can make a habit of throwing any extra money at the account. If you get $50 extra from selling a used bicycle one month, then just send it in: the card company will be happy to take it.

Finally, if you have debts on several cards concentrate on paying one off. Then use the amount you were paying on that card to pay off another card. Pretty soon the payments will snowball in size and you will have all the cards paid down to zero.

Don't Want To Burden Your Kids? Buy Long-Term Care Insurance

Retirees and those planning to retire say they are very fearful of uninsured health care costs, according to a number of financial surveys.

And the big worry for many is that they will end up being "a burden on my family," says Genworth Financial, which did a survey in 2010. That fear even outranked the fear of ending up in a nursing home.

Even though they openly worry about long-term care costs, relatively few Americans have made provisions for them, says the American Association for Long-Term Care Insurance.

Coverage crisis

The best antidote may be the purchase of long-term care insurance, but confusion over coverage and the perception of high costs discourage potential purchasers.

Adding to the disincentive is current turmoil in the marketplace as some companies have stopped selling the insurance, while others are asking state regulators for large rate increases.

Ironically, the market's problems illustrate the value of the insurance: insurance companies are finding that more long-term care policy owners hold onto their policies than expected, even in the face of rate increases. They have also found that they underestimated the claims that owners would make.

"Anyone who intends to consider long-term care insurance should apply for it years ahead of retirement."

Apply early

Anyone who intends to consider long-term care insurance should apply for it years ahead of retirement, the Long-Term Care Association advises.

Long-term care insurance can take the bite out of nursing home costs.

Older applicants get turned down for coverage more frequently due to health conditions they have developed. Only 14 percent of applicants between age 50 and 59 are rejected, while 45 percent of those between age 70 and 79 are turned down.

Applicants who are married can keep costs down by applying for joint policies. The Association estimates it costs an average of $2,350 a year for a 55-year-old couple to buy $338,000 of combined benefits. If they buy an inflation rider, those benefits can grow to a potential $800,000 by age 80.

Still not convinced you need this coverage? The Association estimates that 40 percent of those over age 65 will need two years of care, while 20 percent will need more than five years of care.

Elder care costs

The financial toll on elder care providers who are 50 or older averages $303,880 per person in lost wages, pensions and Social Security benefits due to leaving the work force early to care for a parent, show statistics compiled by the University of Michigan.

For women, the cost is higher at $324,044, the University's study found.

Fixed Income Will Fail As An Inflation Hedge In Retirement

What do many investors who are about to retire or are in retirement worry about? They seem to focus on the stability of their principal.

This is a big mistake. Fixing the value of your portfolio at retirement in order to avoid market "losses" probably is a guarantee that you will not succeed financially in retirement.

The biggest financial foe you face over a lengthy retirement is not temporary stock market volatility; it is long-term erosion of your purchasing power.

Consider the cost of a postage stamp 40 years ago. In the summer of 1972 first class mail cost just 8 cents. Today it costs 44 cents, an annualized increase of over 4 percent per year.

Today it's impossible to put your money into just about any fixed-income instrument (except for risky high yield bonds) with a rate anywhere near 4 percent.

In fact, a 30-year rally in bond prices has reduced yields on short-term bonds to nearly zero.

Stocks are the key to keeping your nest egg healthy during retirement.

Meanwhile, consumer inflation is anything but zero. The current inflation rate, as measured by the Consumer Price Index, stands at 3.6 percent.

Although bonds kept up with inflation over the last 40 years, at current prices it seems hard to believe they can over the next 40.

The stock market, however, has done a better job of keeping up. Over the last 40 years the Standard & Poor's 500 Index has returned about 10 percent per year, despite dozens of small to large temporary declines in value.

The stock market also allows long-term investors to keep more of what they have earned. Interest on bonds and bank deposits are taxed at a taxpayer's highest current regular rate.

Long-term capital gains on stocks, however, receive favorable tax treatment. The current rate is only 15 percent.

Every Investor's Choice: Be the Dumb Money or the Smart Money

Investors have a lot of choice when deciding how to handle market fluctuations.

Many opt for "tactical asset allocation" - in other words, they move out of stocks, for example, when they think returns will be bad, and move back in when they expect better returns.

Many others choose a better strategy—they spread their money among a bunch of different asset classes and let it sit for a long period of time, no matter what the markets do. They tend to earn the market's long-term returns and do better than the tactical asset allocators.

But the smartest group of all takes this buy-and-hold approach a step further: they set up a specific allocation among various types of investments, and each year they put their portfolios back into their original balance by selling a portion of the investments that have gone up and putting the money into the investments that have gone down. These investors tend to earn the highest returns of all, investment studies show.

Dumb money loses

The tactical asset allocators who chase past performance of asset classes are commonly referred to as the "dumb money" by academics who study the markets.

These are the people who throw money into technology stocks or gold after they have soared, and yank it out after they have fallen.

These types of investors seem to have a unique ability to invest in stock mutual funds that tend to do poorly afterwards, found a recent study by Andrea Frazzini of the University of Chicago and Owen A. Lamont of Harvard.

The researchers found that winning investors do the opposite of what the dumb money investors think will earn high returns.

Tactical asset allocators are engaging in a zero-sum game, says Richard Ferri in his new book, "The Power of Passive Investing: More Wealth with Less Work" (John Wiley & Sons, 2011).

"When someone underperforms the market it means someone must have outperformed before fees and expenses," he writes.

Inflation may be subdued but it is not dead. When it comes back, fixed income investments won't be your best bet.

Lower returns

From 2000 through 2009 (a period when stock market returns were very low) the average investor earned 1.7 percent annually from all mutual funds, even though the time-weighted return on all funds was 3.2 percent, according to a recent study by mutual fund research firm Morningstar Inc.

Where did the 1.5 percentage point difference go?

"Much of it went to brokers, brokerage firms and their trading desks," Ferri wrote. Some also went to "talented money managers who skillfully separate investors from their money."

A portion also went to buy-and-hold investors who rebalanced their portfolios annually, Ferri argues.

"Investors who lose with their tactical asset allocation strategies indirectly provide excess returns to investors who religiously rebalance their strategic allocation," he writes.

Using data provided by Morningstar, Ferri constructed a hypothetical portfolio held in January 2000 by the three types of investors. By 2009, the tactical asset allocator had earned 1.4 percent per year. The passive asset allocator who did not rebalance their portfolio earned 2.4 percent annually, while the rebalancer's return was 3.3 percent. "Strategic asset allocation and regular rebalancing provide what is widely referred to as the only free lunch on Wall Street," Ferri concluded.

Rebalancing is the key to success when dealing with a diversified portfolio. It allows us to take advantage of temporary market fluctuations to provide better long-term investment results.

Our Basic Tenets

Our objective is to design portfolios using passive asset class funds that maximize investors' returns within their tolerance for risk. Here is what sets us apart:

- Fee-only investment management
- A disciplined investment strategy
- Access to institutional no-load passive asset class funds
- An academic Nobel Prize-winning investment approach
- Continued access to academic research
- A tax-efficient focus with valuable tax- and estate-planning ideas
- Risk tolerance assessment
- Periodic portfolio rebalancing
- Regular communications and state-of-the-art reporting
- No front-end loads, no back-end loads, no surrender fees, not locked in
- MOST IMPORTANT ... A TRUSTED ADVISOR RELATIONSHIP

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