

Who We Are

Learn about our team and see what makes us different.



Our Services

Have a look at our specialized services and see if they suit what you're looking for.



Blog

Keep up-to-date with what's going on in the industry

Financial Planning For Your Future



Planning Ahead Doesn't Mean You Have To Put Off Living Today

Welcome to Capital Preservation Partners (CPP), the personal financial relationship you want, the investment guidance and perspective you need and the recommendations you deserve.

How is your advisor handling the market and your investments? Put your advisor to the test. Send us your most recent Quarterly Report for a FREE PORTFOLIO REVIEW. Call (914) 337-2272 or Email LEO@CPP.BZ

The Five Star Wealth Manager award, administered by Crescendo Business Services, LLC (dba Five Star Professional), is based on 10 objective criteria.

Eligibility criteria – required: 1. Credentialed as a registered investment adviser or a registered investment adviser representative; 2. Active as a credentialed professional in the financial services industry for a minimum of 5 years; 3. Favorable regulatory and complaint history review (As defined by Five Star Professional, the wealth manager has not: A. Been subject to a regulatory action that resulted in a license being suspended or revoked, or payment of a fine; B. Had more than a total of three customer complaints filed against them [settled or pending] with any regulatory authority or Five Star Professional's consumer complaint process. Unfavorable feedback may have been discovered through a check of complaints registered with a regulatory authority or complaints registered through Five Star Professional's consumer complaint process; feedback may not be representative of any one client's experience; C. Individually contributed to a financial settlement of a customer complaint filed with a regulatory authority; D. Filed for personal bankruptcy; E. Been convicted of a felony); 4. Fulfilled their firm review based on internal standards; 5. Accepting new clients. Evaluation criteria – considered: 6. One-year client retention rate; 7. Five-year client retention rate; 8. Non-institutional discretionary and/ or non-discretionary client assets administered; 9. Number of client households served; 10. Education and professional designations. Wealth managers do not pay a fee to be considered or placed on the final list of Five Star Wealth Managers. Award does not evaluate quality of services provided to clients. Once awarded, wealth managers may purchase additional profile ad space or promotional products. The Five Star award is not indicative of the wealth manager's future performance. Wealth managers may or may not use discretion in their practice and therefore may not manage their client's assets. The inclusion of a wealth manager on the Five Star Wealth Manager list should not be construed as an endorsement of the wealth manager by Five Star Professional or this publication. Working with a Five Star Wealth Manager or any wealth manager is no guarantee as to future investment success, nor is there any guarantee that the selected wealth managers will be awarded this accomplishment by Five Star Professional in the future. For more information on the Five Star award and the research/ selection methodology, go to fivestarpromotional.com.

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Focusing On Your Needs

You are unique - in your investable assets, in your life experience, in your financial goals. You want advice that takes into account when devising an appropriate plan for you. Capital Preservation Partners (CPP) takes time to discover where you are now and where you want to go. Unlike large Wall Street Firms, we start with you objectives, not canned asset allocation. We analyze your current positions, evaluate your situation and carefully decide on an implementation plan to help you reach your goals.



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Explaining Your Portfolio Strategy

As investor, you should always be familiar with your investments and what they are expected to accomplish. Whether we utilize top-performing, lower risk, no-load equity and bond mutual funds, fixed income products, ETFs, REITs or commodity funds, we keep you fully informed and you can be assured your best interest drive our recommendations. Serving your needs is our only mission!

Comprehensive Financial Advice

For Individuals, Families & Closely-Held Businesses

You want an advisor who can offer a plan designed to help protect and grow your assets in a variety of market conditions. Capital Preservation Partners offers comprehensive financial advice and can help you:

- *Set Financial Goals*
- *Analyze & Manage Your Assets*
- *Develop Strategies To Minimize Tax Exposure*
- *Develop An Estate Plan*
- *Evaluate Your Insurance Needs*
- *Understand & Manage Your Cash Flow*
- *Plan For Retirement*
- *Fund Your Child's Higher Education*
- *Enjoy Your Wealth*

Financial Facilitators

Managing Your Assets Through Strategic Alliances

Since Inception CPP has been able to with professional already established with clients and has the ability to refer based upon client needs to accounting and tax-planning experts, insurance specialists, business fiduciaries and attorneys. Our network of professionals have shown time and time again they are able to fully serve clients and provide reliable and expert advice.

Fee-Only Investment Advisors

As fee-only registered investment advisors, we offer unbiased financial advice to help you reach your goals. We charge a management fee based upon a percentage of the value of the assets we manage. The fee is an annual percentage fee, and is billed quarterly by taking the value of the managed assets at the beginning of each calendar quarter and applying one-fourth of that annual percentage fee. As fiduciaries, we do not collect commissions or accept incentives for the investments we recommend.

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Expert Professional Advice

Investment Advisors Who Have Fiduciary Obligations To You, The Client

When you partner with CPP you join your neighbors. We are located in Westchester County, yet are ready to respond to you needs with our Wall Street experience. We are always available to answer your questions and concerns. Unlike giant banks and brokerage firms, you will speak to the same advisor who is thoroughly familiar with your portfolio and life circumstances.



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Michael Hymes, CPA

Managing Director, Portfolio Manager and co-founder of Capital Preservation Partners. A New York State licensed CPA since 1990, he owns Hymes & Company, CPA.

Kevin Mullins, JD, CPA, CFP

Managing Director and Co-Founder of Capital Preservation Partners. Attorney, Certified Public Accountant and Certified Financial Planner Practitioner that specializes in estate planning and business law.

Iilr Leo Gjoni, CFP®

After Graduating from Pace University, the Lubin School Of Business, he went on to earn the designation of Certified Financial Planner™. Leo is an experienced Vice President with a demonstrated history of working in the financial services industry. Throughout his career Leo has shown no matter where you are in life, he knows how to deliver the highest standard of financial planning service to make sure you're on the right track. From planning for retirement to saving for college, Leo is willing to work with you to develop a comprehensive strategy to reach your short- and long-term financial goals. Alongside his experience as a personal Financial Planner, Leo has collaborated with Third Party Administrators (TPA) to initiate pension plans for small business as well as larger non-profit 501(c) corporations. Leo has made it a point to make himself available to all his clients via meetings, phone, or email. "In today's corporate world having a financial planner that knows the sound of your voice speaks volumes" - Leo Gjoni

Rick Hodor, CPA

Managing Director and Co-Founder of Capital Preservation Partners. A Certified Accountant with his Masters Degree in Accounting from Long Island University.

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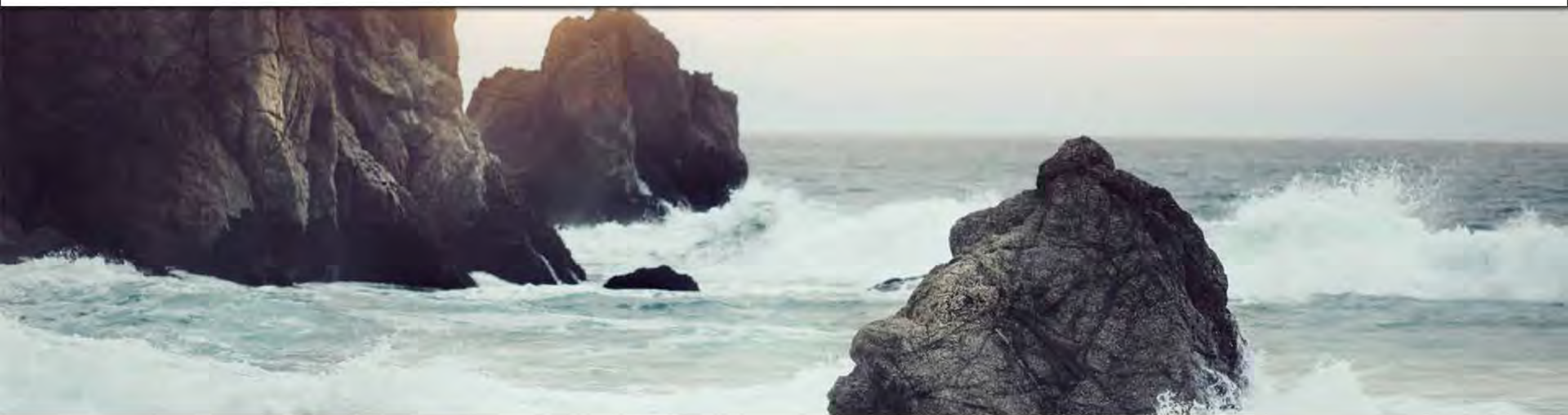
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Building Your Plan

You'll find that we do not rush the planning process. At our initial meeting, we get acquainted, discuss your current financial situation and describe our process. At the next meeting, we discuss your assets in more in depth and offer suggestions we feel can help you reach your goals, as well as developing an Investment Policy Statement that describes the plan in detail. With your approval, we implement the plan and begin monitoring your investments, making adjustments as needed based on your life changes, as well as changes in the markets.



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Our Investment Philosophy

- We are committed to achieving our clients financial goal with a focus on solid investment strategies and overall risk reduction.
- Comprehensive wealth management services for individuals and institutions.
- Independent and objective money management, financial and tax planning services.
- A focus on risk reduction while building wealth, and/or generating income.
- Personalized asset allocation, investment portfolios & wealth management strategies.
- Fee-Only investment advisors.

The CPP Investment Process

- Thorough review of our clients financial situation in the context of their unique goals & needs.
- Comprehensive analysis of all current holdings and creation of an individualized asset allocation plan.
- Investments are continually analyzed and carefully selected to meet our clients objectives while reducing overall risk.

Manager Selection

- Identify managers with superior long-term risk adjusted performance during bull and bear markets
- Thorough statistical analysis and monitoring of investment discipline, style, tax efficiency and volatility.
- Investment guidelines include outperforming the benchmarks with less volatility.

Preserving And Growing Your Wealth

Determining your risk tolerance and investment time horizon are critical steps when developing a sound investment plan. You'll find we excel at both, as well as taking into consideration tax implications. Only then do we build an asset allocation model and suggest specific investments. Whether you want to increase your wealth at an aggressive rate or are more interested in having a steady stream of income, we do the research and make suggestions in line with your goals.

Asset Protection

Capital Preservation Partners uses Charles Schwab as our custodian for our client's assets as having Charles Schwab as our custodian allows for 100% transparency as all account balances and transactions can be verified through Schwab and clients have the availability to view their account through their online login.

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- [Simple IRA Application](#)
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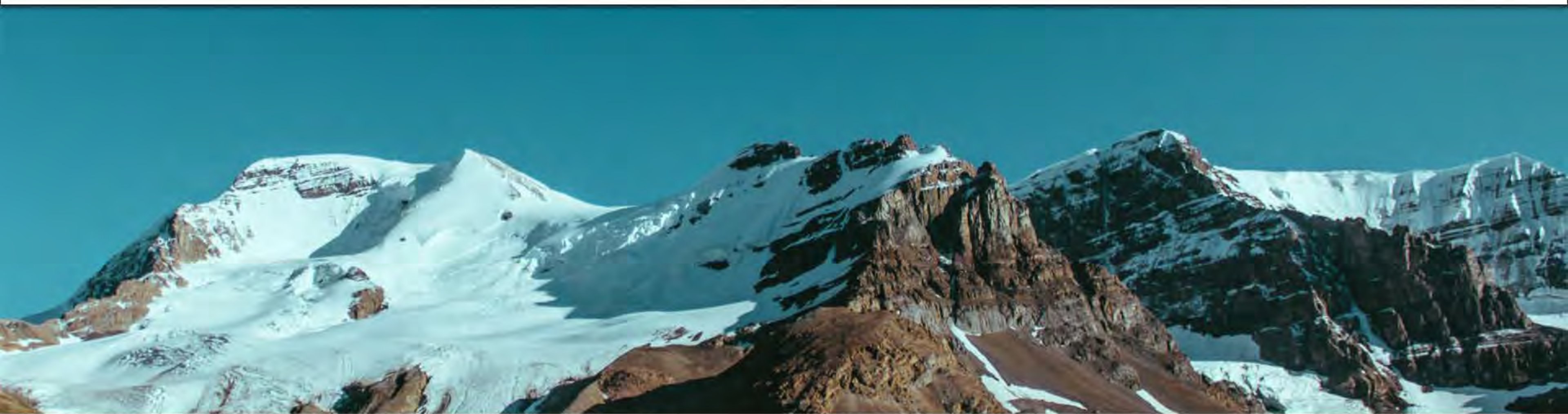
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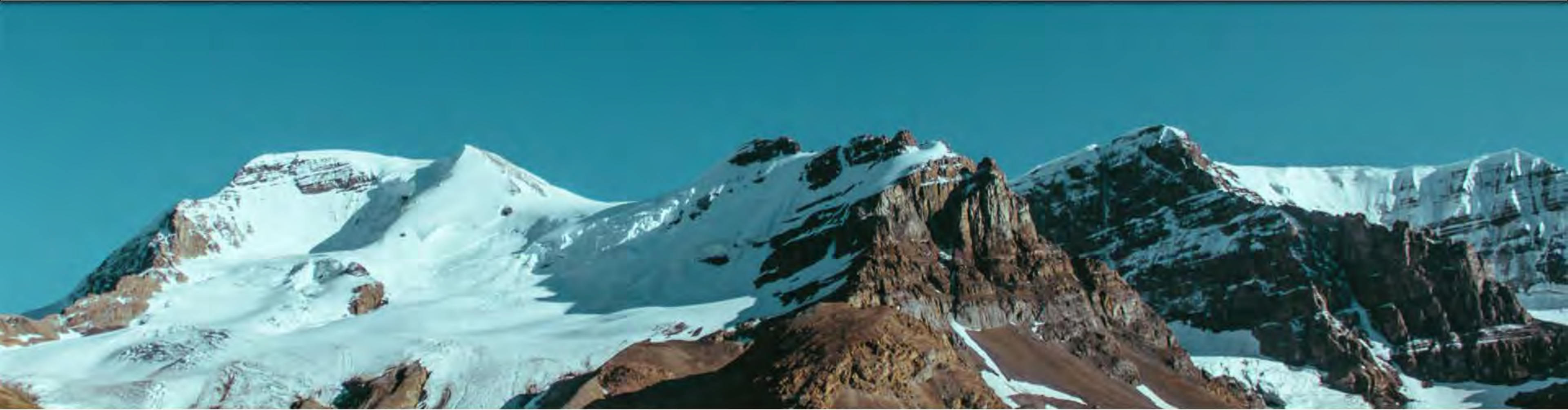
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1 min & 13 secs

Learn why it's better to seek financial advice from a fiduciary.



