

How To Find An Advisory Firm You Can Trust

These are perilous times for investors looking for a trustworthy financial advisor. Clients of even the best advisors have suffered setbacks as the stock market lost half its value, and those who work with representatives of big investment banks and brokerages have been left to wonder why they're taking advice from firms that erred so badly with their own investments. But the worst blow to the very concept of a trusted financial advisor may have come from the Bernard Madoff scandal. Madoff stole almost \$65 billion from 4,800 clients, many of whom had assumed their money was safe largely because of who Madoff was—a pillar of the Jewish community of which so many of those clients are also a part. In a world in which he could betray them so spectacularly, is there really anyone you can trust to handle your money?

That's a question our firm takes very seriously. We have always tried to operate openly and transparently, but in today's uncertain world, no one should take a firm's integrity solely on faith. Just as it's our responsibility to practice "due diligence" before recommending any outside investment manager or custodial firm, it's your job to look closely at any advisory firm you're considering. We will gladly talk with you about our policies and processes and provide any documentation you might require. Here are several criteria to use in evaluating our firm or any other advisor.



Is the firm a fiduciary? A financial advisor who is legally and ethically required to put your interests first is known as a fiduciary. Registered Investment Advisors, or RIAs, operate as fiduciaries, and must disclose to you how they're compensated and any potential conflicts of interest that might arise during your relationship. Other advisors who are not RIAs may also embrace fiduciary responsibilities. But under a recently enacted Securities and

Exchange Commission (SEC) rule, non-fiduciaries must now make this disclosure: "Our account is a brokerage account and not an advisory account. Our interests may not always be the same as yours. Please ask us questions to make sure you understand your rights and our obligations to you, including the extent of our obligations to disclose conflicts of interest and to act in your best interest. We are paid both by you and, sometimes, by people who compensate us based on what you buy. Therefore, our profits, and our salespersons' compensation, may vary by product and over time."

Is it independent? The biggest names in financial services have been tarnished by the global financial crisis. Investment banks and brokerages have collapsed under the weight of their own investments in collateralized mortgage obligations and other debt securities. Though the firms' personal financial advisors weren't responsible for the

(Continued on page 4)

May 19 WMN Forum May Be Our Most Informative Yet!

The upcoming Wealth Management Forum (scheduled for Wednesday, May 19, 4:00 – 7:00 p.m.) will feature presentations by two of our major mutual fund managers. Jay Compson of Absolute Investment Advisers is coming from Boston to describe his firm's philosophy and protocol for attaining positive annual returns no matter what the stock market does. Ashish Tiwari of PIMCO will then discuss global multi-asset-class investing and what his organization means by the "new normal."

This forum is shaping up as one of our most informative ever. Each presentation will include ample time for questions and answers, and then upon completion of the educational program, we will adjourn to the WMN office suite upstairs for a "meet and greet" with the speakers. Beverages and hors d'oeuvres will be served.

Free parking is available in the Fashion Island structure across the street from our building. If you park in the structure adjacent to our building, we will gladly validate.

Reservations must be made by calling (949) 720-9980 ext. 205 or emailing Cheri Billiet (cherib@theWMN.com). Don't delay; space is limited.

We encourage you to invite friends and business associates who might like to attend.

Hope you can join us!

P.S. Special thanks to those who responded to our recent WMN Forum Survey. Your input is very much appreciated!

Is Medicare A Mystery? Test Your Knowledge

Talk about a historic first: 2008 marked the year the oldest of baby boomers turned age 62 and became eligible to claim Social Security benefits. Yet despite their reputation as the best-educated generation in U.S. history, a recent survey suggests that most boomers are woefully uninformed about their retirement health insurance picture, particularly Medicare eligibility.

According to the survey by the National Association of Insurance Commissioners, only 36% of baby boomers knew the age at which they would become eligible for Medicare benefits. And while 84% of boomers said access to health insurance was an important consideration in choosing when to retire, only 43% cited Medicare eligibility as important. Given that most retirees depend on Medicare to pick up much of their health-care tab, the implied gap in understanding could signal trouble ahead for many boomers.

Also two-thirds of those who responded weren't familiar with options such as Medicare Advantage, a managed care program that offers lower costs and broader coverage in return for restrictions on the choice of doctors and hospitals.

And while most boomers didn't know much about the Medicare system, more than eight in 10 expressed concern about its long-term

financial viability.

How savvy are you about Medicare? Use this quiz to test your knowledge.

1) Medicare is:

- a) The largest health insurance program in the nation
- b) Partly funded by the federal government
- c) Both of the above
- d) Neither of the above

2) You are eligible to receive Medicare coverage at:

- a) Age 59½
- b) Age 62
- c) Age 65
- d) Age 67

3) You may qualify at a younger age if:

- a) You pay extra.
- b) You are disabled or suffer from end-stage renal disease.
- c) Your household income is below the poverty level.
- d) None of the above

4) Medicare now includes how many coverage options?

