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FINANCIAL*ink*

Your Money Management Newsletter

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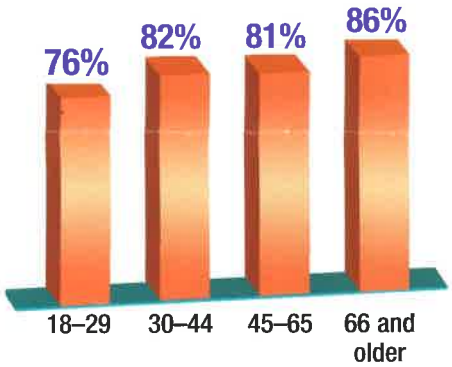
*Snap***SHOTS**

IMPORTANT AT ANY AGE

Americans who said financial security was extremely or very important to them, by age group



Source: Associated Press, November 22, 2010

Up **FRONT**

35%

Percentage of adults who have personal investments outside of an IRA or a workplace retirement account

Source: Associated Press, April 5, 2011

Quick **HITS**

More than 86% of identity theft crimes involve the fraudulent use of an existing account.[1]

The Federal Reserve has adjusted the federal funds rate more than 240 times over the last 40 years.[2]

About 40% of working Americans say they will never be able to afford retirement, and 55% don't know how much they will need.[3]

U.S. airlines collected $3.4 billion in baggage fees in 2010, up 24% from 2009.[4]

China's inflation rate in 2010 was 5.1%, compared with 1.5% in the United States.[5-6]

1) *Consumer Reports Money Adviser*, August 2011
2) Federal Reserve Bank of New York, 2010
3) American Institute of CPAs, 2011
4) *Investment News*, June 20, 2011
5) *SmartMoney*, March 2011
6) Bureau of Labor Statistics, 2011 (Consumer Price Index for the period 1/1/2010 to 12/31/2010)

Practical insights for your **FINANCIAL GOALS**

Be Ready for a Change in **INTEREST RATES**

When it comes to interest rates, about the only thing you can count on is change. The Federal Reserve, which uses interest rates to influence economic activity, has adjusted the federal funds rate — a key benchmark for other interest rates — more than 240 times over the past 40 years.[1]

Fluctuating interest rates can be challenging for bond investors. When bonds mature during a period of low rates, bond investors may have to accept lower yields when they reinvest their money. On the other hand, if rates rise at a time when their principal is tied up at lower interest rates, they may not be able to take advantage of higher yields.

Fortunately, there is a strategy to help manage the risks associated with fluctuating interest rates.

CLIMBING THE LADDER

One upside of bond investing is that the interest rate on an individual bond is generally fixed throughout the life of the bond, providing the bondholder with a fairly predictable income (unless the bond issuer defaults). When the bond matures, however, the amount of future income the bondholder can expect from reinvesting the principal is highly dependent on the current interest-rate environment.

One way to help manage reinvestment risk is by staggering the maturity dates within a bond portfolio so that at least one bond matures every year or two. This strategy, known as a *bond ladder,* may help limit exposure to falling interest rates while also increasing the likelihood that at least some principal may be available to reinvest when rates are rising.

A bond ladder is a form of diversification because it helps spread risk over a period of time. Of course, diversification does not guarantee against loss; it is a method used to help manage investment risk.