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3 mins & 12 secs

Learn about the importance of tax & income planning and why you should develop a financial strategy to get the most out of your golden years.

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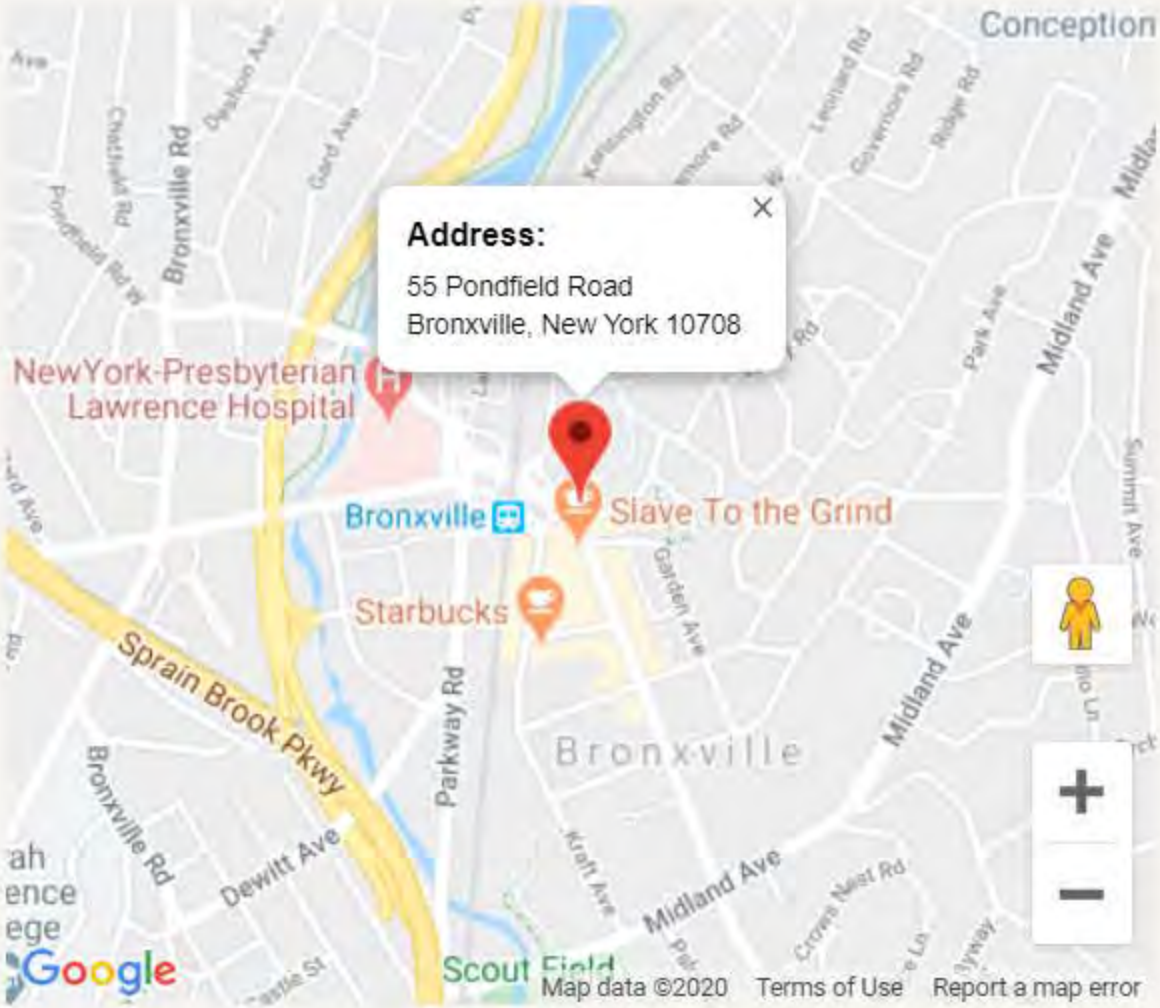
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Managing Your Assets Through Strategic Alliances

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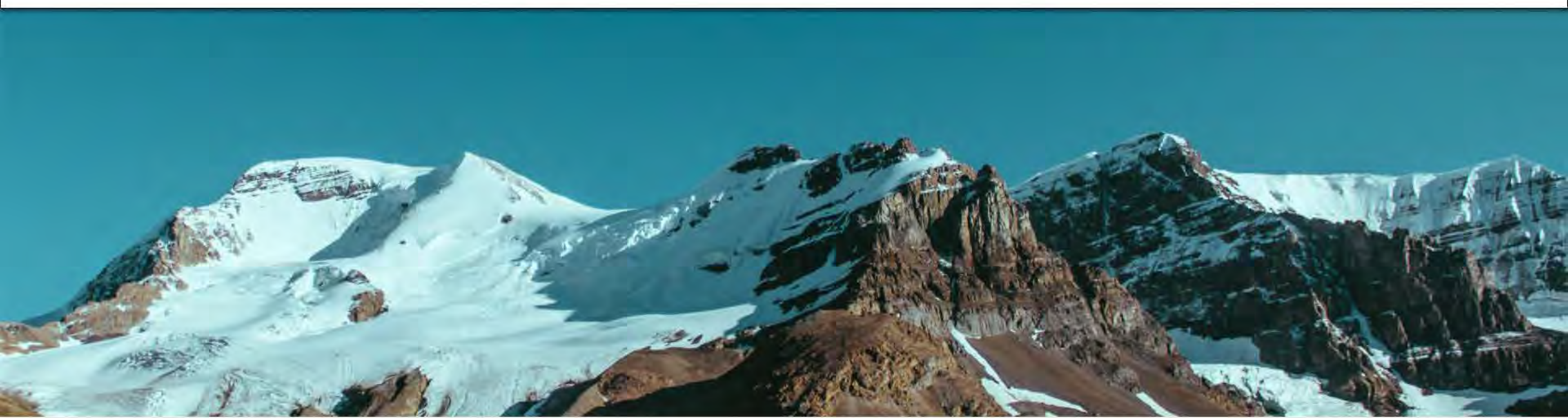
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How to Look for Investing Opportunities during the COVID-19 Crisis

Submitted by Capital Preservation Partners on May 26th, 2020

Intro

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Life Insurance and Annuities for True Lifetime Protection

Submitted by Capital Preservation Partners on February 22nd, 2016

It is not often that the topics of life insurance and annuities are brought up in the same discussion, primarily because they serve two very distinct purposes. Although they are both products of life insurance companies, life insurance policies are protection against dying too soon, and annuities are protection against living too long.

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Longevity Risk: The Biggest Real Retirement Risk You Haven't Covered

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This isn't our parents' or grandparents' retirement anymore. Just a few decades ago, many retirees enjoyed the full benefits of the "three-legged stool" of retirement provide by guaranteed pension payments, savings, and Social Security.

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Why You Need an Investment Coach

Submitted by Capital Preservation Partners on May 27th, 2014

If you believe some of the world's greatest investors, such as Benjamin Graham and Warren Buffet, it's not investments that cause people to lose money; rather, it's people who cause people to lose their money. What is meant by that is investing with sound principles and intelligent practices will always have a greater likelihood of success.

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Family Business vs Family Boundaries – Is the Health of Your Business at Risk?

Submitted by Capital Preservation Partners on May 27th, 2014

For over 200 years, family businesses have been at the core of wealth creation in America. Family business founders take the leap of faith to launch their business venture, often risking everything, and then spend their waking hours to realize their vision.

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The Very High Cost of Waiting to Save for Retirement

Submitted by Capital Preservation Partners on May 27th, 2014

This is the story of two friends – one, we'll call Randy, who, at age 25, recognized the importance of starting a retirement savings program. The other is Peter, same age, but he couldn't seem to see beyond his need for more immediate gratification – wanting to experience the kind of life style enjoyed by his more highly compensated friends.

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How to Achieve the Highest Quality of Life in Retirement

Submitted by Capital Preservation Partners on May 27th, 2014

Today's retirees are finding that retirement requires at least as much psychological and emotional preparation as it does financial preparation. So, retirement planning needs to include a thorough assessment of human assets and liabilities along with an assessment of financial assets and liabilities.

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Planning a Family – What to Save for Right Now

Submitted by Capital Preservation Partners on May 27th, 2014

The decision to go forward with your plans to start a family is a joyous one, but it can also lead to increased stress especially if your financial house has not been child-proofed. Considering that, on average, the cost of raising a child now exceeds \$300,000, there's little margin for error for most young families that have other important financial goals to achieve.

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Why You Should Monitor Your Credit

Submitted by Capital Preservation Partners on May 27th, 2014

Let's state up front that you don't need a credit monitoring service to stay on top of your credit status. For people who are diligent and deliberate in monitoring their own credit, they can do so by accessing a free credit report from each of the credit bureaus once per year.

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Smaller Investors Can Go to the Head of the Class with Institutional Shares

Submitted by Capital Preservation Partners on May 27th, 2014

Along with fund performance and risk ratios, expense ratios are a critical factor in determining the potential of funds to outperform the indexes and their peers, but they are easily overshadowed by robust returns in strong markets. Now that the market is settling in, and fund returns are reaching relative parity with the market, expense ratios become even more important.

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Submitted by Capital Preservation Partners on May 26th, 2020

Intro

With a new bear market settling in, new opportunities for a prosperous investment can feel few and far between. However, this current bear market caused by the COVID-19 crisis feels like a new beast entirely. In many ways, the US' economy has been turned upside-down by this infectious disease. So, where are you supposed to turn to make an even moderately successful investment?

The truth is, there is no one secret to finding investment success at a time like this. In the same vein, no one stock or bond option will keep your portfolio afloat on these turbulent seas. However, there are some actions you can take to ensure your head stays above water during the COVID-19 crisis. Here are just a few tips you can take to heart, regardless of where you stand financially in this new bear market:

Look for Timely (But Sustainable) Growth If you already have some experience in stock investing under your belt, you may feel like you know how to proceed during a bear market. In fact, you may have already nabbed a few shares of a news-worthy company like Zoom after their userbase soared into the millions. But if that's the path you've taken, you may have forgotten the importance of long-term investments in any stock portfolio.

There's no question that a stock like Zoom could bring you some short-term gains. But in the long-term, it's unclear if they'll remain a market leader. They already have a ton of competition, so they may be positioned to lose out once the current crisis subsides. Instead, you should be doing your research and investing in industries that are positioned to grow further post-crisis. Amazon is an obvious choice, while some smaller companies in the cloud service industry may also be worth checking at this time.

Watch for Fraudsters

Every investor dreams of getting in on the ground floor of a revolutionary company. Even now, during a crisis, many investors are on the lookout for a company who has some insight into ending the threat of COVID-19. As a result, numerous rumors have begun to spin up about which company has a cure or a vaccine in the works right now. But in all cases, those rumors were artificially created by fraudsters who simply want to take your money.

The SEC has acknowledged as much by recently warning investors to be extremely wary of any claims that a company has insider knowledge about a COVID-19 cure or vaccine. The SEC has noted that these claims are usually made by operators of a "pump-and-dump" scheme that is designed to burden you with immense losses. As such, you need to keep your guard up at this time and pass on any investment opportunity that sounds too good to be true.

Don't Let Politics Get into It

This may sound like a usual tip, but try to keep your political beliefs out of your investment portfolio at this time. Regardless of your specific beliefs, politics has a way of clouding even a wise investor's judgement during a crisis. Mixed messages in particular can cause an investor to place too much faith in an investment before the economy has recovered enough to support it.

In other words, don't let rhetoric guide your hand when picking when to invest. Stick to reliable financial news resources right now and rely on them to tell you when the economy has begun to recover.

The Bottom Line

Finding fresh opportunities for investment during the COVID-19 crisis has been a challenge up to this point. But there's hope for the future still, even if we have to ride out this bear market for the remainder of the year. These tips will help you do that without adding too much risk to your portfolio at any given time. Though I can't promise success with these tips, I can assure you that they'll help you remain focused on keeping your long-term investment goals intact.

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Submitted by Capital Preservation Partners on February 22nd, 2016

It is not often that the topics of life insurance and annuities are brought up in the same discussion, primarily because they serve two very distinct purposes. Although they are both products of life insurance companies, life insurance policies are protection against dying too soon, and annuities are protection against living too long. However, when utilized in the context of a complete financial plan built on a solid foundation of family and financial security, the two work hand-in-hand to protect the complete circle of life.

Life Insurance as a Capital Creator

The basic premise of life insurance is that most people, throughout their financial lives, have obligations and expenses that need to be paid, both now and in the future. In the earlier stages of life, these are funded through cash flow and accumulated savings. But, when a person dies too soon, these obligations and expenses are usually left unpaid because not enough time has passed to be able to accumulate the capital needed. For instance, an outstanding debt, say of \$10,000, is paid down through monthly payments. When a person dies, the outstanding balance is left unpaid.

Or, if a family is saving for college, and has only accumulated a portion of the required funds when one of the primary breadwinners dies, the future obligation is unfunded, and the likelihood of continued savings towards to goal is diminished.

Life insurance becomes the source of the much needed capital to fulfill these obligations and pay down debt. Essentially, it replaces the income earning capacity of a breadwinner and ensures that the family can continue to maintain the lifestyle to which it is accustomed, which is why it is important to accurately assess the financial needs of the family in order to have enough protection.

Life insurance is used as a capital creator in any instance where an untimely death could leave a family, a business or an estate in a precarious financial position. If a fledgling business were to lose a key person or partner, it could suffer a devastating financial loss. Life insurance provides the capital a business needs to maintain continuity while searching for a replacement or rebuilding client goodwill. When a person dies and leaves a sizable estate, life insurance provides the liquidity the heirs need to pay estate settlement costs and taxes so that assets don't have to be forced into liquidation.

