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CPI CAPITAL PLANNING INSTITUTE Since 1969

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FINANCIAL OUTLOOK

SUMMER 2015

Caught in the Middle

At a time when baby boomer couples should be saving for their own retirements, many feel squeezed by competing financial needs. Having started families later than past generations, their children may just now be entering college or still living at home. At the same time, aging parents may need financial assistance. It is a dilemma that is likely to become more common.

Caring for Parents

As life expectancies continue to rise, it becomes increasingly likely that you may need to help an aging parent. Some financial precautions you should consider now include:

- ❍ Investigate long-term-care insurance for your parents. If they can't afford the insurance, you may want to purchase it for them.
- ❍ Have your parents prepare a listing of their assets, liabilities, and income sources, including the location of important documents. This can save time if you need to take over their finances.
- ❍ Make sure your parents have legal documents in place so someone can take over their financial affairs if they become incapacitated. They may also want to delegate health care decisions.
- ❍ Understand the tax laws if you provide financial support to your parents. You may be able to claim them as dependents if you provide more than half of their support. Additionally, you may be able to deduct medical expenses paid on their behalf.
- ❍ Find out if your employer offers a flexible spending account for elder care. This may allow you to set aside pretax dollars to pay elder-care expenses for a dependent parent.

Assisting Your Children

For many families, college costs are significant. While you may want to pay all college costs for your children, it may not be feasible with competing needs to save for retirement and to assist parents. Some strategies to consider include:

- ❍ Shift some of the burden to your children, requiring them to work part-time during college or take out student loans.

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Asset Allocation and Diversification

So, it's time to start selecting investments for your retirement account. You sit down at your desk, start looking over the list of investment options, and are quickly overwhelmed. How do you build your retirement portfolio (or any other investment portfolio)? What's right for you? The answer to those questions lies in two essential investing concepts: asset allocation and diversification.

Asset Allocation

Asset allocation sounds complicated, but it's actually a fairly simple concept. It simply involves selecting a variety of different types or categories of investments — called asset classes — for your portfolio as a way to hedge against risk. The asset classes the average investor is most likely to encounter include cash equivalents, stocks, and bonds. Other asset classes include commodities, real estate, and other investment alternatives.

Why invest in different asset classes? Because asset classes are affected differently by economic events and market factors, investing in a variety of asset classes is a way to reduce risk in your portfolio. For example, if stocks fall dramatically,

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- ❍ Understand the financial aid system, investigating all financial aid sources. Search for scholarships that are not based on need. Apply to several different colleges, looking for the best financial aid package. Negotiate with your child's preferred college to see if you can increase the financial aid package.
- ❍ Look for ways to reduce the costs of college. Your child can start at a community college, which is often cheaper than a four-year college, especially if the child commutes from home. Or consider a public university in your state, which will generally be more affordable than a private university.

Once your child graduates from college, don't assume your financial responsibilities are over. Adult children may return home for a variety of reasons — they can't find a well-paying job, they have too much debt to live alone, or they divorce and need financial support. If your child returns home, realize there are increased costs — additional food, phone bills, utilities, etc. Consider charging rent and imposing a deadline on how long he/she can stay.

Don't Forget Yourself

When faced with the competing needs of children and aging parents, it's easy to neglect saving for retirement. But don't feel guilty about your retirement needs. One of the best gifts you can give your children is the knowledge that you will be financially independent during retirement. Consider the following:

- ❍ Calculate how much you need for retirement and how much to save on an annual basis to reach that goal. Don't give up if that amount is beyond what you're able to save now. Start out saving what you can, resolving to significantly increase your saving once your parents' or children's needs have passed. Also consider changing your retirement plans, perhaps delaying your retirement or reducing your financial needs.
- ❍ Take advantage of all retirement plans. Enroll in your company's 401(k), 403(b), or other defined-contribution plan as soon as you're eligible. Also consider investing in individual retirement accounts.
- ❍ Reconsider your views about retirement. Instead of a time of total leisure, consider working at a less-stressful job, starting your own business, or turning hobbies into paying jobs.

Please call if you'd like to discuss this in more detail. ❍❍❍

Things to Consider When Relocating

Major life changes often mean changes in your living situation, and retirement is no exception. Whether you are planning on staying put in your current home or want to retire to an exotic location, there are some issues you'll need to consider.