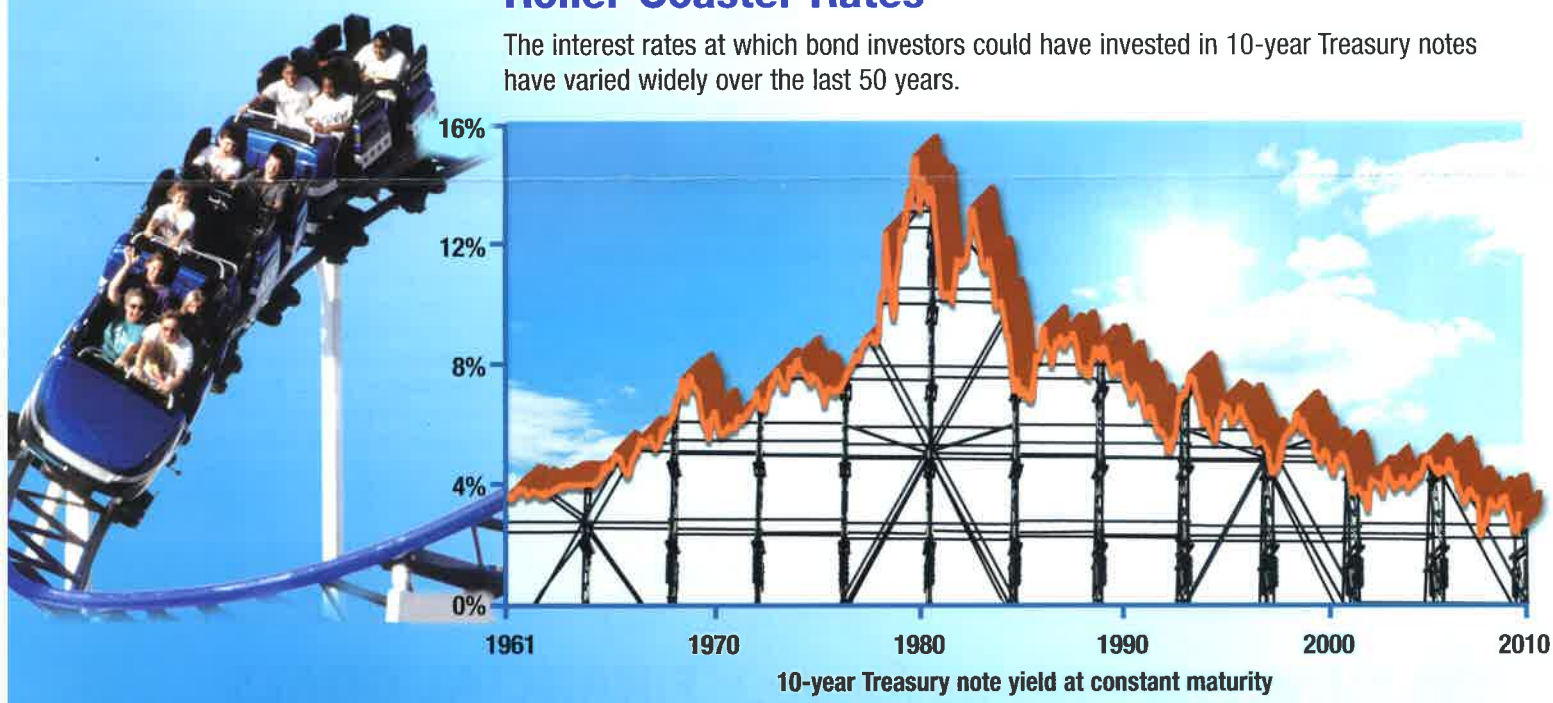
The principal value of bonds may fluctuate with market conditions. Bonds redeemed prior to maturity may be worth more or less than their original cost. Investments seeking to achieve higher yields also involve a higher degree of risk.

Building a bond ladder has no effect on the underlying risk of the bonds themselves. However, ensuring that only a limited portion of a bond portfolio matures at any given time may be an effective way to help manage reinvestment risk.

1) Federal Reserve Bank of New York, 2010

Roller-Coaster Rates

The interest rates at which bond investors could have invested in 10-year Treasury notes have varied widely over the last 50 years.



Source: Haver Analytics, 2011, for the period 1/1/1961 to 12/31/2010 (yield computed monthly). U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest. Treasury securities sold prior to maturity could be worth more or less than the original price paid.

Leaving Your Home Out of the RETIREMENT EQUATION

Plummeting prices and increased borrowing cut U.S. home equity by more than 60% during the Great Recession. Although the recession officially ended in June 2009, home prices have not recovered (see chart).[1–2]

In this type of market, it's not surprising that many homeowners who borrowed against their home equity have found themselves owing more than their homes are worth. Homeowners with a second mortgage are more than twice as likely to be "underwater" than are homeowners with only a first mortgage.[3]

The good news is that housing values typically recover from downturns. But no matter which way the market heads, it's probably not a good idea to count on the value of your home to help fund your retirement.

POTENTIAL RISKS OF DOWNSIZING

Although moving to a less expensive home could be appropriate for some people, the falling market of the last few years demonstrates that you may not always be able to sell your current home at the price you expect. Transaction fees and moving expenses could also leave you with substantially less cash than you were anticipating.

It might be more realistic to view downsizing or moving to a different area as a personal choice rather than a way to pay for retirement. If you place too much emphasis on your home equity in your retirement strategy, it could lead you to underestimate how much you may need to save for a comfortable retirement.