Annuities as a Capital Protector

In the later stages of life, after savings and assets have been accumulated, annuities serve to protect this capital so that it can be preserved for future use. The unique characteristics of annuities combine to create a shield of protection that allows the capital to accumulate while guaranteeing its full return to investors. Additionally, annuities will protect the distribution of the capital to ensure that it will fully fund a lifetime income stream without interruption or loss of value.

Annuities are also issued by life insurance companies as a contract much like life insurance policies, except that they insure individuals against the possibility of living too long and outliving their income sources. When a person transfers a portion of his assets to an annuity, it can be left to accumulate, or it can be converted to income (annuitized). In either case, the principal balance is guaranteed as is the minimum rate of interest.* Annuities provide an extra measure of capital preservation by allowing the earnings inside to accumulate without being taxed currently, although they will be taxed when they are eventually received.

Once an annuity begins to make periodic payments, the principal balance is committed, irrevocably, to the life insurer who then commits to making the payments until all of the principal and interest earnings have been fully distributed – over a specific time period, or for the life of the individual.

The payments, which are fixed (except in the case of variable annuities in which payment amounts can fluctuate based on market fluctuations), are based on the amount of the original principal balance, the project earnings from interest, and the number of payment periods. Individuals, who rely upon their assets for their income, often use annuity income to inject stability and predictability into their overall income portfolio that may also consist of more risk oriented assets.

Businesses use annuities when they need to fund installment payments or an income stream as part of a compensation arrangement with a key person, or as a funding vehicle in a buy-out situation.

Life Insurers as Circle of Life Protectors

Life insurance and annuities are both issued by life insurance companies. Both provide a form of protection that entails the risk of mortality for which the cost is actuarially calculated by the life insurer. In both cases, those costs are borne by the individual in the form of a premium. In both cases, the life insurer must calculate the amount of reserves it needs to have on hand to be able to pay all future obligations, either as death benefit proceeds or as annuity income payments (or surrenders).

The financial strength and stability of life insurers is paramount to the ultimate security of life insurance and annuity policyholders. The safety track record of life insurance companies dates back two hundred years during which there has not been one instance of a failure to fulfill an obligation to a policyholder. While there have been some cases of life insurer insolvency, the number is miniscule as compared to the banking industry which has recorded hundreds of failure in just the last few years. In most of the life insurer insolvencies, the assets and obligations of the insurers were assumed by a larger or financially stronger life insurance company.

Summary

In peoples' financial life, the need to create capital and preserve it is essential to meeting their most important obligations and providing the financial security all families need. No other financial instrument can create capital as quickly or as inexpensively as life insurance and no other financial product can preserve capital and guarantee its complete distribution over a lifetime like annuities. For most people a complete financial plan will include both if their current and future financial security is a priority.

*In some variable annuity contracts the principal and minimum rate guarantees are options that require additional premiums.

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Submitted by Capital Preservation Partners on May 27th, 2014

This isn't our parents' or grandparents' retirement anymore. Just a few decades ago, many retirees enjoyed the full benefits of the "three-legged stool" of retirement provide by guaranteed pension payments, savings, and Social Security. In addition, they didn't have to be very concerned with how much of their income translated into actual purchasing power because, except for the mid to late seventies, inflation was not a big factor for several reasons. Today, the three-legged stool is barely standing on two legs and inflation, even at the lowest levels, can wreak havoc on our lifestyles due to the fact we are living 12 to 15 years longer.



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Financial Challenges Then and Now

The first reason why past generations were largely immune from inflation creep on their lifestyles was due to shorter life spans. A male retiring at age 65 in 1970 was expected to live 10 years into retirement – a female 12 years, so there was less time for inflation to have an impact. Secondly, nearly 75 percent of retirees received a guaranteed lifetime income from pension plans and many plans included a cost-of-living adjustment. For them, any retirement savings could be used as surplus. Third, back then the yield on savings vehicles were more closely linked to the rate of inflation so their future purchasing power was not impacted as much.

When we fast forward to the year 2013 we find that most people have never even heard of pension plans, and the vast majority of retirees have only their defined contribution plans (401ks and IRAs) to rely upon for their future income needs. And, it has only become apparent in the last several years that many have come up well short of the capital needed to sustain their lifestyle for a lifetime. While much of this can be attributed to over-consumption and the recent market crashes in stocks and real estate, we can also point to the lowest savings rate by a generation in our history. Add to that the current interest rate environment in which low savings yields have turned negative when factored for inflation, and we have a real savings crisis which will affect the next few generations and their ability to meet their retirement income needs.

Time to Get “Real” on Inflation

Speaking of inflation, today's pre-retirees and retirement savers may not even remember the double-digit inflation that spiraled out of control from the late 1970s to the mid 1980s. While the "official" inflation rate of the last couple of decades has been miniscule by comparison, as measured by the Consumer Price Index (CPI), most people don't realize that we are still experiencing double-digit inflation which is seriously eroding their purchasing power today and will make it very difficult to retire into a sustainable lifestyle long into the future. That's because, following the sky high inflation rates of the 1970s and 1980's, the government removed two of the biggest inflationary triggers – food and energy – from the basket of goods used to calculate the CPI.

So, their prices, which have been increasing the fastest over the last decade, aren't even reflected in the official inflation rate, which is currently still hovering below 3 percent. When food and energy prices are added back in, the "real" inflation rate is closer to 11 percent; and that is the real impact on incomes today and in the future.

The High Cost of Living Longer

It wasn't until just recently, when we had to confront our longevity. While most people are aware that we are living 12 to 15 years longer than our grandparents, what they haven't firmly grasped is that longevity is not measured in static terms which says that, a person born today can expect to live until age 79. Rather, longevity, or life expectancy, continues to expand with each year we age. So, for example, while a 60-year old male can expect to live until age 81, that same male at age 65 can be expected to live until age 84. At age 70, depending on your health and family history, you have a 20 percent chance of living to age 90, and a ten percent chance of living to 100.

Now layer inflation risk onto longevity risk, which is really the risk of outliving your income, and suddenly they are compounded. Our grandparents only had to contend with inflation for 10 to 12 years. Their parents weren't expected to live much beyond retirement (which is why Social Security seemed like such a good idea back in the 1930s). We need to contend with a "real" rate of inflation for as many as 25 to 30 years. At 3 percent inflation, we lose half our purchasing over 23 years. At 10 percent our purchasing power is cut in half in just 7 years.

Retirement Planning in “Real” Terms

Although we may have painted a rather bleak picture of the retirement outlook, there is really no reason for panic or despair. While the numbers and the realities may appear daunting, the fact is that the sooner your focus on retirement planning in real terms – that is using real assumptions base on your actual income and investment returns factoring inflation, along with a realistic measure of your potential life expectancy – the sooner you can have your retirement plan back on track. The key to mitigating the risk of longevity is to not minimize the effects of inflation compounded over your lifetime.

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[Home](#) > [Blogs](#) > [Why You Need an Investment Coach](#)

Submitted by Capital Preservation Partners on May 27th, 2014

If you believe some of the world's greatest investors, such as Benjamin Graham and Warren Buffet, it's not investments that cause people to lose money; rather, it's people who cause people to lose their money. What is meant by that is investing with sound principles and intelligent practices will always have a greater likelihood of success. However, without a solid investment plan and the discipline to stay the course, investors are much more vulnerable to their emotions which, more often than not, can lead to disastrous results. In other words, an investor's worst enemy is likely to be himself.

To use a more familiar analogy, consider business executive who decides to get back into fitness. To ensure that he had a plan and that he would be doing everything correctly according to his objectives, he hired a personal trainer. They customized an exercise and nutrition regimen and began training together twice a week. After two months, the executive felt as if he knew exactly what to do, so he fired his trainer. After all he had the plan and he knew the regimen, so why pay for more training?

As one might have predicted, after two more trips to the gym, he stopped going. There was always something that came up or some excuse for not getting to the gym. But, the biggest obstacle was his mind which constantly convinced him that he was too tired, too busy, or too (fill in the blank) to go. He slowly began to realize why we pay personal trainers. Not to give us the plan or the regimen, but to avoid the behavioral traps that can cause us to lose focus and abandon discipline. It's the trainer who holds us accountable and pushes us to achieve a level of performance beyond our current experience.

Sound investing is very similar to a commitment to an exercise regimen. It requires a clear objective, a well-conceived plan, tailored strategies and execution to be successful. But, in investing, as with exercising, it is typically the client who will diverge from the plan, which is why you need a coach.

It's not the Plan; It's the Execution

Developing the investment strategy is actually the easy part. A good financial advisor might charge nothing to develop the investment plan. The hard part, for which financial advisors truly earn their pay, is to instill the discipline their clients need to ignore all of the "noise" while staying centered on their objective. Essentially, the most important job of a financial advisor is to keep their clients from making the typical investor mistakes that lead to under performance.

The real work of a financial advisor starts with an education process to help their new clients to understand that it's not their investment strategy that matters most in investing success; it's the investor's behavior that will have the greatest impact.

A good financial advisor will be willing and able to be your investment coach, keeping you focused squarely on your long-term objectives rather than the market-shifting macro events of the day. He or she will help you avoid the many common behavioral mistakes that lead to under performance, or worse, financial devastation.



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[Home](#) > [Blogs](#) > [Family Business vs Family Boundaries – Is the Health of Your Business at Risk?](#)

Submitted by Capital Preservation Partners on May 27th, 2014

For over 200 years, family businesses have been at the core of wealth creation in America. Family business founders take the leap of faith to launch their business venture, often risking everything, and then spend their waking hours to realize their vision. The minority will achieve some element of success at which point they encounter a whole new range of challenges in balancing the demands of family life and the needs of their business.

Most people realize that the chances of a small business succeeding are slight, but few people understand the difficulties of building a business around the intricacies of family dynamics. In the best of situations, the family offers a foundation of loyalty, trust and dedication – traits on which most businesses thrive. In the worst cases, toxic family relationships that spew resentment and antagonism can bleed the business of its health.

The commitment to a family business requires constant attention to strategy, customers, competition, cash flow, and the bottom line. It is only a matter of time before the family unit finds itself competing for a larger slice of attention and commitment to its needs. Any deterioration of family harmony will most likely spill over to the business. The family business owner must be able to achieve a balance of commitment and establish meaningful boundaries that guide family and business interaction.

The problem facing family business owners is that the boundaries between the business and the family become tangled and the roles of parent/child and spouse/spouse are twisted with boss/employee and business partner/partner. This can only lead to a convulsion of the diametrically opposing goals and tasks of the business and the family which is not healthy for either.

Family goals and tasks are often emotion-based and oriented towards the individual family members. Family management is about nurturing, acceptance, and protecting against change. Business goals are rational-based and oriented towards the customer and the market. Managing a business requires a focus on profits and embracing change.

Establishing and maintaining boundaries is much easier said than done. It is not as simple as drawing a line that can't be crossed. Between the business and the family there are several competing and overlapping roles that must be recognized requiring varying approaches to establishing different boundaries. In the end, however, they need to be clearly defined and communicated so that they are legitimatized and respected.

The key to creating boundaries that can be maintained with minimal conflict is to use a collaborative approach that involves all family members based on blending the goals of the business with the needs and interests of the family. Family values should form the core principles of the business there should be a shared vision of family and business hopes and dreams.

To accomplish this, the family and business units must develop separate plans that include mission statements, goals, strategies and clearly delineated rules, roles and expectations that guide behavior in the dual roles of family member and business associate. The separate plans should be managed, monitored and reinforced through distinct governing bodies consisting of a family council and a business advisory board wherein conflicts and issues can be assigned to their proper jurisdiction.

Maintaining effective boundaries requires constant attention in order to adapt them to the changing circumstance of the family and the business. As each matures, the needs, requirements and dispositions of the individual family member/business associate will change. The more communication and transparency fostered through frequent family council and business advisory meetings, the greater the adherence will be to family boundaries.



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[Home](#) > [Blogs](#) > [The Very High Cost of Waiting to Save for Retirement](#)

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Submitted by Capital Preservation Partners on May 27th, 2014

This is the story of two friends – one, we'll call Randy, who, at age 25, recognized the importance of starting a retirement savings program. The other is Peter, same age, but he couldn't seem to see beyond his need for more immediate gratification – wanting to experience the kind of life style enjoyed by his more highly compensated friends.

Randy, decided to establish a 401k account and begin saving \$800 per month, about \$10,000 a year in a diversified portfolio of mutual funds which generated an average annual return of 6 percent. At age 45, Randy was forced to stop working due to health reasons, so he collected disability insurance benefits and stopped contributing to his 401k account. After 20 years of investing, his retirement account had grown to just over \$360,000.

Of course, Peter decided to wait before getting serious about saving for retirement. A part of his rationale was that he would be making more money later on, which would allow him to catch up with bigger monthly contributions. In fact, Peter waited until his age 45 to begin saving, about the same time that Randy stopped contributing to his plan. With 20 years left to save, Peter figured he would have plenty of time to build his nest egg. However, unable to adjust his lifestyle as much as he needed, he was only able to commit to an \$800 a month savings plan. He too invested in a portfolio of mutual funds and was able to generate an average annual return of 6 percent. After 20 years, his account value grew to \$360,000.

So, here we have two friends – the same age; contributing the same amount of money; and earning the same rate of return. One started saving early, and the other waited. But wait! While Peter was making his contributions, Randy's account continued to grow in value, even without new contributions. In fact, by the time they both turned 65, Randy's account had grown to nearly \$1.2 million! Same amount invested; same return on investments. The only difference – and it is a monumental difference - is how they utilized their most valuable asset – time.

Yes, There is a Cost for Waiting

The moral of the story is that we all have, roughly, the same amount of time – from the time we start working to the time we would like to retire. Yet, not everyone recognizes that time is not only our most valuable asset, it's also a wasting asset. Peter, and everyone else who believes there is going to be enough time, proved that there is an actual cost of waiting.

