

Fall 2008

MANAGEMENT

"HELPING YOU MAKE SMART CHOICES ABOUT YOUR MONEY"

WANT TO BE A GOOD INVESTOR? STOP MAKING THESE FIVE MISTAKES

Most investors could dramatically improve their returns by eliminating five common mistakes from their portfolio management toolboxes.

One of these common mistakes is so deadly it could wipe you out, while the others can cost you big time.

Diversify, diversify

The most dangerous mistake you can make is betting everything on one investment. This is akin to putting all of your chips on one number at roulette. You might win big but the odds are much greater that you will lose everything.

A look at market history should convince an investor that no security is immune. Total loss is not limited to small stocks. Blue chips that appear invulnerable one day can disappear the next.

Remember what happened in recent years to Enron, WorldCom, and Countrywide Financial.

Investors were nearly wiped out by Bear Stearns. A thousand bucks invested in

Citibank a year ago was recently worth only \$409.

By diversifying as widely as possible you can reduce the risk of loss due to a decline in one security or one market sector.

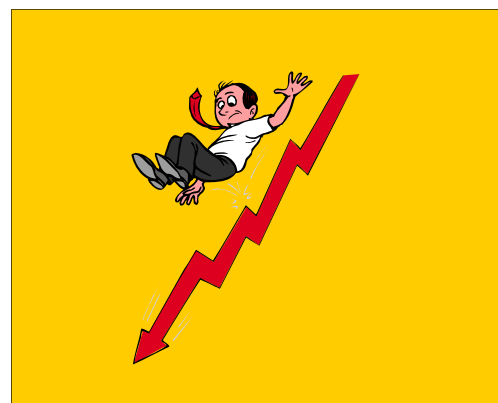
Buy low

If your grocer put your favorite cereal on a two-for-one sale, you'd stock up, right? Conversely, you would buy only a box at a time if the price was at a premium level.

It stands to reason that any investor would jump at the chance to pump money into the stock market when it is down. The more it is down from recent highs, the more eager they should be to buy.

Yet the average investor often holds back when the market is falling, afraid to commit more money just to see prices fall further.

The problem with that strategy is that no one can accurately predict the market's bottom: it often turns up at a point when the news is blackest and investors aren't convinced that a turnaround has begun. They will continue to hold money



Five common mistakes can sabotage your investment success and damage your portfolio.

back and then miss out on the best part of the recovery.

Why buy high?

Conversely, wouldn't it be better to hold back a little on investing when stocks are expensive?

Yet this is not what many investors do: they get swept up in a mania to make money in the stock market well after it has soared. The famous cover of Money magazine in the late 1990s that said "Everyone is getting rich but me!" exemplifies the mindset that sends

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WHAT'S INSIDE

- ◆ How long you will live is a critical data point when planning for retirement.
- ◆ Market timing may mean missing days with big gains.
- ◆ Taking out too much after you retire, doubling your money, and more.
- ◆ Day-to-day market moves obscure the future.
- ◆ Older Americans Work-The New Retirementality

DON'T WAIT FOR YOUR LOSERS TO REVIVE AND REBALANCE ANNUALLY

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investors chasing returns that are no longer available.

Holding onto a loser

This applies to an individual stock or other security that has fallen sharply from its high. Many investors hang on, reasoning that they “want to see it come back” before selling it.

Unfortunately, a past price is not a good predictor of a future price: just because a stock hit \$60 a share last year and has fallen since does not mean it ever has to hit \$60 again. Again, consider Countrywide

or Bear Stearns. Neither recovered to their former highs. They kept falling until the companies were merged into other companies at extremely low prices.

Letting things slide

Investors should set a portfolio mix appropriate to their needs and risk propensities and stick with it. When the markets push it out of whack, they should rebalance by selling investments that have gone up and buying those that have dropped, an exercise that forces them to buy low and sell high.



Don't hang onto bad investments.

WANT TO RETIRE? LONGEVITY IS THE KEY

There are two difficult questions that have to be tackled when planning your retirement: what will financial market returns be and how long will you live?

There is considerable evidence that we tend to underestimate our life expectancies.

The basic number tells us little: at present, human life expectancy in the United States is 77.8 years. All this reflects, however, is the average life expectancy at birth.

But as you age, your life expectancy paradoxically gets longer. In effect, you get a “credit” for living longer.

Longevity increases

Between 1979 and 2004 life expectancy has increased one to two years for all age groups and sexes.

A 65-year-old man has a life expectancy of another 17 years, to

age 82, while a woman of the same age is expected to live to 85.

Meanwhile, a man who makes it to age 75 is expected to live until 86, while a woman is expected to live until 88.

And those who manage to make it to 100 are forecast to live another two to three years beyond that point.

Even these numbers may obscure your future: they are averages for the population as a whole. Some members of each group will die younger than their life expectancies, while others will live even longer than forecast.

The averages also obscure another important point: those with greater financial resources probably have longer life expectancies than average. They have had better education, better healthcare, and are more likely to

have avoided risky behaviors like drug, alcohol, and tobacco use.

Err on conservative side

So what age should you pick when planning how much money you need for retirement?

First you have to decide which is the worst error: picking a number too high and not spending as much as you can, or picking a number too low and running out of funds before you die. The second case may be the scariest for most retirees, so it may be better to pick a higher rather than a lower number.

In that case, most planning should start with age 90. That number can then be adjusted up or down for an individual, depending on health history, family longevity history, and the individual's personal feelings about his or her lifespan.