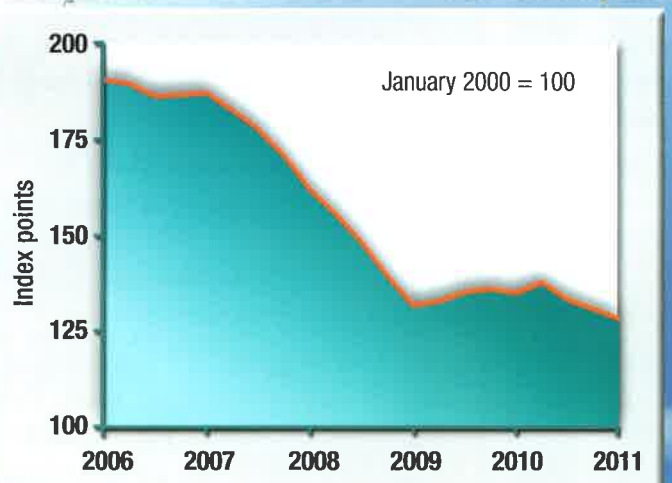
SHIFTING INTO REVERSE

A reverse mortgage may allow homeowners age 62 and older to borrow against the value of their homes. They don't have to pay back the loans during their lifetimes for as long as they continue living in them. This strategy may be appropriate for some retirees, but it also involves substantial fees — and the amount you can borrow is typically much less than the actual value of the home. Because a reverse mortgage loan must be paid back after you stop living in the home for one year or more, it's likely that either you or your heirs may eventually be forced to sell it, risking exposure to the uncertainties of the housing market.

Your home might have substantial value, but it also provides shelter and may have sentimental value. You may be in a stronger position to make decisions about your home if you leave it out of the retirement equation.

A Record Fall

The Standard & Poor's/Case-Shiller Home Price Index uses a point system to track changes in the national average price of a single-family home.



Source: S&P/Case-Shiller U.S. National Home Price Index (through March 2011)

1) Federal Reserve Bank of New York, 2011
2) National Bureau of Economic Research, 2010
3) *The Wall Street Journal*, June 8, 2011

Looking Back to **MOVE FORWARD**

It's natural to be concerned about your investments, especially as you approach retirement. Almost half of baby boomers say they check their retirement accounts at least once a week.[1]

However, it may be more important to periodically check your retirement *strategy*. Any significant change in your current life situation — and even some changes that don't seem so significant — might affect your retirement goals.

Although this kind of review can be a good idea at any time, the end of the year seems especially appropriate to look back and see whether any new factors could affect your approach to saving, investing, and risk management.

Have you changed jobs? Frequent job changes are common among American workers (see chart). When you leave a job with an employer-sponsored retirement plan, you may want to roll over some or all of your plan assets to an IRA. A job change also might include a pay raise that would allow you to save more and may affect the lifestyle you want to maintain when you retire.

Have there been major changes in your life? The birth of a child or grandchild, a marriage or divorce, or a death in the family could affect the kind of retirement you envision. Changes in your health or your spouse's health should also be factored into your retirement strategy.

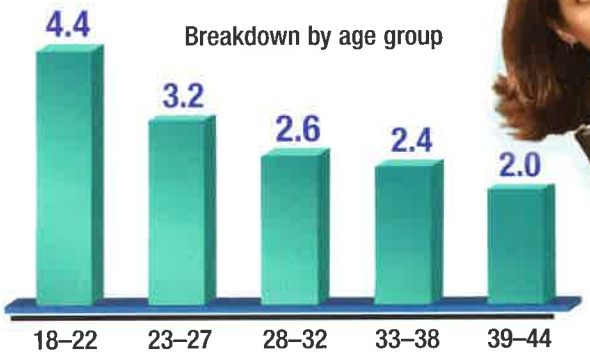
Do you have new interests or goals? It's important to consider retirement *wants* as well as retirement *needs*. Your current strategy probably considers how to pay for basic needs in retirement (food, shelter, etc.), but are you on pace to afford the activities that you envision for retirement, such as travel, hobbies, and pursuing other interests?

If your end-of-year review reveals changes that might affect your retirement strategy, we can help you adjust your approach to meet your new situation. Making appropriate changes today might help provide you with a more comfortable retirement in the future.

1) *Journal of Financial Planning*, June 2011

A Career of Changing Jobs

Baby boomers born from 1957 to 1964 held an average of 11 jobs from age 18 to 44.



Source: Bureau of Labor Statistics, 2010 (jobs spanning more than one age group are counted once in each group)

A review of your financial situation can take place any time of the year. Call us to schedule a time to review your progress toward your financial goals.

Working toward a better financial future,