Peter could have “caught up” to Randy; however he would have had to save more than four times as much and/or assumed a much more risk to earn a higher return. Essentially, the more time you have, the less it will cost you to achieve your goals. Time can also mitigate risk, enabling us to assume less of it because of the longer span of time that our money can work for us. We all start out with more time than money, which is why it's important to start saving early.

Embrace the Magic of Compounding Returns

As the great Albert Einstein once said, “the power of compound interest is the most powerful force in the universe” and “the greatest mathematical discovery of all time.”

The “magic” of compounding returns stems from the fact that your money not only earns a return on the principle; it also earns a return on the returns that are earned. Of course, there can be no magic without time. The “time value of money” is the absolute key to the magic of compounding returns. When the compounding effect of returns earned is combined with time, the growth of your money at work becomes exponential, as in the case of the penny. Time and compounding returns can turn even the smallest amounts of savings into significant.

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Home > Blogs > How to Achieve the Highest Quality of Life in Retirement

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Submitted by Capital Preservation Partners on May 27th, 2014

Today's retirees are finding that retirement requires at least as much psychological and emotional preparation as it does financial preparation. So, retirement planning needs to include a thorough assessment of human assets and liabilities along with an assessment of financial assets and liabilities. It is no longer enough for retirees to know how much money they will need to live; they need to know how they will be able to make the most of this new life stage.

By focusing primarily on financial issues, traditional planning reduces retirement to an economic event with its financial objectives marked by a finish line. The dangerous misconception it perpetuates is that, if you hit the finish line, on time and on goal, your planning is done and you'll have a successful retirement. While it may address the financial goal of creating a sufficient standard of living, it doesn't address the larger, more important issue of the quality of life.

There is clear evidence that shows the majority of retirees who try to step completely away from the action eventually grow despondent, while those who stay engaged and productive, are happier in all aspects of their lives. Many people find the sudden loss of interaction to be especially difficult, and are saddened and disoriented by being separated from "the tribe".

The prevailing attitude among a growing number of pre-retirees is that they aren't going to limit themselves by trading a life of work for a life of leisure; rather they are going to take control and trade in work that they no longer want to do, for work they will really like to do, and for many of them that "work" comes in the form of volunteerism.

Why Volunteerism?

The great Norman Vincent Peale said, "*The more you lose yourself in something bigger than yourself, the more energy you will have.*" Who among us doesn't seek purpose in our lives – something that goes beyond our own material needs? Living for a higher purpose is a reason to get up in the morning, to contribute to the world in a way that derives immense satisfaction. It's where we find our passion, and it's the legacy we leave behind. When we have something greater that drives us, life is better, more exciting and much more gratifying.

For many retirees, volunteering offers them the first opportunity to match their knowledge, skills, values and beliefs with a worthwhile endeavor and a way to give back to the community. Whether it's tutoring a high school student in math, training seniors in new skills, being a docent for a local museum, providing executive-level experience to charitable organizations, or offering back-office skills to a non-profit group, many of our retired clients are discovering how the "butterfly effect" of their contributions creates an expanding circle of value throughout their communities.

It's all about Quality of Life

You may have even witnessed, first hand, the remarkable transformation in people who have seized this opportunity to reinvent themselves by learning new skills, starting new charitable ventures, forging new relationships while nourishing existing ones. They will probably tell you they have never received greater fulfillment and have never enjoyed themselves more in their lives.

Consider yourself very fortunate. You have valuable knowledge and skills. You have a unique ability that drives your passion. But, most of all, you have the rare opportunity to improve your quality of life while making a difference in a way that will not only benefit you and your family, but your community as well.

By shifting your retirement focus from your standard of living to your quality of life, you will more likely achieve those things in life that will have a more enduring impact your health and well-being. Quality, not quantity is the goal. Retirement is a time to harvest fulfillment, not to create more demands. It is also a time for regeneration which can only occur through a deliberately planned transition that incorporates your own needs, wants and values. For that, there are no rules; only your vision and a plan.

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[Home](#) > [Blogs](#) > [Planning a Family – What to Save for Right Now](#)



Submitted by Capital Preservation Partners on May 27th, 2014

The decision to go forward with your plans to start a family is a joyous one, but it can also lead to increased stress especially if your financial house has not been child-proofed. Considering that, on average, the cost of raising a child now exceeds \$300,000, there's little margin for error for most young families that have other important financial goals to achieve. There's no reason why you should get caught off guard or caught in cash crunch as long as you plan ahead. The following family planning checklist contains what is deemed by most new parents as being the most essential steps in preparing for a new arrival:

- What is the cost for baby-proofing everything? You need to take a complete inventory of the requirements needed for you house, your yard, and your cars to bring them up to baby standards.
- In addition to another mouth to feed your newborn will require a constant stream of supplies. Can you afford a warehouse club membership?
- Expect an increase in your electric and water bill (you'll be doing several extra loads of laundry a week).
- Is your health coverage up to snuff? Obviously you will need to add your child to your policy, but have you reviewed it recently to determine if it has the right coverage for a family?
- What are your child care needs? If you're both going to be working, the average child care costs can run as high as \$800 a month, almost the size of a small mortgage. Have you looked into alternatives such as employer daycare, nanny-sharing, reducing work hours?
- Will you require parental leave from work? What does your employer provide in terms of time and paid leave? Beyond that, what can you afford in time off? You will need some savings to offset any reduction in income.
- Are your papers in order? You need a will that includes guardianship arrangements.
- You need a life insurance plan that will fully cover your family's needs – enough to provide for a surviving parent and child, payoff debt, and fund a college education. Don't wait until after the baby has arrived to secure proper life insurance coverage.
- Have you paid down your debt? It's tough to cover the additional expenses of a new family while still paying costly interest charges. Debt elimination should be a priority.

On the plus side, you will earn yourself a \$3,950 dependent exemption which reduces your Adjusted Gross Income by that amount. To have that translate into extra monthly income you can use, you will need to adjust your W-4 withholding with your employer. Also, depending on your income, you may qualify for a Dependent Care Tax Credit. It would be worthwhile to check with a tax professional to determine what tax savings you might be able to realize once your child is born.

A Family Emergency Fund is Your Top Savings Priority

When considering all of these new family essentials, it's easy to see how a family's budget can increase by over \$1,000 a month, and doesn't include anything unexpected, like a medical emergency. If you're planning to start a family you need to determine the incremental increase in your budget; and, even if you determine that you will have sufficient income to cover the increase, it is critically important to build up your emergency fund. At a minimum, your cash reserve should equal 12 months worth of living expenses, and that should be based on your new family budget. Before saving for anything else, including a bigger house or a college education, all of your savings should be allocated to an emergency fund.



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[Home](#) > [Blogs](#) > [Why You Should Monitor Your Credit](#)

Submitted by Capital Preservation Partners on May 27th, 2014

Let's state up front that you don't need a credit monitoring service to stay on top of your credit status. For people who are diligent and deliberate in monitoring their own credit, they can do so by accessing a free credit report from each of the credit bureaus once per year. And, for the credit monitoring critics who will tell you that these services do little to actually prevent identity theft or credit fraud, let's concede that they are right. But then, nothing except the precautions you take up front can protect you from determined identity thieves. But, for the millions of people each year who fall victim to identity theft, credit card fraud, or mistaken scoring on their credit reports, a systematic and automatic approach to credit monitoring may have enabled them to react a little more quickly to the damage.

About the only real argument that credit report monitoring critics seem to raise is why pay for something that you can do for yourself? While no one can argue with that basic premise, the fact of the matter is that very a relatively low number of people actually order their own credit reports, and those that do are not quite sure of what they are looking at. Simply put, most people need and want to be able to monitor their credit for purposes of improving their credit score range, rebuilding their credit after a bankruptcy, or to keep an eye out for identity theft. That covers the vast majority of Americans.

The problem is that most people find it difficult to give the task the time and attention it needs to be of any real benefit. Even if they do remember to order a credit report three times during the year, many have neither the time nor the ability to comb through them to analyze their current position in relation to their previous position. With so much at stake – future borrowing costs, identity theft alerts, employment opportunities, and insurance costs – it might make sense to hire someone to do a job that you know is important but are unable to properly do on your own. Here are five other reasons why you should consider a credit monitoring service:

- **Identity theft can occur at any time:** You may be diligent in checking your credit reports three times a year, but an identity thief could be at work right now. A credit monitoring service can report to you on weekly or monthly credit activities which can alert you much sooner.
- **All credit reports are not created equal:** Each credit reporting company compiles and reports data in its own way. Not only do you have to decipher one credit report for vital information you have to be able to translate between three credit reporting languages. A good monitoring service will decipher the data for you a present you with the essential information you need to determine what changes have occurred in your credit status.
- **You can only monitor one credit reporting agency at a time:** Most credit monitoring services provide comprehensive coverage of all three credit reporting agencies at one time. This could be very important because not all agencies report activities in the same manner at the same time.
- **Your time is worth far more than the \$10 to \$20 a month they cost:** The reports provided by credit monitoring services will save you hours of time. The reports are specific to changes in credit status, new activities, account openings and closings, and anything that affects your credit standing providing you with everything you need to know at a glance.

Your credit standing is priceless. Whether you are trying to improve your score, rebuild your credit, or keep a vigilance over theft and fraud, the actual out-of-pocket cost of a monitoring service is just a fraction of what your costs will be should your identity be stolen, or your credit score falls unnecessarily. Anytime it is absolutely essential that something be done right, the cost should be thought of as an investment, not as an expense.

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Submitted by Capital Preservation Partners on May 27th, 2014

Along with fund performance and risk ratios, expense ratios are a critical factor in determining the potential of funds to outperform the indexes and their peers, but they are easily overshadowed by robust returns in strong markets. Now that the market is settling in, and fund returns are reaching relative parity with the market, expense ratios become even more important.

Studies have shown that, over time, funds with lower expense ratios, as a group, actually outperform higher cost funds on a net return basis. While this should not preclude considering funds with high expense ratios, it warrants a closer examination of the expense ratio relative to the funds potential return.



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Mutual Fund Expenses by Class

With thousands of funds, the mutual fund industry is not only vast it also convoluted in its offerings. Depending on the share class, mutual fund expenses can be very difficult to discern especially in terms of their impact on overall fund performance. Understanding how the different share classes charge for commissions, fees, and expenses is only the first step in determining how much your investments really cost you.

Class A Shares

These shares are commonly offered by commissioned sales people who are compensated through either a front or back-end sales load which can range as high as 8 percent. Because of the sales loads, Class A Shares tend to have slightly lower management fees of .70 percent to 1.25 percent.

Class B Shares

These shares charge a back-end load which is paid when they are redeemed. Typically the back-end load declines over time until it reaches a minimum load or zero. Management fees tend to be higher with Class B shares than Class A shares in the range of 1 percent to 1.75 percent.

Class C Shares

With lower front and back-end loads you can expect these funds to charge higher management fees of 1.1 percent to 2 percent.

Class D Shares

Less common than A, B, and C share classes, these shares are somewhat of a hybrid of the three with several variations of front or back-end loads. Management fees also vary depending on the amount of load fees that are charged.

Class Y Shares (Institutional Shares)

These shares are offered to institutional investors who can afford the \$500,000 minimum investment. In return for the high minimum, investors receive a steep discount on management fees or load charges.

So, why would we mention Class Y Shares if they can only be purchased by large institutional investors? A) Because, if you did have access to these funds, you could cut your long-term investment costs by nearly half; and B) Because you may have access to these shares through your financial advisor if they have a relationship with an institutional fund; so it is important that you understand the impact they can have on your long-term investment performance.

Because management fees have a compounding cost effect on funds over time, the long-term cost to investors can can significantly impact long-term returns; so, a management fee reduction of .30 to .45 percent could have the effect of increasing your long-term returns substantially. Although investors are typically charged a transaction fee of \$25 by the custodian, institutional funds should be earmarked for the long term which can mitigate the cost.

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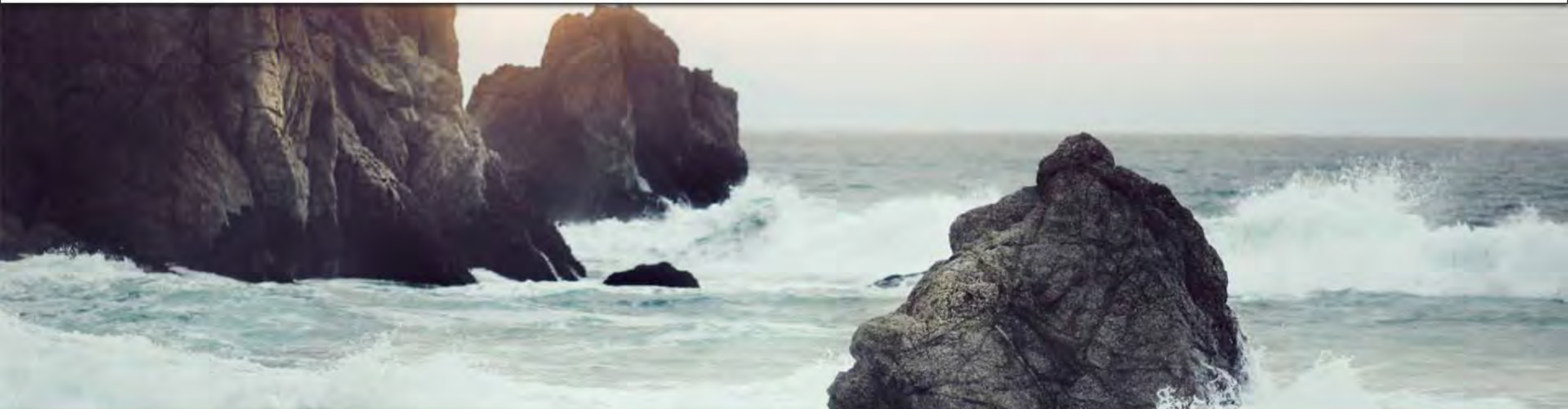
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Planning for the New Normal Retirement

Submitted by Capital Preservation Partners on May 27th, 2014

The need for retirement planning didn't really exist until well into the 1970s. Up to that point, people worked until age 65, spent a few years in leisure through their life expectancy which was about 69. Many retirees of that era were able to coast into retirement with a cushy pension plan.