If you're thinking about staying put… Like many retirees — perhaps the majority — you don't plan to relocate in retirement at all. If you've lived in a home for a while, you probably have a good idea of what it's going to cost to continue to live there, an important part of retirement planning. But there are some challenges that could come with staying in your current home. If you raised a family, your home may be bigger than you really need. Maintenance costs and taxes may exceed what you really need to spend. Plus, there's the issue of accessibility. You may need to take steps to make sure that's possible, like adding ramps, modifying bathrooms, or widening doorways.

If you're thinking of buying a second home… Dreaming of life in the sun? If this is your plan, make sure your finances can handle it. You'll need to carry the cost of owning and maintaining two properties. (Renting one out when you're not there could minimize costs, though that can come with its own headaches.) Plus, there are travel expenses, which can add up quickly. You'll also need to make sure that you have access to health care, banks, and other essential amenities in your new location.

If you're thinking of moving to another state permanently… Relocating in retirement can mean an exciting adventure, but you need to be prepared. Consider taxes and the cost of living before you pack up. Will you have access to good healthcare? Will you be able to build a new social network? Will your religion or political leanings leave you feeling isolated in your new home? Will you be too far away from your family members?

If you're thinking of retiring abroad… A desire to experience new cultures, along with the possibility of a lower cost of living, inspire many to move to exotic retirement locales. If moving abroad is a possibility for you, you'll need to consider some of the same issues as you would if you were moving to another state. But there are additional issues. Taxes on U.S. citizens abroad can be a stumbling block. Make sure you understand the potential challenges of life in a foreign country as well. For example, some places have restrictions on whether foreigners can own property. Health care may not be up to the standard you're used to. Plus, Medicare won't cover care abroad. You'll also need to be prepared for other lifestyle differences, from the type of food that is available to different rules about setting up bank accounts.

Not sure where you should live in retirement? Please call if you'd like to discuss this in more detail. ❍❍❍

Asset Allocation

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the other asset classes in your portfolio will likely help mitigate your losses.

Diversification

Choosing your asset allocation is just the beginning. In order to minimize your risk, you also need to think about diversification. But if you just built a portfolio out of several different asset classes (say, stocks, cash, and bonds), aren't you already diversified? Not necessarily. In addition to diversifying among asset classes, you also need to diversify *within* asset classes.

Diversification is simply another way of saying, "Don't put all your eggs in one basket." If 60% of your portfolio is in stocks, 30% in bonds, and 10% in cash equivalents, you are diversified among asset classes. But if you only own two or three different stocks, you're not diversified within that asset class. If one of those stocks plummets in value, your portfolio could take a big hit.

Diversification may sound fairly simple, but it can be more complicated than many realize. For example, you may think you're well diversified by investing in eight or nine different stocks. But if each of those stocks is in the same industry, they will each have roughly the same performance. To better diversify, you might want to select nine stocks in nine different industries. Another big diversification error people make is investing too much in their employers' stock. No matter how confident you feel about the future of your company, it's rarely smart to place too much of your assets there — if the business goes under, you could be out of a job and much of your savings.

Asset Allocation and Diversification in Practice

How do you determine the right asset allocation or diversification for your portfolio? It depends on your investment goals and time frame. If you are young and investing for retirement, you can afford to have a significant portion of your assets in equities, with the goal of maximizing your investment return. As your retirement date nears, you'll likely want to shift to a more conservative portfolio with a smaller allocation to stocks, so that you can better protect the wealth you've already accumulated.

In the intervening years, you will periodically tweak your asset allocation so that it changes with your situation. You will also monitor your specific holdings in each portfolio, making occasional adjustments so that you are properly diversified. The ultimate result is a portfolio that evolves with you and the current market situation, so you are prepared for whatever economic weather comes your way. Please call if you'd like to discuss this in more detail. ❍❍❍

Asset allocation cannot eliminate the risk of fluctuating prices and uncertain returns, nor can diversification guarantee a profit in declining markets.

Good Investing Habits

Good investing habits will help ensure you follow through on your investment plan. Some tips to hone your habits include:

❍ **Write everything down in a diary.** Every time you make a trade, write down why you did so and what was going on in the markets to precipitate that trade. This will force you to develop objective reasons before making trades. The diary will also be useful when evaluating your investment strategies.

❍ **Keep track of your portfolio's performance.** Don't get overzealous and review your portfolio's performance daily or even weekly. Monthly, quarterly, or even annual reviews are adequate. The point is to assess how your investments have performed compared to a relevant benchmark. Evaluate all your investments, not just your retirement accounts or taxable accounts.