- a) Two
- b) Four
- c) Five
- d) Six

5) The newest addition to Medicare coverage is:

- a) Preventive care
- b) Fitness programs
- c) Prescription drugs
- d) None of the above

6) Which of the following is true?

- a) No Medicare recipients pay premiums.
- b) Some Medicare recipients pay premiums.
- c) No Medicare recipients pay deductibles.
- d) No Medicare recipients pay coinsurance charges.

7) Which of the following is false?

- a) Medicare will pay for long-term health-care services.
- b) You have to apply for Medicare coverage.
- c) You can purchase supplemental insurance.
- d) Health discount cards are not insurance products.

If you are confused about your Medicare or long-term-care coverage, please give us a call. We'll be glad to help.

ANSWERS: 1-c; 2-c; 3-b; 4-b; 5-c; 6-b; 7-a.

Caveat Emptor: Long-Term Care Policies

Most long-term care (LTC) insurance policies today are much better than those offered in previous decades. Still, there remain potential drawbacks, and would-be buyers need to make sure they know what they're getting and that it suits their needs.

Many early LTC policies paid benefits only for "skilled nursing home care" for a limited period of time. Moreover, there were often stringent requirements to qualify for benefits, such as having to spend three days in a hospital before going into a nursing home.

Most states now require LTC

policies to provide benefits for all levels of care, and competition among insurers has led to innovations that make LTC insurance a significantly better value. Yet these policies remain complex and expensive, and getting the right mix of benefits means understanding the LTC landscape. Consider these factors:

Range of coverage. Most policies offer benefits for care in a variety of settings, including at home, in an assisted living facility, and adult day care as well as in a nursing home. Payment may vary with the setting, so make sure the specified amounts cover the cost of care in your area.

And beware of hospitalization requirements, because only about half of nursing home admissions follow a hospital stay.

Benefit triggers. Usually, LTC benefits are available once the insured needs assistance performing a specified minimum number of activities of daily living (ADLs)—commonly including eating, bathing, dressing, "toileting," continence, and mobility. Better policies kick in when someone requires help with just two or three ADLs. Some policies also begin coverage when there is "cognitive impairment."

Waiting period. Most policies specify a 90-day waiting period

Bear Markets Help Long-Term Investors

This is a great time to be young—particularly if you have the means and the foresight to invest in the stock market and the patience to let your investments work over time. Though the bear market has scared off many would-be investors, putting money into stocks during and after a downturn has historically been a winning strategy, according to a study by investment company T. Rowe Price. Long-term investors who systematically invest in equities during a bear market are actually better off than those who start investing during bull markets.

The T. Rowe Price study focused on four hypothetical investors. One began investing in 1929, another in 1950, the third in 1970, and the last in 1979. Each “investor” put \$500 a month into a portfolio that replicated the performance of the Standard & Poor’s 500 stock index for 30 years. The study assumed a \$10 share price at the beginning of each period, and all dividends were invested in additional shares.

Two of the hypothetical investors—the one who started investing in 1929 and the other who began in 1970—entered the stock market just before two of the worst bear markets in history. During the decade of the Great Depression, from 1929 through 1938, the S&P 500 had a negative annualized total return, losing almost 1% per year, and the 1970s were

only slightly better to stock investors, with the S&P averaging a 5.9% annual total return during years of exceptionally high inflation that reduced the value of market gains. Yet the investors could take solace from three positive factors during those dark days.

1) Investing during a bear market, they were able to buy shares of stock at depressed prices, and that let them accumulate more shares than they could have if prices had been higher. This positioned their portfolios for outsized gains when stocks recovered.

2) By dollar-cost-averaging—making regular, equal investments regardless of whether the market was up or down—and reinvesting dividends, the two investors who started during the bear markets would have posted small gains after the first decade. They would have done better than investors who had narrower portfolios or who had invested their money as a lump sum rather than as a series of periodic investments.

3) Compared with the two other investors, who accumulated fewer shares at a higher average cost during the rampaging bull markets that began in 1950 and 1979, the bear market investors fared much better after 30 years. The advantage of the investor who began in 1970 was particularly pronounced, thanks to stocks’ exceptionally strong performance during the 1980s and 1990s.

For the 30 years beginning in 1929, the S&P 500 provided a decent 8.5% annualized return, rewarding that period’s systematic investor with a total return of 960%. Even more impressive, the investor who began in 1970 would have earned a 1,753% total return during the next three decades. And the investors who started during bull markets? Each earned total returns of less than 400% during 30 years of investing, according to the T. Rowe Price study.

The bear market investors thrived because they began when times were tough, rather than despite that apparent misfortune. To prove that point, the study also examined what would have happened if the first two decades of each period had been reversed—so that, for example, the tough sledding of the 1970s had been preceded by the strong market performance of the 1980s, rather than followed by it. An investor beginning \$500 monthly contributions in 1970 would have had \$589,707 after two decades—but only \$358,972 if the decades had been reversed. That was true even though, in both cases, the S&P 500’s annualized return for the 20-year period would have been an identical 11.5%.