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Put Courage in Your Investment Strategy

Submitted by Capital Preservation Partners on May 27th, 2014

Warren Buffet has made no secret of his successful investing strategy. "Buy into fear" he says, "Buy when everyone else is selling". For most, average investors that may be much easier said than done. Perhaps if we all had a few billion dollars in the bank, we might be able to muster up more courage and take some more risks.

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Reverse Mortgage Disadvantages

Submitted by Capital Preservation Partners on May 27th, 2014

At a time when many Baby Boomers are approaching their retirement years with grave concerns over their income sources, the late night pitches for reverse mortgages may look quite appealing to some. As with any financial strategy, especially those that involve the equity in your home, they should be carefully weighed against your needs, concerns, and priorities.

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The Importance of an Investment Philosophy

Submitted by Capital Preservation Partners on May 27th, 2014

If you listen to any of the world's leading investors they will tell you that nothing is more important to long-term investment success than a clear investment philosophy. More important than a sound investment strategy? Yes, they will tell you, because strategy, while important, is nothing more than a manifestation of an investment philosophy.

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Taxes and Your Home Based Business

Submitted by Capital Preservation Partners on May 27th, 2014

One of the advantages of running your own business from your home is that you get to be yourself all of the time. But, it is important that you don't lose sight of the fact that you are also a business. That fact is not lost on the IRS who takes a special interest in home-based businesses and their profits and losses.

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Choose Your Social Security Age with Care - It Could Cost you a Bundle

Submitted by Capital Preservation Partners on May 27th, 2014

With more than 10,000 Baby Boomers crossing the retirement threshold every day, the Social Security check

writing machine has kicked into overdrive.

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How to Choose the Right Life Insurance Professional

Submitted by Capital Preservation Partners on May 27th, 2014

The decision to buy life insurance is one of the most important a person can make in their financial lives, and buying a life insurance policy can be one of the more difficult things a person does. Why? Because life insurance is a complex financial instrument full of many different moving parts that people need to be able to understand.

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Determining Your Risk Tolerance

Submitted by Capital Preservation Partners on May 27th, 2014

Perhaps the most important factor in formulating your investment plan is your risk tolerance; that is, the amount of risk you're willing to assume in order to achieve your most important objectives.

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Getting the Most from Your 410(k) Plan

Submitted by Capital Preservation Partners on May 27th, 2014

401(k) plans were established by Congress to encourage individual savings towards retirement. Offered through employers, the plans are generally available to eligible employees who are allowed to contribute a percent of their salary to the plan.

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Term Life vs Whole Life Insurance

Submitted by Capital Preservation Partners on May 27th, 2014

When the decision to buy life insurance is finally made it brings a sense of relief and comfort to most, until they begin the agonizing process of deciding which kind of life insurance to buy. The choices are many, and the process can be daunting, however, it is made easier when you have at least a basic understanding of the difference between term life and whole life.

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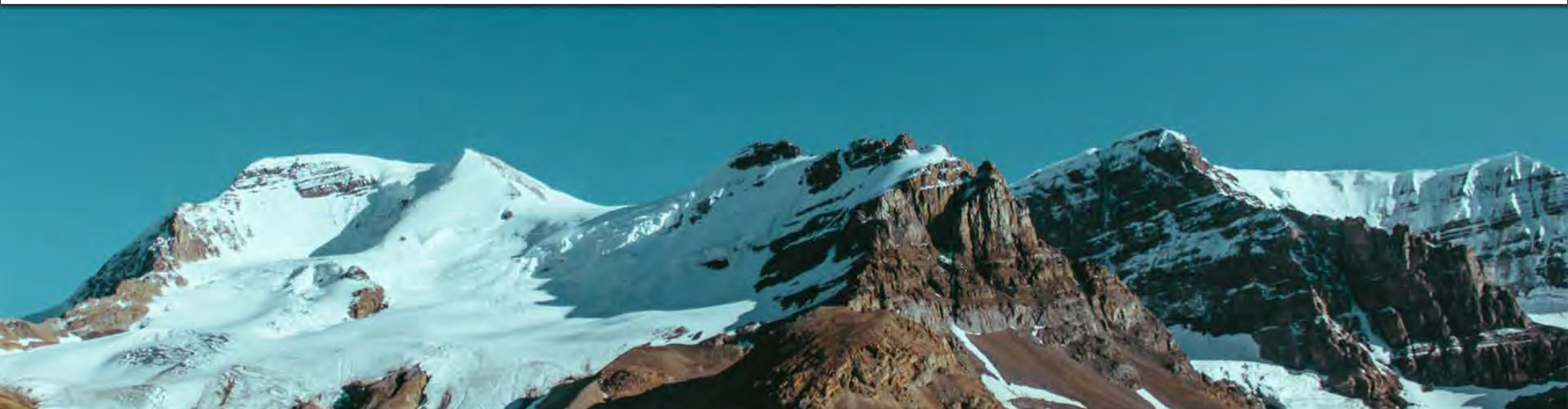


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How to Look for Investing Opportunities during the COVID-19 Crisis

Submitted by Capital Preservation Partners on May 26th, 2020

Intro

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Life Insurance and Annuities for True Lifetime Protection

Submitted by Capital Preservation Partners on February 22nd, 2016

It is not often that the topics of life insurance and annuities are brought up in the same discussion, primarily because they serve two very distinct purposes. Although they are both products of life insurance companies, life insurance policies are protection against dying too soon, and annuities are protection against living too long.

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Longevity Risk: The Biggest Real Retirement Risk You Haven't Covered

Submitted by Capital Preservation Partners on May 27th, 2014

This isn't our parents' or grandparents' retirement anymore. Just a few decades ago, many retirees enjoyed the full benefits of the "three-legged stool" of retirement provide by guaranteed pension payments, savings, and Social Security.

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Why You Need an Investment Coach

Submitted by Capital Preservation Partners on May 27th, 2014

If you believe some of the world's greatest investors, such as Benjamin Graham and Warren Buffet, it's not investments that cause people to lose money; rather, it's people who cause people to lose their money. What is meant by that is investing with sound principles and intelligent practices will always have a greater likelihood of success.

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Family Business vs Family Boundaries – Is the Health of Your Business at Risk?

Submitted by Capital Preservation Partners on May 27th, 2014

For over 200 years, family businesses have been at the core of wealth creation in America. Family business founders take the leap of faith to launch their business venture, often risking everything, and then spend their waking hours to realize their vision.

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The Very High Cost of Waiting to Save for Retirement

Submitted by Capital Preservation Partners on May 27th, 2014

This is the story of two friends – one, we'll call Randy, who, at age 25, recognized the importance of starting a retirement savings program. The other is Peter, same age, but he couldn't seem to see beyond his need for more immediate gratification – wanting to experience the kind of life style enjoyed by his more highly compensated friends.

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How to Achieve the Highest Quality of Life in Retirement

Submitted by Capital Preservation Partners on May 27th, 2014

Today's retirees are finding that retirement requires at least as much psychological and emotional preparation as it does financial preparation. So, retirement planning needs to include a thorough assessment of human assets and liabilities along with an assessment of financial assets and liabilities.

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Planning a Family – What to Save for Right Now

Submitted by Capital Preservation Partners on May 27th, 2014

The decision to go forward with your plans to start a family is a joyous one, but it can also lead to increased stress especially if your financial house has not been child-proofed. Considering that, on average, the cost of raising a child now exceeds \$300,000, there's little margin for error for most young families that have other important financial goals to achieve.

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Why You Should Monitor Your Credit

Submitted by Capital Preservation Partners on May 27th, 2014

Let's state up front that you don't need a credit monitoring service to stay on top of your credit status. For people who are diligent and deliberate in monitoring their own credit, they can do so by accessing a free credit report from each of the credit bureaus once per year.

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Smaller Investors Can Go to the Head of the Class with Institutional Shares

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Along with fund performance and risk ratios, expense ratios are a critical factor in determining the potential of funds to outperform the indexes and their peers, but they are easily overshadowed by robust returns in strong markets. Now that the market is settling in, and fund returns are reaching relative parity with the market, expense ratios become even more important.

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The need for retirement planning didn't really exist until well into the 1970s. Up to that point, people worked until age 65, spent a few years in leisure through their life expectancy which was about 69. Many retirees of that era were able to coast into retirement with a cushy pension plan. Over the next few decades, as life expectancy continued to expand, as did the number of years in retirement, financial planners came up with simple rules of thumb for determining how much a person would need at retirement in order to maintain his or her lifestyle.

That's where the 70 percent rule came from. People were told that they would only need 70 to 80 percent of their pre-retirement income to preserve their lifestyle throughout their golden years. While that may have worked for retirees back in the 1970s and 80s, it could spell disaster for today's retirees.

It's not your Grandfather's Retirement Anymore

Today's retirees face a whole new set of financial challenges. Many are carrying mortgages and other debt into retirement. Health costs have increased nearly ten-fold. And, because we are living longer these days, health care costs will consume an increasing piece of the retirement budget. About 50 percent of today's retirees find themselves sandwiched between their own kids, who may still be in college, or struggling to break free of the nest – and their aging parents who may require assistance in their daily living. Some retirees are actually finding that their retirement income needs may be as much as 110 percent of their pre-retirement needs. So much for the rules-of-thumb.

Better to Manage your Risks than your Investments

Today's retirement savers are finding that there are no certainties in the markets, or in the economy. The only certainties that do exist are the risks they face leading up to and all the way through retirement. The two biggest risks all retirees must confront are longevity risk and inflation risk. Unlike market risk, which can be avoided by simply taking your money out of the market, these two risks are inescapable. And, most people are either unaware of these risks, or have not fully grasped their significance in planning. It seems like decades ago that we experienced any real inflation. And, it has only been in the last couple of decades that the life expectancy rates have been accelerating.

For today's retirees, longevity risk is a new phenomenon. While people may understand that they can expect to live longer, few realize that age longevity is constantly expanding, meaning that the higher your attained age, the greater your life expectancy. The risk of longevity is further compounded by the risk of inflation. Even at an average inflation rate of 3 percent, the cost of living will double in 20 years which could put many retirees' life style in jeopardy.

Retirement as a New Life Cycle

For this reason, most retirees are viewing their golden years not as retirement, but as a new life phase in which earnings from some form of employment or a business may be a necessity. But, who says that is a bad thing. Many people can't imagine themselves coasting through 30 years of life without being able to apply their skills or knowledge in a meaningful way. For many, it is an opportunity to regenerate themselves through new opportunities and new knowledge. Instead of an ending phase of life, retirement will be looked upon as a new life cycle in and of itself.

The prevailing attitude among a growing number of pre-retirees is that they aren't going to limit themselves by trading a life of work for a life of leisure; rather they are going to take control and trade in work that they no longer want to do, for work they will really like to do.

Today's retirees are finding that retirement requires at least as much psychological and emotional preparation as it does financial preparation. So, retirement planning needs to include a thorough assessment of human assets and liabilities along with an assessment of financial assets and liabilities. It is no longer enough for retirees to know how much money they will need to live; they need to know how they will be able to make the most of this new life stage.

By focusing primarily on financial issues, traditional planning reduces retirement to an economic event with its financial objectives marked by a finish line. The dangerous misconception it perpetuates is that, if you hit the finish line, on time and on goal, your planning is done and you'll have a successful retirement. While it may address the financial goal of creating a sufficient standard of living, it doesn't address the larger, more important issue of the quality of life.

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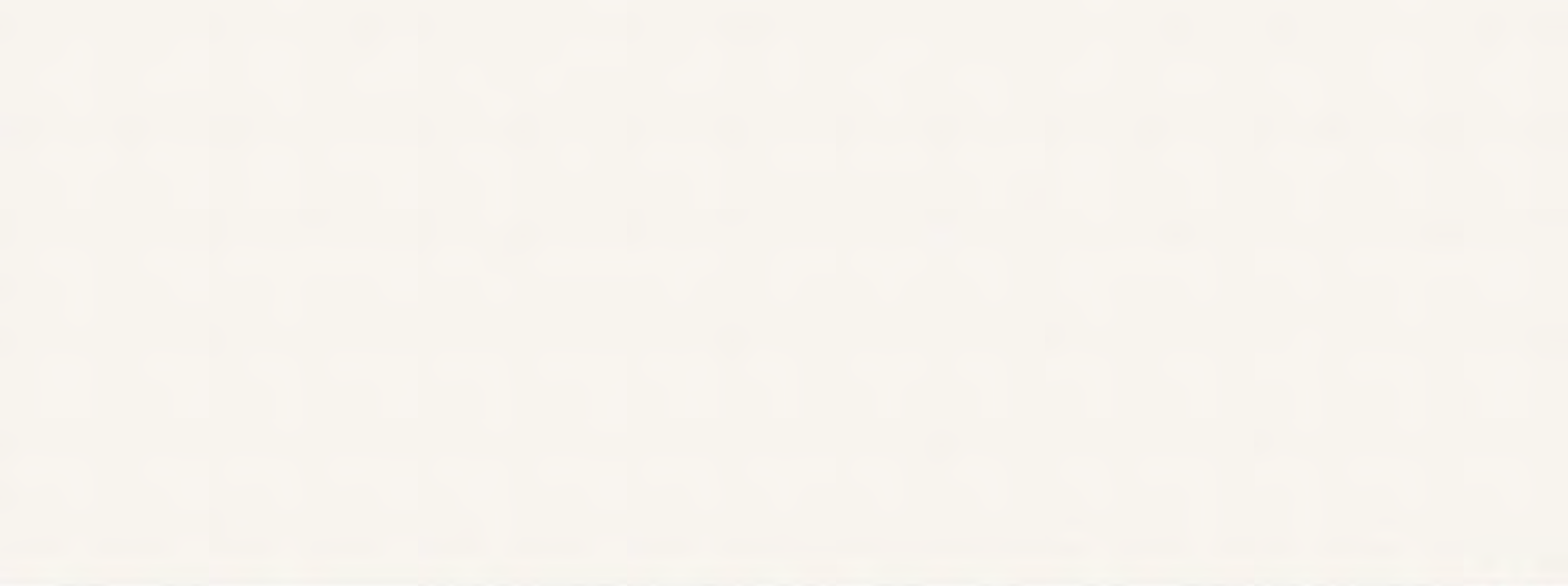
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Submitted by Capital Preservation Partners on May 27th, 2014

Warren Buffet has made no secret of his successful investing strategy. “Buy into fear” he says, “Buy when everyone else is selling”. For most, average investors that may be much easier said than done. Perhaps if we all had a few billion dollars in the bank, we might be able to muster up more courage and take some more risks. The fact is, however, that anyone can make money in bull markets; however, he has become a billionaire buy investing aggressively in bear markets. If all he did was buy stocks that were already going up, he wouldn’t be anywhere near as wealthy. Instead, he buys stocks on the way down realizing that, when they do start to rise again, there will much more profit potential. That takes some courage.

