financial focus

Harbor Light Planning, LLC

Kelly L. Adams, CFP®, EA

42705 Grand River Avenue
Suite 201
Novi, MI 48375

248.442.0877

kelly@harborlightplanning.com • www.harborlightplanning.com

Fall 2009

A LOST DECADE?

by Stewart Farnell, Ph.D., CFP®, EA Boulder, CO

The investment research company Morningstar reported recently that the average return for the Vanguard Total Stock Market Index Fund Investor Shares for the last 10 years was –0.66%. In other words, the U.S. stock market has had negative, not positive, returns over that time. This isn't the first time the stock market has shown negative returns over 10-year periods; it happened at least twice in the 20th century. So we should all be in bad shape, crying about our losses, bemoaning a lost decade—right?

Maybe not. As I look at client portfolios, I notice that almost all of them, despite their ups and downs, have done just fine over the last 10 years. But if the stock market has been negative, how can these portfolios have done well?

One possibility is that the portfolios have been swelled by new money going into them, through saving and investing. Undoubtedly such saving and investing has benefited some portfolios, but others have been growing as well. So new contributions into the portfolio can't be the full explanation.

Another, more promising answer, is that the portfolios have been diversified. Perhaps 30%, 40%, 50%, or more of each portfolio has been invested in less exciting asset classes such as money market and Treasury securities. And these investments have been generating income, at the rate of 3%, 4%, or 5% per year. Over 10 years, a $100 investment generating 4% a year will grow to $148. So even if the stock market has been negative, the interest-earning portion of the portfolios has generated growth.

Another part of the explanation involves rebalancing. To maintain a constant risk profile, I work with my clients each year to bring their portfolios back to the asset allocation targets specified in their investment plans. And because the value of different types of assets fluctuates in different ways over the years, plenty of rebalancing has been required. At most rebalancings, we take the excess money (the amount by which the value of a particular asset class, say international stocks, exceeds the target value) out of these appreciated assets and use it to buy assets whose value is below the target. This rebalancing often results in selling some types of assets when their price is high and buying others when their price is low. The ups and downs of different types of assets over these 10 years have provided many opportunities to rebalance portfolios and often earn returns that may be better than those of the stock market.

This compounding of interest over 10 years, and the buying low and selling high of a variety of asset classes, goes a long way in explaining why the last 10 years for most of us have been anything but a lost decade. ■ ■ ■

INSIDE THIS ISSUE

READ ANY GOOD ONES LATELY?

by Linda Leitz, CFP®, EA   Colorado Springs, CO

Do you like to read books about personal finance? Do you want to be better informed about finances? Here are some of the books I recommend to my clients, including my opinion on the strengths and weaknesses of each.

The Richest Man in Babylon by George S. Clason

This classic collection of short stories (originally circulated as pamphlets beginning in 1926) deals with basics of taking control of your money. The pillar of this book is that part of everything you earn is yours to keep. You should take that as seriously as you do paying your bills, so you can meet financial emergencies and save for your future.
Strength: Good for motivation.
Weakness: It does not provide nuts-and-bolts specifics.

The Wealthy Barber by David Chilton

For people who are roughly 20 to 45 years old, this excellent book gives specifics on starting a very general financial plan. As with any book offering specific advice, not every financial planner will agree with each point.
Strength: Easy to read with specific steps you can follow.
Weakness: No book can know your situation, so the specific advice might not work for you.

Your Money or Your Life by Joe Dominguez and Vicki Robin

The authors say every dollar you spend has a corresponding cost: the time spent earning that money. Make each purchase—and decide how much you want to work—with this in mind. The book provides a very specific strategy: come up with a principal amount that you will use to generate interest income for living expenses.
Strength: Recommends balance in how much you work and how much you spend.
Weakness: The savings philosophy can be out of sync with reality if inflation rises and interest rates are low.

Why Smart People Do Stupid Things with Money: Overcoming Financial Dysfunction by Bert Whitehead

Bert's philosophy (which I use in my practice) works for average people as well as wealthy ones. In my opinion, it's the best approach because it incorporates all aspects of your financial life—your investments, retirement planning, your will, budgeting, your home, and your mortgage.
Strength: Practical, realistic strategies for real people.
Weakness: The title—lots of smart people don't like to admit they're dysfunctional.