Those who don't plan on a lengthy retirement may find themselves squeezed later in life.

“There is considerable evidence that we tend to underestimate our life expectancies.”

WHY IT IS A BAD IDEA TO GET OUT OF THE MARKET IN A DOWNTURN

Doesn't it seem reasonable that when the stock market is dropping month after month you should get out, avoid more losses, and wait for the upturn?

Unfortunately, this is just what many investors do. Once they are out of the market, they often don't begin investing until well after a recovery has occurred and it looks very apparent that the market decline is over.

Bogle's warning

Such a strategy is very hazardous to your wealth, says John Bogle, founder and former chairman of The Vanguard Group, one of the largest U.S. mutual fund companies.

That's because the market tends to rack up most of its gains on just a handful of trading days. If you miss those days, your profits are diminished considerably.

In a speech Bogle gave to the Risk Management Association in Florida last year, he noted that the

Standard & Poor's 500 Stock Index increased from 17 in 1950 to 1,540 as of his speech in October (it recently stood at 1,270).

"But deduct the returns achieved on the 40 days in which it had its highest percentage gains—only 40 out of 14,528 days! - and it would drop by some 70 percent, to 276," Bogle said.

Any investor who chose to sit out part of the year ran a real risk of missing some of those 40 days that accounted for 70 percent of the market's gains.

Missing big gains

Other studies have shown that if the best five days for the stock market each year are excluded, an investor from 1966 to 2001 would have had a loss rather than an eleven-fold gain.

The managers of Tweedy, Browne Co., which operates three value-oriented mutual funds, recently warned against jumping out of the market during downturns. Not only do such moves create capital gains taxes for non-retirement



Stick with the market if you want to capture its brief and unpredictable upswings.

accounts, most market gains come in quick bursts that are not at all predictable.

"We believe that if you are not invested during these rather brief upswings, your long-term compounded return can suffer dramatically," they said.

This means that during market declines investors should hunker down and wait for the inevitable upswings.

BIG WITHDRAWALS, DOUBLE THE MONEY, & MORE

Retirement withdrawals

Some retirees are spending more from their portfolios than they can afford, says Wachovia Bank.

Although financial professionals often recommend retirement withdrawal rates of no more than 4 to 5 percent, some 28 percent of retirees it surveyed said they withdraw 10 percent or more of their savings annually.

Only 38 percent of those surveyed said they withdrew 5 percent or less. Despite that, the majority said they were confident their savings would last throughout retirement.

Double your money

Nervous investors thinking of stashing their money in the bank or a money market mutual fund might want to think twice due

to the long-term effect on their portfolio growth. With fixed rates on short-term accounts at about 2 percent currently, it would take 36 years to double the value of an investment. However, at the stock market's long-term return of 9 percent, it would take 8 years.

Steep healthcare costs

Retirees need more money than they may think for healthcare costs, says Fidelity Investments.

It estimates that the average retiree will need \$225,000 in savings for various healthcare needs, plus another \$85,000, on average, for long-term care costs.

The company recommends purchasing long-term care insurance while in your fifties, when costs are cheaper and it is easier to qualify.



"Once they are out of the market, they often don't begin investing until well after a recovery has occurred."

NEWS HEADLINES ARE NOT THE BEST PREDICTORS OF THE FUTURE

The headline story is grim: the stock market got off to a bad start at the beginning of the year, a sure sign that the rest of the year will be bad.

Floyd Norris of The New York Times writes worries that “no peaceful resolution is possible in the Mideast” may drive down stock prices throughout the year.

Oil prices are rising due to Mideast tensions and other factors. European and Asian markets are also falling.

Noted stock analyst Laszlo Birinyi says the market is presenting “the worst combination” of factors for traders.

Sound like the beginning of this year? Although it does, this story appeared in The Times on Jan. 9, 1991 as the United States prepared to invade Iraq in response to Iraq’s invasion of Kuwait.

Not only were the predictions of a down year wrong, they were very wrong: the Standard & Poor’s 500 Index gained 30.5 percent



Don't get caught up in day-to-day market headlines when investing in your portfolio.

The predictions made early in 1991 illustrate the problems with getting caught up in day-to-day trends. Anxious investors may have used the forecasts as an excuse to get out of the market temporarily, meaning they lost the returns from one of the best years to invest since World War II.

It is also instructive to look at the indexes back in 1991. At the time of Norris’s story, the Dow Jones Industrial Average stood at 2,509. Today, even after a sharp decline from last year’s high, the Dow hovers around the 12,000 mark.

That represents a simple growth rate in the index of nearly 10 percent a year.

If we were to have the same growth rate from today forward, the index would be over 57,000 in another 17 years.

By that time our concerns today about the Mideast, oil prices, home deflation and the like may seem unimportant given the tremendous growth in markets that later occurred.

OLDER AMERICANS WORK-THE NEW RETIREMENTALITY

Per author Mitch Anthony, Retirementality is the ability to achieve the freedom to pursue your own goals, at your own pace, on your own terms...regardless of your age.

Retirement may span 30 years or longer and will not be viewed as an

isolated economic event, but rather part of ongoing life planning and wealth management.

Rather than sitting home on a rocker, more people over 65 are working full time than 20 years ago in order to get health insurance, or

save for retirement.

The number of workers age 65 to 69 increased to 29 percent in 2006 from just 18 percent back in 1985. Full time workers over 55 increased to 64 percent from 54 percent in 1993.

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 ...**
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