If you don’t have the courage to “invest like Buffet”, you could consider buying stock loss insurance which will provide you with downside protection against a decline in a stock’s price. You know about insurance – it’s what you buy to protect your house or car against damage or loss. You pay a premium, and when you suffer a loss, the insurance company makes you whole. While it’s possible that you could pay premiums for many years and never have a loss, the insurance gave you the confidence to own expensive assets because you were protected. Stock insurance, in the form of *put options*, is very much the same.

What exactly is a Put Option?

A put option is a contract between the buyer and the seller of an option that obligates the seller to buy the underlying stock at predetermined price (strike price) at a specific time (expiration date) in the future. The purchase price of the option is based on how close its strike price is the actual price of the stock at any particular time. If the stock’s price is below the strike price, the option is “in the money” which means it will sell at a premium. The further out the option is from the expiration date, the higher the premium. Conversely, a put option with a strike price below the stock price is “out of the money” so, the premium will consist largely of the time element.

As the price of the underlying stock falls, the premium value of the option increases, so, conceivably, even though the underlying stock declines in value, the increase in the put option’s premium value can offset the stock’s loss all or in part . If the stock price does drop, the holder of the put has a number of options available. He can hold the put until it expires at which time he can exercise his option to sell the underlying stock at the strike price which is higher than the actual stock price. If he intends to hold the stock longer, he could just let the option expire worthless and then buy another put option for an extension of his stock loss protection. At any time prior to expiration, he could also sell the option for a profit (as long as it has premium value), and buy another option with an extended expiration date.

On the other side of the coin, if the stock price increases above the strike price, the put option’s premium value will decline. And, as the expiration date approaches, the premium value will decline even further. On the expiration date, the option will expire worthless. If the stock continues to increase in value, he could decide to hold off buying another put option until he thinks the market might turn down, so he could purchase a put at a lower premium. Or, he could go ahead and buy a new put option just for added peace-of-mind. He will only be out the premium he paid



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he could go ahead and buy a new put option just for added peace of mind. He will only lose the premium he paid for the option.

Your Put Option in Action

Here's an example of how a put option works:

You own 100 shares of ABC, Inc. stock which is currently valued at \$28 dollars a share. To add some courage, or downside protection, you pay \$1.50 to buy a put option for ABC that has a strike price of \$25 per share. Because the minimum number of shares an option can cover is 100, you actually pay \$150. So now, at any time the share price of ABC trades below \$25 per share, you have the right to sell those shares at \$25. The premium value of the option is fairly low because it is out-of-the-money (share price is above the strike price) and the expiration date is just three months off.

If the share price drops to \$20 per share, the premium value of the put option would be worth at least \$5, and if the expiration date is a ways off, it will be worth more. If, at that point, the premium value of the option was, say, \$7, you could sell the option for a \$5 profit. If the stock price remained at \$20 until the option's expiration, you could exercise the option and sell the stock at \$25 per share. In either case, you have limited your losses. Or, you could invest like Buffet and hold the stock forever.

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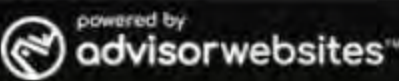
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Submitted by Capital Preservation Partners on May 27th, 2014

At a time when many Baby Boomers are approaching their retirement years with grave concerns over their income sources, the late night pitches for reverse mortgages may look quite appealing to some. As with any financial strategy, especially those that involve the equity in your home, they should be carefully weighed against your needs, concerns, and priorities. For the right situation, reverse mortgages may have their advantages. But, the disadvantages are many, so, with the limited space available for this article, they are covered here.

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Five Disadvantages of Reverse Mortgages

They Increase Debt

Many people hope to reach retirement unencumbered by debt, including a home mortgage. It can be very disconcerting to some when they realize they create a mountain of debt. After years of paying down their mortgage, they are now adding debt to a new mortgage.

They aren't Inexpensive

It's a mortgage, and like any other, it comes loaded with fees including closing costs and all the other costs associated with establishing a mortgage. Some studies have revealed that reverse mortgage costs are substantially higher than regular mortgages. The bottom line is that, these costs are deducted from the home's equity which is what is used to determine the amount of income that will be generated.

They Limit Your Legacy

Perhaps by the time retirees decide they need the income from their home, they may be less concerned with having it available for their heirs as a legacy. Regardless, by establishing a reverse mortgage, the lender has the first lien. If the home can be sold with proceeds available to pay down the reverse mortgage and selling costs, then, at least, there will be something to pass on to heirs. It may be possible to have the mortgage refinanced; however, it would depend on the interest rate climate and the credit worthiness of the heirs.

They can be a Financial Assistance Disqualifier

Income from a reverse mortgage may be a disqualifier if federal or state assistance is being received or is required in the future. This would most likely affect any assistance through Medicaid; however, it shouldn't have any impact on Social Security or Medicare.

Forget Moving Plans

For the most part, a reverse mortgage locks you into your home. After all, it is the collateral used by your lender to secure the loan. If, you have always intended to stay in the home, then it may not be an issue. While it is possible to sell your home, a significant part of the proceeds are consumed by the interest costs and closing costs leaving you with much less than you expect from the sale.

Unquestionably, reverse mortgages can be beneficial in certain situations, and no one can be faulted with wanting to benefit from an asset that took decades to pay for. But, many people fail to thoroughly consider the consequences of reverse mortgages, and once they are established, they are not easily reversed.

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Submitted by Capital Preservation Partners on May 27th, 2014

If you listen to any of the world's leading investors they will tell you that nothing is more important to long-term investment success than a clear investment philosophy. More important than a sound investment strategy? Yes, they will tell you, because strategy, while important, is nothing more than a manifestation of an investment philosophy. Strategy can evolve as circumstances might warrant; however, an investment philosophy is based on the intractable belief you have in the principles and practices that guide your decision-making. In times of market upheaval and through the dark of uncertainty, your investment philosophy enables you to control your emotions, shut out the noise and focus on the things that really matter over the long term.

Too often investors want to focus on the short-term outcome of their decisions when, in reality, it has very little impact on the long-term results of a well-conceived investment strategy. A random 300 point drop in the market in reaction to the news of some calamitous event, while entertaining and maybe a little disconcerting, will be nothing more than a microscopic blip along the way in a long-term time horizon. Your investment philosophy is in place to remind you of that. It can also remind you that short-term results are random and fleeting, which means you have absolutely no control over them.

Instead, your investment philosophy keeps you focused on the process which is your investment strategy. If mistakes are made, you have a rational process for uncovering and learning by them. No panic reactions or second guessing, just a clear assessment of where you are today in relation to where you want to be, and whether the current strategy is the one to get you there. At worst, you adjust the strategy. At best, you leave it alone because it still supports your core beliefs about the market.

Keep it Short, but Pointed

An investment philosophy doesn't have to be elaborate or eloquent. Most successful investors keep their investment philosophies short and pithy while expressing their core belief. For example, the greatest investor of them all, Warren Buffet has an investment philosophy that consists of just one sentence: "Buy wonderful businesses at a fair price with the intention of holding them forever." You obviously have to know something about Buffet to know how that translates. Essentially, he believes in buying companies at a price at or near their intrinsic values that can consistently increase their intrinsic values over a long period of time. While many people may not grasp the meaning of his investment philosophy, all that matters is that Buffet does.

A quote by John Bogle, named by Fortune Magazine as one of the Investment Giants of the twentieth century and who is credited with creating the world's first index fund, has been adopted by many "Bogleheads"(followers of John Bogle) as their investment philosophy:

Buy-and-hold, long-term, all market-index strategies, implemented at rock bottom cost, are the surest of all routes to the accumulation of wealth.

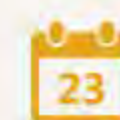
Other examples of brief but all encompassing philosophy statements:

Diversify widely, rebalance regularly, minimize costs; rinse, repeat.

Anything is possible, and the unexpected is inevitable. Proceed accordingly.

Risk means more things can happen than will happen.

Of course, it does require at least some knowledge of how the markets work and some familiarity with investment principles and practices to develop an enduring investment philosophy. But, more important, it requires a deep understanding of your own values and beliefs about money, as well as sensitivity to your comfort level with risk over



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a long period of time.

A good financial advisor, who also functions as an investment coach – willing to educate and counsel you – will be able to help you ferret out the elements of an investment philosophy that fit your investment profile like a glove and is one whom you will be able to entrust with your utmost confidence. Be wary of a financial advisor who doesn't bother to ask you what your investment policy is; and be especially wary of a financial advisor who can't describe his or her investment philosophy succinctly and with conviction.

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Submitted by Capital Preservation Partners on May 27th, 2014

One of the advantages of running your own business from your home is that you get to be yourself all of the time. But, it is important that you don't lose sight of the fact that you are also a business. That fact is not lost on the IRS who takes a special interest in home-based businesses and their profits and losses. You're in business to make a profit, and the IRS wants its share. If you generate too many losses, the IRS will question your legitimacy as a business.

Here's your home-based business guide for staying on the right side of the IRS:

Give Your Business Some Space

Mixing your business and home life can prove to be very taxing if the IRS disallows your business deductions because they don't "see" an actual business. Operating your business out of your kitchen or a corner of your bedroom may be convenient, but, if your business documents are mixed in with your personal stuff, the IRS is likely to view them as personal. If your business supplies and resources are also used in your personal life, their cost may not qualify as a business expense.

The solution is fairly easy. Just keep your personal life separated from your business life. Create a separate work space dedicated to the operation of your business. When your business really gets going you'll appreciate the organization and efficiency of a separate work space.

Give Your Business a Financial Identity

You need to build a wall between your business finances and your personal finances. Doing so will satisfy the IRS and give your business legitimacy. Here' are some essential steps to follow:

- **Get federal tax ID or a DBA:** You will need these in order to open a checking account for your business and to file a business tax return.
- **Open a business checking account:** Easy to do with a federal tax ID. Be sure to get a check or debit card with the account.
- **Get a business credit card:** It's recommended that you pay your business expenses by credit or debit card for more efficient record keeping. If you are unable to obtain a credit card for your business (difficult to do for new businesses), then dedicate one personal card to your business expense.
- **Separate your book keeping:** Above all else, you need to maintain completely separate records between your personal and business finances. Separate check books, credit or debit cards and workspace will make this much easier to do.

Every Day is a Tax Day

Because tax deductions play a large role in your business profit-loss, it pays to be conscious of the activities and events that trigger them. Additionally, if you are not organized, with separate record keeping and a system for tracking business expenses, you are likely to miss out on many tax deductions that could help you with your bottom line.

- **Organize for taxes:** Use you newly organized work space to keep all of your business documents, receipts, billing statements, invoices and correspondence separately filed, by day and by month. By taking five minutes each day to maintain your files and records you will save hours at tax time.
- **Follow the Schedule C form:** One way to organize your record keeping and filing system is to use the Schedule C tax form for businesses as a guide. All of the business expense categories are listed on it, so if your system follows the form, it will be much easier to compile the information you need to complete the form.

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Submitted by Capital Preservation Partners on May 27th, 2014

With more than 10,000 Baby Boomers crossing the retirement threshold every day, the Social Security check writing machine has kicked into overdrive. Following a tumultuous decade in which pre-retirees and retirees saw their 401k plans rocked by two stock market crashes, two recessions and a financial crisis, an increasing number of people are more reliant on Social Security benefits than ever before. And, while the temptation to start taking benefits at the normal Social Security retirement age of 66, or even earlier at age 62 is great, retirees may be leaving tens of thousands of dollars on the table by not waiting as long as they possibly can to tap Social Security.



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How Your Social Security Retirement Age Affects Your Benefits

Most people know their full retirement age (FRA) – the Social Security age at which they can receive their full Social Security benefit. For most people retiring today, their FRA is 66. And, most people also know that they can take reduced benefits as early as age 62. But very few people know that if they delay their retirement they can effectively earn an 8 percent annual return on their available benefits. That's based on the Delayed Retirement Credits (DRCs) earned each year you delay your Social Security benefits.

Think about that. Where else can you earn a guaranteed 8 percent on your money? To understand the overall impact it can have on your total Social Security benefits, consider the following example:

- Mr. Jones is eligible for a Primary Insurance Amount (PIA) of \$2,000 or \$24,000 per year at age 66 (FRA).
- If he were able to wait until her Social Security age 70, her annual benefit would increase to \$31, 680. Although this increase in retirement benefits won't affect the Spousal Retirement Benefits, it will apply to a Surviving Spouse's Benefit.
- In cumulative terms, Mr. Jones would increase his total benefits from \$378,000 received by his life expectancy age of 82 to \$411,000.

But, this example doesn't account for Cost of Living Adjustments (COLAs). Assuming a 2.5 percent COLA, Mr. Jones' delayed benefit would grow to \$38,599 and her total benefit amount would increase to \$584,000 by age 82.

But, what about the four years in which he wasn't receiving benefits? Had he taken his benefits starting at age 66, he would have received \$139,000 by age 70. That's where calculating the "break even" year will help you determine whether it's worth the wait. In this example, Mr. Jones will break even at age 80, and, if he lives longer, he'll receive more money by having waited until age 70 for his Social Security benefits.

Of course, if you are considering taking early benefits at age 62, you will leave much more on the table due to the reduced early benefit amount. Unless you have absolutely no other choice, it doesn't make since to take early retirement benefits.