Don't Make a Budget: Why It's So Hard to Save Money and What to Do About It by Kenneth F. Robinson

Too many people never save because they get bogged down developing a budget. This commonsense book shows that spending less than you make and saving money don't have to be overwhelming. The book's practical steps and real-life examples are workable for all income levels.
Strength: Relieves the reader's guilt about not having a budget and makes saving achievable.
Weakness: None, if the reader implements the strategy and then takes the next step of enlisting professional help on more complex financial planning.

The Seven Stages of Money Maturity by George Kinder

Many people see money as a material necessity and don't really feel they are in financial control. This book takes a more philosophical approach and, using stories from the author's life and financial practice, expresses the relationship with money as an outgrowth of an individual's spiritual outlook and values.
Strength: Takes a holistic approach to an individual's financial outlook.
Weakness: Might seem too extreme for some or conflict with personal religious beliefs.

The Young Couple's Guide to Growing Rich Together by Jill Gianola

Often young couples don't need full-blown financial planning from an advisor, but do need to learn how to become financially responsible together. This book provides a fast start for couples who are willing to be serious about financial soundness before it becomes a big effort.
Strength: Easy read with practical advice.
Weakness: If combined with consultation with a financial advisor on the individual situation, there is no weakness.

The 9 Steps to Financial Freedom by Suze Orman

A step-by-step program to help you get control of

(**READ ANY GOOD ONES LATELY?** continued on page 3)

HOLIDAYS AND GIFTS

by W. Tedd Oyler, J.D. Saugatuck, MI

The American "holiday season" has ancient roots. We are carrying on a traditional custom of celebrating the winter solstice, the end of shortening days and the rebirth of lengthening days, and the hope for more sunlight. Several traditions have their own important observances that take place in the dark days of December.

It appears to be another human tradition to take simple celebrations and make them grander, more complicated. Christmas, for instance, has for some become a cacophony of Santas, reindeer, nutcrackers, tinsel, flashing lights, faux angels, office parties, holiday movies, and—above all else, it seems—a frenzy of gift buying and opening.

To be sure, each of us can choose how we celebrate our holidays. Our traditions dictate some of the experience. Beyond those teachings, we can choose how to observe important occasions. Just because the neighbors decorate their homes to a gaudy excess does not obligate us. Just because the neighbor children receive thousands of dollars worth of electronics does not mean our kids must as well.

You may be struggling to maintain treasured family traditions, such as a certain schedule for a holiday or a particular way of opening gifts. You may face new challenges if one sibling has moved away and another has married into another family, creating scheduling conflicts. Each of these issues adds stress to our lives and has the potential to compromise a pleasant holiday.

If you think the season has become more material than spiritual, consider reinventing how you celebrate your holiday. And if you go into debt to buy gifts, maybe you should reinvent how you celebrate.

As we edge warily forward into 2010, absorbing one financial shock after another—to the point where we aren't even shocked anymore, just frightened—we can reexamine our priorities, perhaps taking a fresh look at all those toys (for kids and adults) and all that debt that can enslave us.

It's all about living in integrity with your own sense of values. If you don't, you will be uneasy some part of every day—unhappy rather than happy, less useful to your family and friends. Failing to live in integrity will cause your life to dis-integrate—maybe slowly, maybe more quickly.

So how can you reengineer a holiday? Perhaps you can reduce the focus on material goods. For the children in your life, reduce the number of gifts you buy by one. Young ones won't notice the difference, and older ones can be taught to choose what is most important to them. As kids become old enough to understand, offer them a gift for themselves with the proviso that they'll designate a charitable recipient to receive a gift of similar value. You may be surprised at how much they'll appreciate this idea.

Instead of buying more "things" for adults who already have plenty, consider charitable donations in their name for as much as you would have spent on them. Choose a charity they support or where they volunteer.

Fewer material gifts means less wrapping, less mess, and less time spent in malls. This leaves more time and freedom to spend your holiday in your own way. Perhaps you and your family will prefer less in the way of material goods and cherish more meaningful time together. ■ ■ ■

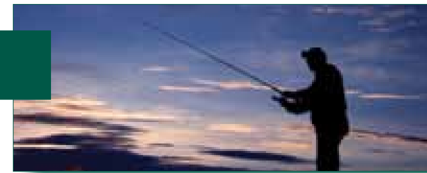
READ ANY GOOD ONES LATELY?

(continued from page 2)

your finances. The author discusses how we feel about money and how that affects our relationship with it. Most of her advice is sound, but the specifics might not fit your exact situation.
Strength: Specific steps for the do-it-yourselfer.
Weakness: Estate planning recommendations might be overkill for the average person.

