



Volume 3 Issue 10
JANUARY 2007

NEWS FOR AND ABOUT PEOPLE IN THE PRIME OF LIFE™



Focus on Finance

2007 - Time to Get Your Financial Ducks In A Row!

Whether you plan on improving your personal health through proper diet and exercise or improving your personal wealth, the key to your success this year and any year is changing your habits. A coach of mine always tells me how my beliefs dictate my behavior and my behavior dictates my results. So if you want to get better results in any area of your life you have to start by upgrading your beliefs. Think big in 2007 and remember the fundamentals, which we too often forget. They are the keys to financial success.

Planning. Establishing clear life goals and a long-term strategy to meet them is the essence of sound financial planning. Even ambitious goals may be within reach, provided you develop a realistic, step-by-step program to get from here to there. A solid plan lays out the amount you must save annually, assuming an expected average rate of return, to reach your financial targets. It prepares you for future expenses, such as a retirement and unexpected setbacks, such as premature death or disability. Good financial planning is a detailed road map to a place you've never been. It provides peace of mind now by giving you confidence in your future.

Saving. Money doesn't grow on trees, but it does grow — provided you invest it. The more you put aside and the longer you allow it to compound, the better off you'll be in the long run. The rule of 72 is the easiest way to see how this works. Simply divide 72 by your rate of return to get the number of years it will take for your money to double. For example, with an 8

percent return, your investment will double in nine years and quadruple in 18. Although it's easy (and very advantageous) to invest a windfall such as a severance payment or an inheritance, a steady, automatic withdrawal from your paycheck is probably the most effective form of investment. With this strategy, you don't miss the money, since you never see it, and you're able to load up on assets when they're doing poorly and reap the benefits when they go up.

Retirement contributions. The government rewards savers by offering tax benefits to retirement accounts such as 401(k)s, 403(b)s and IRAs. In most cases, you contribute pre-tax dollars and the money grows tax-deferred, meaning you don't owe taxes on gains until you withdraw the money. With Roth IRAs, you contribute money that has already been taxed but your withdrawals are tax-free. Either way, the boost from Uncle Sam is so generous that it's worth stuffing as much as possible into retirement accounts before you put a penny into regular savings.

Diversification. A few years ago, some investors thought diversification meant buying three computer stocks and two Internet stocks. They were sadly mistaken, as were many other investors who wrongly assumed they were being prudent because they owned a dozen different mutual funds. True diversification isn't simply a question of numbers. It requires buying a range of investments in markets that do not move in lockstep with each other. Through most of the 1990s, growth stocks were the spectacular performers; in recent years value stocks have been much more successful. A balanced portfolio will have both. It will also include bonds. As we've seen in the past couple of years, fixed-income securities often sit at the opposite end of the seesaw from equities, going up when stocks go down and vice versa. Having all

of these elements in your portfolio should help keep it afloat in a range of market conditions. But just starting out with the right mix isn't enough; you also need to rebalance your portfolio regularly, trimming some positions that have done well before they swoon and adding to others that may be poised to rebound.

Tax planning. Hidden within hundreds of pages of tax laws are a broad range of special breaks for taxpayers. Shifting income from one year to another, selling assets that have lost money to balance out gains from top performers, and making contributions to educational savings accounts are three common strategies savvy taxpayers use, saving thousands of dollars in the process. Reviewing your tax situation with a financial professional at the beginning of the year and again in December may be the most lucrative and painless investment you can make.

Insurance. Planning for the unexpected is the key to investment success, and it's just as important when determining your insurance needs. You need enough life insurance to meet the long-term needs of those who survive you. Your health insurance should include coverage of catastrophic accidents or illnesses. Disability insurance is relatively inexpensive, but can make a big difference if you need it. And you should seriously consider long-term care insurance if you don't think your retirement income will be sufficient to pay for nursing home care.

Estate planning. Having the right estate plan will ensure that your wishes are respected. That could mean a lot to your heirs, psychologically as well as financially. If you have substantial assets, developing a well-thought-out estate plan can minimize your taxes even while you are alive and maximize the amount you are able to leave to loved ones and your favorite charities. Even if you don't have enough in your estate to run afoul of federal and state estate

tax laws, having a valid will is essential; it can save your heirs a lot of trouble and probably some money, too.

In the final weeks of the 20th century, there was a lot of talk about how the old financial rules no longer applied. Diversification was a particularly popular whipping post for the, "It's different this time," crowd. As it turned out, this time wasn't all that different, and millions of investors now must face the fact that they've lost ground, and time, along the road to their financial goals. It's never fun having to start over, but it does give you one more chance to do everything right. This year, create a solid financial plan based on conservative assumptions. Make sure your portfolio is truly diversified, not just within narrow asset classes, but across a broad mix of asset types. Take advantage of tax-law changes that could put millions more in the nest eggs of diligent savers. And see that your estate plan, too, makes the best use of new, more generous tax rules. Taking care of these basics should prepare you well for a steady march into the future. Make 2007 your best year ever!

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