Choose Your Social Security Age Wisely

The big mistake many pre-retirees make to simply fill out the form and check the boxes without having consulted a retirement expert. There are dozens of different facets of Social Security which all but the most qualified retirement experts truly understand. Making a mistake with any one of them, especially when spousal retirement benefits are involved, can be extremely costly. Make sure to seek the guidance of a retirement income advisor knowledgeable in the areas of de-cumulation and sequence of return risk. If you ask an advisor about these two terms, and they look at you with crossed-eyes, move on to another advisor.

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Submitted by Capital Preservation Partners on May 27th, 2014

The decision to buy life insurance is one of the most important a person can make in their financial lives, and buying a life insurance policy can be one of the more difficult things a person does. Why? Because life insurance is a complex financial instrument full of many different moving parts that people need to be able to understand. The more perplexing aspect of the life insurance purchase is the fact that there are literally hundreds of different companies, and thousands of different products from which to choose. It's no wonder that people tend to procrastinate when it comes to buying life insurance.

Solid guidance from a well qualified life insurance professional can ease the process of buying a policy and instill the peace-of-mind that the right plan is in place. A life insurance purchase is a long term commitment, and because the financial security of your family is at stake, it is vitally important to know that you have the right type of product, the right amount of coverage and that you know exactly how your plan will work for you.

Keys to Choosing a Life Insurance Professional

First Know Thyself

The more you understand your complete financial situation: your concerns, your needs, your priorities, your tax status, your preferences and risk tolerance; the better positioned you will be to identify the right life insurance professional. With the availability of online tools to do your own financial assessments, you should have a fairly clear idea of what your needs are.



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clear idea of what your needs are.

Do Your Homework

Life insurance is one product that you shouldn't go searching for blindly without at least some basic knowledge of how it works and the types of products that are available. With the information available online, you could become well versed in life insurance in just a couple of hours. Before you speak with a life insurance professional, you should know the difference between term life, whole life, universal life and variable life. You should know how cash values work and how the death benefit is paid. The more knowledge you have the more control you will have in the process.

Get Referrals

When choosing any type of professional, referrals are often the best way to find the ones with whom you would like to work. Referrals can help you quickly narrow down your choices, and they almost always are provided by satisfied consumers who happen to be a friend, relative or colleague whom you trust. Don't just settle for a name. Ask your referrer what it is about the person that he or she finds so exceptional, and also ask about any negatives. Try to obtain at least three referrals so you can apply your own criteria.

Find out who they Work For

There are essentially two types of insurance professionals: A life insurance agent who represents a life insurance company; and an insurance broker who represents his or her client to a number of different insurance companies. While all life insurance professionals get paid essentially the same way, by commissions (with most products the life insurance company pays the commissions), the way they work is based in some part on their relationship with the life insurer. There are many well qualified life insurance agents who offer very professional services; however, they tend to sell only those products offered by their life insurance company. Insurance brokers are licenses with several insurance companies and can, therefore, go further to match the client's needs and preferences with the most suitable product.

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Perhaps the most important factor in formulating your investment plan is your risk tolerance; that is, the amount of risk you're willing to assume in order to achieve your most important objectives. More precisely, your risk tolerance is based on the your financial and emotional ability to withstand negative returns on your investment portfolio. Before embarking on any investment strategy it is important to know your risk tolerance to ensure that you select the right kind of investments and you are able to set clear objectives. More importantly, when your investments are aligned with the proper risk-reward continuum, you're assured of many more restful nights. So, how do you go about determining your risk tolerance?

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Look at Your Time Horizon

The most important determinant is time; that is, how much time you have before you will need to access the money being invested. Younger people, those with more than 30 years before retirement, are more able to withstand the swings and the cycles of the stock market because of the tendency for the market to increase over time. When the stock market declines by 20% or more in one year, as it has a few times over the last couple of decades, a younger investor has the time to allow the market to recoup its losses and forge ahead for a couple of years. Therefore, they could take a more aggressive posture towards investing by increasing their exposure to stocks.

An older investor with less than 15 years before retirement has less time and, therefore, fewer opportunities for the market to recover from multiple down years or extreme volatility. While it is still important for investors in the pre-retirement phase of life to maintain a growth orientation on their investments, their portfolios need to be stabilized with investments that produce less volatile or more predictable returns.

The Impact on Your Current Financial Situation

Using the same stock market decline of 20%, you need to simply ask yourself, if I lost 20% of my wealth this year, would it materially change my financial position? The real question is whether your current financial position, based on the amount of wealth you have, your income, and your time horizon, could absorb the loss and still allow you to achieve your financial goals. A younger investor has time. A high earning investor has excess cash flow to invest. A high net worth investor has assets that can be rebalanced. Their answer to the question might be that such a loss would not materially affect their financial position. If all of their money was invested in the stock market, they may be able to withstand the loss and live to see future positive returns.

For an older investor, or one with minimal assets or cash flow capacity, the impact could be more significant. If they could not withstand the 20% loss, their investment portfolio would need to consist of investments with limited downside risk and limited upside return potential, such as bonds or fixed yield investments. By allocating a larger percentage of their portfolio to more stable investments, they are not likely to experience such a big decline in the overall value of their portfolio.

Digging Deeper for Answers

Then you need to ask yourself some questions to gauge your general attitude about risk. For instance, when you make decision about your money, such as making an investment, borrowing money, or making a big purchase, do usually feel a) anxious, b) satisfied, c) hopeful, or d) invigorated? Or, how would you describe your pursuit of life's dreams: a) cautious, b) measured, c) strategic, or d) fearless? Generally, your answers will correlate with your tolerance for risk, from risk adverse to highly risk tolerant.

Finally, your response to risk may be the most telling indicator of your tolerance for risk. Using the stock market crash of 2008 as recent point of reference, your response, either hypothetically or in reality based on your actual response, may say the most about your risk tolerance going forward. During the stock market crash of 2008 did you (or would you have) a) cash out all of your equities, b) reduce your equity exposure substantially, c) hold firm to most of your equity positions, or d) start adding to your equity positions.

It is very important to be mindful of the fact that your risk tolerance will evolve over time. This personal assessment should be conducted periodically to ensure that your current asset allocation reflects both your emotional and financial ability to tolerate risk.

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Submitted by Capital Preservation Partners on May 27th, 2014

401(k) plans were established by Congress to encourage individual savings towards retirement. Offered through employers, the plans are generally available to eligible employees who are allowed to contribute a percent of their salary to the plan. In most plans, employees are given a menu of investment options that enable them to create a portfolio that is most suited for their investment preferences and risk tolerance.

Contributions are based on a percent of your salary up to a current maximum of \$17,500 (\$23,000 under the catch-up provision for people over age 50). If your income exceeds \$110,000, there may be some additional limitations depending on how many lower paid employees participate in the plan.

Why You Should Love Your 401(k)

We live in a cynical world where most people have come to realize that there are no free lunches. But when your employer offers you free money, don't walk away too quickly, because, if it is through your company's 401(k) plan, the offer is for real.¹

In addition, the IRS is allowing you to keep more of your own money that would otherwise have been paid in taxes. And they won't make you pay taxes on money that you earn inside of your 401(k) plan which can save you a significant amount of money over the period of time you are saving for retirement.² How does all of this happen?

When you make a contribution to your 401(k) plan, three things happen:

- You receive an immediate reduction in taxes because your contribution, which comes from your salary, is made before you pay any taxes on it.
- If your employer provides a matching contribution, you receive free money instantly. A typical match is 50% up to 6% of your contribution¹
- Once your contributions are invested, they begin to grow tax deferred which means you don't owe any current taxes on their earnings.

Another Way to Save Money

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Although it's not recommended, you can borrow from your 401(k) if your employer's plan allows it. Loans can be made at a very reasonable interest rate of 4% to 5% which, when compared to credit card interest at 18%, could make it a viable debt reduction option. You need to make payments and have it fully repaid within five years, or it will become taxable and an early withdrawal penalty of 10% may apply. The good news, it that you will paying interest to yourself! Another caveat: If you leave your employer and the plan, you will need to repay the loan within 60 days or taxes and penalties will be assessed.

Loans from your 401(k) should be a last resort. If you are swimming in debt, and you need relief from high interest debt, it can be a way out, but consider other alternatives first.

Every 401(k) plan has its own rules and limitations established by the employer, so it is important to carefully review the plan document. For instance, employers who match their employees contributions often include a vesting schedule which means that you need to stay with the company for a certain period of time before you are able to withdraw the contributions from your employer.

Some plans don't allow for loans, and those that do can attach their own requirements and charges which could increase the cost of the loan.

¹Employers are not required to provide matching contributions. For employers who do match employee contributions, the amount or percentage of the employer contribution can vary from employer to employer.

² Earnings inside a 401(k) plan are allowed to accumulate free of taxes, but withdrawals made from the plan are taxed at ordinary income tax rates. Early withdrawals made prior to age 59 ½ may incur a 10% penalty unless certain conditions are met.

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Submitted by Capital Preservation Partners on May 27th, 2014

When the decision to buy life insurance is finally made it brings a sense of relief and comfort to most, until they begin the agonizing process of deciding which kind of life insurance to buy. The choices are many, and the process can be daunting, however, it is made easier when you have at least a basic understanding of the difference between term life and whole life.

At their core, term and whole life are two very different ways to insure your life, with one being temporary coverage and the other being a more permanent form of life insurance. Term is, essentially, a death benefit for which you pay a premium to cover the cost of insurance. The term period can be anywhere from one year to 30 years, after which the coverage ends. A whole life policy is a combination of the death benefit and a savings component, so the premium consists of both insurance costs and savings. The savings can be used for any purpose, such as retirement, or they can be applied to the premium. As long as the premium is paid each year, a whole life policy is never terminated.

Term Life Essentials

Term life insurance is an inexpensive way to buy life insurance because you are simply paying for the cost of the death benefit. The premium rates are determined by mortality tables which reflect the fact that the cost of insurance goes up as you get older. Depending on the type of term policy, your premium could increase each year, or, it can be leveled over the course of the term period.

Yearly Renewable Term (YRT): The most basic form of term is a yearly renewable term which pegs your premium to your increasing mortality costs. Each year, your premium will increase while your death benefit remains level. This policy is ideal for people with tight budgets who expect their cash flow to improve over time. While it is possible to renew your coverage each year for as long as you pay the premium, it can eventually become prohibitively expensive to own.

Level Term: This form of term provides a level death benefit and the premiums are leveled out for the term period. While, the premiums start out higher than a YRT policy, the remain fixed so that, at the end of period of time, they can be lower than a YRT policy held for the same length of time. This policy is best for older people who want to budget for the life insurance expenditures.

Whole Life Essentials

The death benefit of a whole life policy is also level and so are the premiums. The difference is that the premiums are calculated based on a projected amount of savings to be accumulated over a period of time. As your savings grow, the amount for which the life insurer is at risk decreases, so your insurance costs may actually decrease over time which is how it is able to level your premium. Some whole life policies also pay a dividend which can be used to reduce, and, ultimately pay for your premium which can lower your net cost of ownership. Your savings, also known as cash value, accumulates tax deferred and can be used to supplement retirement expenses.

Whole life can be more cost effective for people who recognize that their need for life insurance is more than just temporary and will likely continue in their later years.

Which is Right for You?

Whether a person selects a term or a whole life policy will come down to several factors, including the purpose of the coverage, how long the coverage is needed, the age of the insured, as well as budget and health considerations. Because these factors tend to change over time, it's not unusual for people to make several life insurance purchase decisions throughout their lifetimes. And, it is also not unusual for people to own some combination of both term and whole life.

When Term is the Right Choice

- You have a need for a large death benefit.
- Your need for life insurance is for a specific period of time (i.e., until your children are fully grown)
- You have limited current cash flow.
- You are older and have budget constraints.

When Whole Life is the Right Choice

- You expect to have a need for life insurance well into the future (i.e., providing for the long-term financial security of a non-working spouse or a special needs child, business protection, estate protection)
- You want to own life insurance for the long term on a more cost-effective basis, and your current cash flow can support it.
- You are concerned about protecting your insurability for future life insurance needs.

When choosing from among term or whole life, all factors need to be carefully considered. While the idea of a low initial premium may seem appealing, the cost of insurance can go up dramatically if, later in life, you find that you still have a need for life insurance. If, after your term life policy expires, you need to buy additional insurance, you run the very real risk of not being able to qualify if your health becomes an issue. At a minimum your premium costs could be much higher if your policy is rated for medical reasons.



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Asset Allocation = Risk Allocation

Submitted by Capital Preservation Partners on May 27th, 2014

While the current stock market boom has some people rejoicing it doesn't appear as though their level of anxiety has abated much. Investors sometimes have short memories, but a stock market rally s is not likely to make people forget the carnage left behind in their 401(k) s and stock portfolios after one of the worst market declines in our history.

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Are Advisory Fees Tax Deductible?

Submitted by Capital Preservation Partners on May 27th, 2014

It's tax season again, and a question we get from a number of clients after receiving their yearend statements is, "Are my investment advisory fees tax deductible?" And the answer is an equivocal, "It depends."

[Read more](#)

Should You Have a Living Trust?

Submitted by Capital Preservation Partners on May 27th, 2014

A will is the foundation of your estate plan and it is essential if your financial affairs are to be settled in accordance with your wishes. If you die without a will, or "intestate" as the law refers to it, essentially the state becomes your executor and your property will be distributed according to its laws.

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Finance Lessons for Your Teen

Submitted by Capital Preservation Partners on May 27th, 2014

The current economic environment has caused most everyone to reconsider their personal finances with many people having to drastically change their spending and savings habits. Out of this economic malaise may come an opportunity to finally instill the right habits in your teens that can carry them into adulthood on the right financial footing.

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Understanding Your True Risk Tolerance is Vital to Portfolio Performance

Submitted by Capital Preservation Partners on May 27th, 2014

As anyone would have expected, the extraordinary convergence of extreme stock market volatility, low interest rates, declining home values, diminished retirement savings accounts, and chronic economic sluggishness has taken a severe toll on the American psyche. For many investors, it may have forever altered the way in which risk is perceived and managed.