❍ **Monitor the market and your investments.** You can't just purchase investments and then forget about them. While you don't have to read everything in print about your investments, make sure to set aside enough time to review quarterly and annual reports and other major news. You'll also want to read enough to have a general sense of what is going on in the market.

❍ **Evaluate your strategies.** Once a year, thoroughly review your investment strategies and make sure you are on track in pursuing your financial goals. The other habits will assist in this review. Pull out your diary and the analysis of your portfolio's performance so you can review all your trades and investments in detail. You're looking for trends and trying to analyze what you did right and wrong during the year. If you'd like help with this overall analysis, please call. ❍❍❍

Financial Data

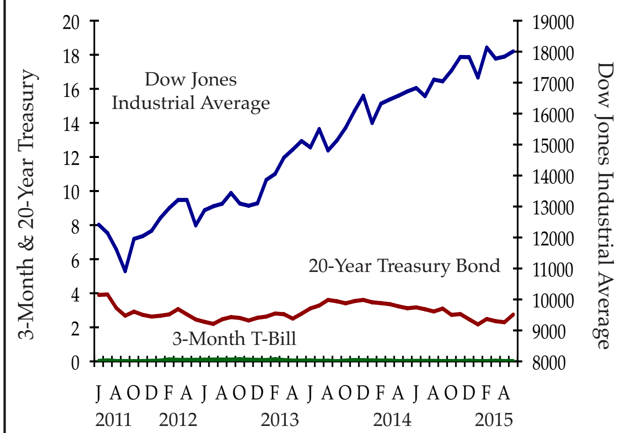
Indicator	Mar-15	Apr-15	May-15	Dec-14	May-14
	Month-end				
Prime rate	3.25	3.25	3.25	3.25	3.25
Money market rate	0.42	0.36	0.36	0.43	0.40
3-month T-bill yield	0.04	0.02	0.02	0.04	0.03
20-year T-bond yield	2.36	2.30	2.75	2.47	3.12
Dow Jones Corp.	2.83	2.71	2.98	3.08	2.69
30-year fixed mortgage	3.34	3.27	3.41	3.47	3.71
GDP (adj. annual rate)#	+5.00	+2.20	-0.70	+2.20	-2.10

	Month-end			% Change	
Indicator	Mar-15	Apr-15	May-15	YTD	12 Mon.
Dow Jones Industrials	17776.12	17840.52	18010.68	1.1%	7.7%
Standard & Poor's 500	2067.89	2085.51	2107.39	2.4%	9.6%
Nasdaq Composite	4900.88	4941.42	5070.03	7.1%	19.5%
Gold	1187.00	1180.25	1191.40	-0.7%	-4.7%
Consumer price index@	234.70	236.10	237.10	0.4%	0.0%
Unemployment rate@	5.50	5.50	5.40	-6.9%	-14.3%
Index of leading ind.@	121.20	121.50	122.30	15.9%	20.8%

— 3rd, 4th, 1st quarter @ — Feb, Mar, Apr Sources: *Barron's, Wall Street Journal*

4-Year Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield

June 2011 to May 2015



Indexes are unmanaged, do not incur management fees, costs and expenses, and cannot be invested into directly. Past performance is not a guarantee of future results. The Dow Jones Industrial Average (DJIA) is a price-weighted index of 30 actively traded blue-chip stocks. The NASDAQ Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System. The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.

News and Announcements

We recently had two big graduation announcements in the Saline Wealth Management Group family (both literally and figuratively) that we would like to announce. Many of you remember Stephen Moore, who interned for us last summer. We are very happy to let you know that he has just graduated from Washington & Lee University in Virginia with majors in Economics and American History, as well as a minor in Classics. This fall, he will be starting a position as an Investment Banking Analyst for Deutsche Bank in New York City.

Jeff is extremely proud of his son, Austin, who recently graduated Magna Cum Laude from Boston University with degrees in Neuroscience and History. Austin is currently studying diligently to take the MCAT (the standardized test for applying to medical school). Later in the summer, he will be traveling to Israel to teach a class in English.

Graduations are a wonderful thing to celebrate with your family and friends. If you've had a recent graduation in your family, please let us know by e-mailing Chanelle at chanelle@salinewmg.com. We would love to share these occasions with you, our Saline Wealth Management Group family.

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