Investing in the stock market during a bear market—and during the hard economic times that led to the downturn—requires a leap of faith for new wage-earners as well as for older investors stung by recent losses. But down cycles for stocks and the economy have always been followed by rebounds, and equity markets tend to recover months in advance of a return to economic growth. As the T. Rowe Price study shows, it can pay to take advantage of those trends by beginning a program of long-term, systematic investing just when conditions seem worst. That’s a lesson even middle-aged investors could take to heart as they look to regain their investment footing after the historic market plunge.

Performance data quoted represents past performance and does not guarantee future results. Indices are unmanaged and do not reflect the payment of fees and other expenses associated with an investment. Investors cannot directly invest in an index.

between the time need is demonstrated and the beginning of benefit payments. However, it is important to check the policy’s definition of a “waiting period,” as it could refer to either calendar days or service days.

Premiums. The younger you are when you begin coverage, the lower the premium, which will also be affected by the range of policy benefits you choose, including type of policy (reimbursement, indemnity, or cash); health status; waiting period; and inflation factor chosen (simple, compound, or none).



Inflation protection. The cost of all health care, including long-term care, is rising much faster than the overall cost of living. So it’s essential that a policy increase benefits as costs rise—particularly if it could be years or even decades before care is needed.

Desirable policies are guaranteed renewable for life and cover pre-existing medical conditions. Additional riders and options may be worthwhile, but it’s important to weigh the costs of extra benefits. We can help you make sense of this complicated insurance market and help you find a suitable policy at a reasonable price. ●

A Welcome Spike In Personal Savings

Are you looking for something good that may have come out of the recession? As a result of the economic downturn, Americans have generally been spending less and saving more. The savings rate in U.S. households in 2009 reached a high point of 6.9% of after-tax personal income in May. Even though the savings rate has slipped slightly since then, the watershed mark was the highest rate since 1992, when savings peaked at 7.7%.

While it's not an exact measure of fiscal health, the savings rate is the percentage of household disposable income that is put into savings rather than consumed. Mortgage payments are not considered savings, but retirement plan allocations (not capital gains) are. Although a sub-7% savings rate isn't much to brag about in most parts of the world—the annual percentage in other countries routinely hits double digits—it marks a dramatic shift in our personal financial habits. During recent years, the percentage of savings actually dipped below 1%, bottoming out at 0.4% in both 2006 and 2007. In 2008, the saving rate was still only 1.8%.

What's behind the trend towards

more savings? During the preceding two decades, rising stock market values and home prices had enticed consumers into thinking they had money to burn, and they became less and less inclined to save for retirement and other needs. Even retirees were encouraged to spend like there was no tomorrow.

But the recent precipitous decline in household wealth ended the wild spending spree. Real estate values around the country have dropped by an estimated 35%, and during the past two years, U.S. household wealth has been reduced by a whopping 140% of annual disposable income. That's a total of \$14 trillion.

Faced with daunting economic news, people have been forced to rein in spending, while increasing their efforts to prepare for a secure retirement. For instance, instead of buying goods with their checks from the economic stimulus package or taking advantage of other tax

incentives, many people have chosen to hold on to the money. And it doesn't look as if things will change radically anytime soon.

How long will the latest trend last? Most economists predict a slow, steady climb back to better times rather than a quick return to another financial boom. But cutbacks in domestic consumption will also slow down the economic recovery. In the meantime, the savings rate is expected to rise gradually until it hits the 10% mark at some point during the next 10 years. Other financial experts believe the recovery period could last even longer.

Of course, an increased savings rate is to be applauded, especially after it had plummeted dangerously close to zero. Americans will have to adjust to a lower standard of living compared with the heyday of 2007. But if forgoing a few luxuries is the price you have to pay for protecting your financial future, that's probably a trade-off you'd be willing to make. ●



Find An Advisory Firm

(Continued from page 1)

companies' dire miscalculations, they operate in the same corporate culture and often are encouraged to recommend the firms' proprietary investment products. Independent financial advisors, in contrast, aren't subject to a larger firm's foibles. Those who are fiduciaries have only one goal—to help clients achieve their objectives.

Where does it hold your assets?

Madoff and other schemers tend to minimize their involvement with outside firms that might notice irregularities in their operations. Madoff's firm, despite its large size, self-custodied assets, which should have been a red flag for investors.

Responsible advisors, in contrast, work with custodial firms such as Charles Schwab, Fidelity, Pershing, or TD Ameritrade that hold client assets and provide regular account statements and constant access to account information. Those companies' participation adds an extra layer of security for your holdings.

What kind of relationships does it have with clients? Particularly during these turbulent times, you're bound to have questions about the economy, investment markets, your financial plan, and the safety of your assets. Your advisor should be there to provide answers, to meet with you when you

have concerns or problems, and to provide regular communications through a newsletter, email updates, or the firm's website.



Our firm is a fiduciary and we safeguard client assets by holding them at a respected custodial firm. We operate independently and are free to recommend any investments we

believe will serve your financial goals. We communicate frequently with all of our clients and are always available to answer questions or concerns. We strive to offer outstanding financial guidance and to relieve any worries you might have about how we invest your money. ●