Rich Dad, Poor Dad: What the Rich Teach Their Kids About Money—That the Poor and Middle Class Do Not by Robert T. Kiyosaki and Sharon L. Lechter

The authors say real estate and self-employment are the way to strike it rich, and higher education does not make you financially secure. Unfortunately, you have to read the entire book, paying very close attention, to realize the authors admit their approach entails above-average risk and that you can be financially successfully with a more conservative approach if you stick with it.
Strength: Helpful explanations of assets, liabilities, income, and expenses.
Weakness: If something seems too good to be true . . .



SAVING OUR ECONOMY THE OLD-FASHIONED WAY

by J. Marc Vorchheimer, CFP® Spring Valley, NY

The economy may be the single most talked about topic today. Many people are out of work, and businesses are struggling to stay afloat. Even if the situation is stabilizing somewhat, most experts predict the economy will probably not recover quickly.

Our federal government has committed hundreds of billions of dollars to stimulate the economy. One of the rationales given for this unprecedented government largesse is to encourage consumers to spend, which, in turn, should help businesses increase their revenues, create more jobs, and so on.

Spending is certainly a vital part of any healthy economy. If people hoard their resources, commerce inevitably declines and businesses lose revenue, or even fail, leading to fewer jobs. The economy would suffer if people severely limit their spending for an extended time.

However, here's another side of the coin (pun intended). A thriving economy also requires people to save money. According to a recent *Wall Street Journal* article, our country's personal savings rate has increased, in just one year, from about 0% or less to about 7% of personal income. Other sources suggest the savings rate may be up to as much as 10%.

The unemployed naturally are not included in this increased savings rate. In fact, they often pay for personal expenses by dipping into savings or retirement accounts or by borrowing. Either way, they typically have a negative savings rate, spending more than their income. The exceptions are those living on pensions and Social Security, as well as those who saved consistently over time to accumulate enough income-producing assets.

Many in the media have decried the savings phenomenon as an obstacle to an economic recovery because it means consumers are cutting back on expenditures. I disagree. In fact, one reason we are in this economic mess is that we have been overspending for years. Now many finally have reached the point where there is no longer any money to spend.

Saving has numerous benefits. Here are several reasons it is essential for our economy that we once again become a nation of savers.

Consumer Confidence

People feel secure knowing they have more resources than they need right now, a financial cushion they can use as an emergency fund. We are more comfortable knowing that if we incur an unexpected expense or lose our jobs, we have a source of spending money. And when consumers are more relaxed about money, they become more confident and more likely to spend enough to keep the economy going at a healthy pace.

Coping with Challenging Economic Cycles

Economic cycles of prosperity and adversity are inevitable. If consumers and businesses consistently spend all their resources (and more), an economic slowdown can be financially devastating. But if they consistently save a portion of their income, they will be better prepared to absorb periods of slower sales growth and reduced income, resulting in a quicker economic recovery.

Preparation for Retirement

Some experts predict that without drastic measures, the Social Security retirement system will run out of money by 2037. Even if the system survives, the income provided in retirement is insufficient for most Americans. People need to supplement their Social Security with income from other sources. If retirees save adequately in their working years, they should have enough during retirement. Working people who do not save will impose a huge economic burden on society when they retire, which will negatively influence the economy.

Affordable Prices

If people spend more than they make, they are buying items they cannot afford. Thus the true demand (demand from consumers who can afford to pay for the product) is lower than it seems. When demand increases for a product and supply is constant, the price of the product will rise. However, the price increase is artificial because the apparent demand is not sustainable. Many buyers cannot actually pay for the product. Alternatively, if people are saving and truly living within their means, prices will moderate to a level that reflects actual demand.

Fewer Loan Defaults

To spend money they don't have, consumers must borrow. If they borrow too much, they cannot make their loan payments. If almost everyone can borrow money easily, the danger of borrowing and the risk of inability to repay increases. When borrowers cannot repay their loans , lenders (or sellers who financed purchases) take significant losses (the portion of the loan not paid back). This can be a draining trend on the overall economy as well.

Both spending and saving are vital for a robust economy. It is just a matter of knowing how much to spend and how much to save. As a general rule, saving at least 10% of your income is a good strategy. At that rate, you spend 90% of your income, which should be plenty to flow through to the economy and create prosperity. Of course, you may need to save or spend different amounts depending on your particular situation. Consult with your financial advisor, who can help you determine how much to spend and how much to save to meet your financial goals.