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Retirement Income Planning Requires Realistic Spending Assumptions

Submitted by Capital Preservation Partners on May 27th, 2014

If you have read any literature on retirement planning or have received advice from a financial professional, chances are you were presented with the 70% rule, the one that suggests that retirees will need between 70 and 80% of their pre-retirement income in order to maintain their standard of living.

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Is a Fixed annuity Right For You?

Submitted by Capital Preservation Partners on May 27th, 2014

One of the principal tenets of investing is that no one single investment is right for everyone. Every investment has certain characteristics, risks, and objectives that must match those of the investor, and fixed annuities are no different.

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Submitted by Capital Preservation Partners on May 27th, 2014

The need for retirement planning didn't really exist until well into the 1970s. Up to that point, people worked until age 65, spent a few years in leisure through their life expectancy which was about 69. Many retirees of that era were able to coast into retirement with a cushy pension plan. Over the next few decades, as life expectancy continued to expand, as did the number of years in retirement, financial planners came up with simple rules of thumb for determining how much a person would need at retirement in order to maintain his or her lifestyle.

That's where the 70 percent rule came from. People were told that they would only need 70 to 80 percent of their pre-retirement income to preserve their lifestyle throughout their golden years. While that may have worked for retirees back in the 1970s and 80s, it could spell disaster for today's retirees.

It's not your Grandfather's Retirement Anymore

Today's retirees face a whole new set of financial challenges. Many are carrying mortgages and other debt into retirement. Health costs have increased nearly ten-fold. And, because we are living longer these days, health care costs will consume an increasing piece of the retirement budget. About 50 percent of today's retirees find themselves sandwiched between their own kids, who may still be in college, or struggling to break free of the nest – and their aging parents who may require assistance in their daily living. Some retirees are actually finding that their retirement income needs may be as much as 110 percent of their pre-retirement needs. So much for the rules-of-thumb.

Better to Manage your Risks than your Investments

Today's retirement savers are finding that there are no certainties in the markets, or in the economy. The only certainties that do exist are the risks they face leading up to and all the way through retirement. The two biggest risks all retirees must confront are longevity risk and inflation risk. Unlike market risk, which can be avoided by simply taking your money out of the market, these two risks are inescapable. And, most people are either unaware of these risks, or have not fully grasped their significance in planning. It seems like decades ago that we experienced any real inflation. And, it has only been in the last couple of decades that the life expectancy rates have been accelerating.

For today's retirees, longevity risk is a new phenomenon. While people may understand that they can expect to live longer, few realize that age longevity is constantly expanding, meaning that the higher your attained age, the greater your life expectancy. The risk of longevity is further compounded by the risk of inflation. Even at an average inflation rate of 3 percent, the cost of living will double in 20 years which could put many retirees' life style in jeopardy.

Retirement as a New Life Cycle

For this reason, most retirees are viewing their golden years not as retirement, but as a new life phase in which earnings from some form of employment or a business may be a necessity. But, who says that is a bad thing. Many people can't imagine themselves coasting through 30 years of life without being able to apply their skills or knowledge in a meaningful way. For many, it is an opportunity to regenerate themselves through new opportunities and new knowledge. Instead of an ending phase of life, retirement will be looked upon as a new life cycle in and of itself.

The prevailing attitude among a growing number of pre-retirees is that they aren't going to limit themselves by trading a life of work for a life of leisure; rather they are going to take control and trade in work that they no longer want to do, for work they will really like to do.

Today's retirees are finding that retirement requires at least as much psychological and emotional preparation as it does financial preparation. So, retirement planning needs to include a thorough assessment of human assets and liabilities along with an assessment of financial assets and liabilities. It is no longer enough for retirees to know how much money they will need to live; they need to know how they will be able to make the most of this new life stage.

By focusing primarily on financial issues, traditional planning reduces retirement to an economic event with its financial objectives marked by a finish line. The dangerous misconception it perpetuates is that, if you hit the finish line, on time and on goal, your planning is done and you'll have a successful retirement. While it may address the financial goal of creating a sufficient standard of living, it doesn't address the larger, more important issue of the quality of life.

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Home > Blogs > Put Courage in Your Investment Strategy

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Submitted by Capital Preservation Partners on May 27th, 2014

Warren Buffet has made no secret of his successful investing strategy. “Buy into fear” he says, “Buy when everyone else is selling”. For most, average investors that may be much easier said than done. Perhaps if we all had a few billion dollars in the bank, we might be able to muster up more courage and take some more risks. The fact is, however, that anyone can make money in bull markets; however, he has become a billionaire buy investing aggressively in bear markets. If all he did was buy stocks that were already going up, he wouldn’t be anywhere near as wealthy. Instead, he buys stocks on the way down realizing that, when they do start to rise again, there will much more profit potential. That takes some courage.

If you don’t have the courage to “invest like Buffet”, you could consider buying stock loss insurance which will provide you with downside protection against a decline in a stock’s price. You know about insurance – it’s what you buy to protect your house or car against damage or loss. You pay a premium, and when you suffer a loss, the insurance company makes you whole. While it’s possible that you could pay premiums for many years and never have a loss, the insurance gave you the confidence to own expensive assets because you were protected. Stock insurance, in the form of *put options*, is very much the same.

What exactly is a Put Option?

A put option is a contract between the buyer and the seller of an option that obligates the seller to buy the underlying stock at predetermined price (strike price) at a specific time (expiration date) in the future. The purchase price of the option is based on how close its strike price is the actual price of the stock at any particular time. If the stock’s price is below the strike price, the option is “in the money” which means it will sell at a premium. The further out the option is from the expiration date, the higher the premium. Conversely, a put option with a strike price below the stock price is “out of the money” so, the premium will consist largely of the time element.

As the price of the underlying stock falls, the premium value of the option increases, so, conceivably, even though the underlying stock declines in value, the increase in the put option’s premium value can offset the stock’s loss all or in part . If the stock price does drop, the holder of the put has a number of options available. He can hold the put until it expires at which time he can exercise his option to sell the underlying stock at the strike price which is higher than the actual stock price. If he intends to hold the stock longer, he could just let the option expire worthless and then buy another put option for an extension of his stock loss protection. At any time prior to expiration, he could also sell the option for a profit (as long as it has premium value), and buy another option with an extended expiration date.

On the other side of the coin, if the stock price increases above the strike price, the put option’s premium value will decline. And, as the expiration date approaches, the premium value will decline even further. On the expiration date, the option will expire worthless. If the stock continues to increase in value, he could decide to hold off buying another put option until he thinks the market might turn down, so he could purchase a put at a lower premium. Or, he could go ahead and buy a new put option just for added peace-of-mind. He will only be out the premium he paid for the option.

Your Put Option in Action

Here’s an example of how a put option works:

You own 100 shares of ABC, Inc. stock which is currently valued at \$28 dollars a share. To add some courage, or downside protection, you pay \$1.50 to buy a put option for ABC that has a strike price of \$25 per share. Because the minimum number of shares an option can cover is 100, you actually pay \$150. So now, at any time the share price of ABC trades below \$25 per share, you have the right to sell those shares at \$25. The premium value of the option is fairly low because it is out-of-the-money (share price is above the strike price) and the expiration date is just three months off.

If the share price drops to \$20 per share, the premium value of the put option would be worth at least \$5, and if the expiration date is a ways off, it will be worth more. If, at that point, the premium value of the option was, say, \$7, you could sell the option for a \$5 profit. If the stock price remained at \$20 until the option’s expiration, you could exercise the option and sell the stock at \$25 per share. In either case, you have limited your losses. Or, you could invest like Buffet and hold the stock forever.

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[Home](#) > [Blogs](#) > Reverse Mortgage Disadvantages

Submitted by Capital Preservation Partners on May 27th, 2014

At a time when many Baby Boomers are approaching their retirement years with grave concerns over their income sources, the late night pitches for reverse mortgages may look quite appealing to some. As with any financial strategy, especially those that involve the equity in your home, they should be carefully weighed against your needs, concerns, and priorities. For the right situation, reverse mortgages may have their advantages. But, the disadvantages are many, so, with the limited space available for this article, they are covered here.



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Five Disadvantages of Reverse Mortgages

They Increase Debt

Many people hope to reach retirement unencumbered by debt, including a home mortgage. It can be very disconcerting to some when they realize they create a mountain of debt. After years of paying down their mortgage, they are now adding debt to a new mortgage.

They aren't Inexpensive

It's a mortgage, and like any other, it comes loaded with fees including closing costs and all the other costs associated with establishing a mortgage. Some studies have revealed that reverse mortgage costs are substantially higher than regular mortgages. The bottom line is that, these costs are deducted from the home's equity which is what is used to determine the amount of income that will be generated.

They Limit Your Legacy

Perhaps by the time retirees decide they need the income from their home, they may be less concerned with having it available for their heirs as a legacy. Regardless, by establishing a reverse mortgage, the lender has the first lien. If the home can be sold with proceeds available to pay down the reverse mortgage and selling costs, then, at least, there will be something to pass on to heirs. It may be possible to have the mortgage refinanced; however, it would depend on the interest rate climate and the credit worthiness of the heirs.

They can be a Financial Assistance Disqualifier

Income from a reverse mortgage may be a disqualifier if federal or state assistance is being received or is required in the future. This would most likely affect any assistance through Medicaid; however, it shouldn't have any impact on Social Security or Medicare.

Forget Moving Plans

For the most part, a reverse mortgage locks you into your home. After all, it is the collateral used by your lender to secure the loan. If, you have always intended to stay in the home, then it may not be an issue. While it is possible to sell your home, a significant part of the proceeds are consumed by the interest costs and closing costs leaving you with much less than you expect from the sale.

Unquestionably, reverse mortgages can be beneficial in certain situations, and no one can be faulted with wanting to benefit from an asset that took decades to pay for. But, many people fail to thoroughly consider the consequences of reverse mortgages, and once they are established, they are not easily reversed.

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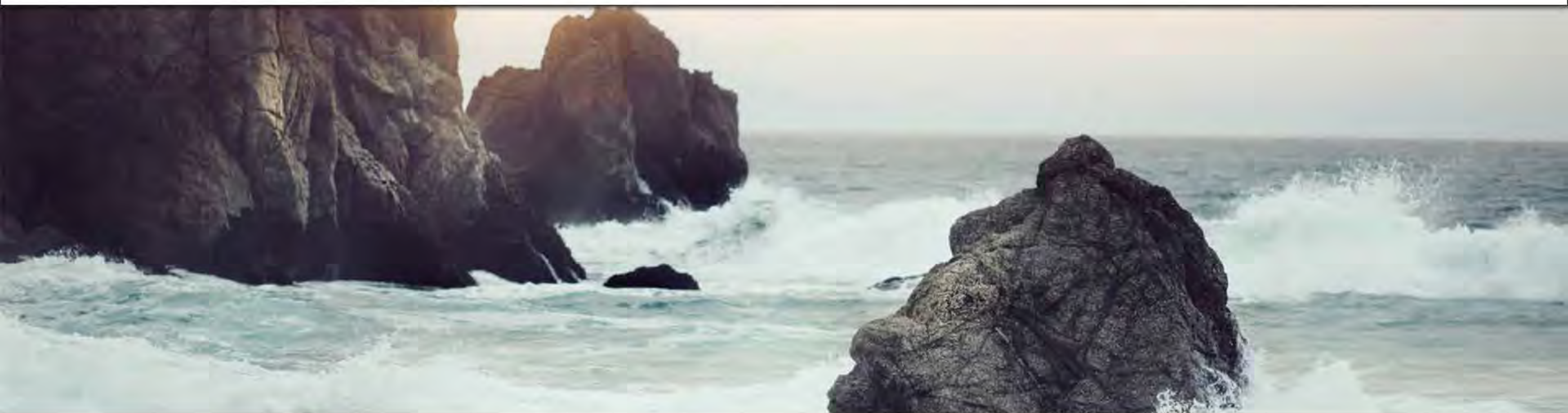
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Submitted by Capital Preservation Partners on May 27th, 2014

One of the advantages of running your own business from your home is that you get to be yourself all of the time. But, it is important that you don't lose sight of the fact that you are also a business. That fact is not lost on the IRS who takes a special interest in home-based businesses and their profits and losses. You're in business to make a profit, and the IRS wants its share. If you generate too many losses, the IRS will question your legitimacy as a business.

Here's your home-based business guide for staying on the right side of the IRS:

Give Your Business Some Space

Mixing your business and home life can prove to be very taxing if the IRS disallows your business deductions because they don't "see" an actual business. Operating your business out of your kitchen or a corner of your bedroom may be convenient, but, if your business documents are mixed in with your personal stuff, the IRS is likely to view them as personal. If your business supplies and resources are also used in your personal life, their cost may not qualify as a business expense.

The solution is fairly easy. Just keep your personal life separated from your business life. Create a separate work space dedicated to the operation of your business. When your business really gets going you'll appreciate the organization and efficiency of a separate work space.

Give Your Business a Financial Identity

You need to build a wall between your business finances and your personal finances. Doing so will satisfy the IRS and give your business legitimacy. Here' are some essential steps to follow:

- **Get federal tax ID or a DBA:** You will need these in order to open a checking account for your business and to file a business tax return.
- **Open a business checking account:** Easy to do with a federal tax ID. Be sure to get a check or debit card with the account.
- **Get a business credit card:** It's recommended that you pay your business expenses by credit or debit card for more efficient record keeping. If you are unable to obtain a credit card for your business (difficult to do for new businesses), then dedicate one personal card to your business expense.
- **Separate your book keeping:** Above all else, you need to maintain completely separate records between your personal and business finances. Separate check books, credit or debit cards and workspace will make this much easier to do.

Every Day is a Tax Day

Because tax deductions play a large role in your business profit-loss, it pays to be conscious of the activities and events that trigger them. Additionally, if you are not organized, with separate record keeping and a system for tracking business expenses, you are likely to miss out on many tax deductions that could help you with your bottom line.

- **Organize for taxes:** Use you newly organized work space to keep all of your business documents, receipts, billing statements, invoices and correspondence separately filed, by day and by month. By taking five minutes each day to maintain your files and records you will save hours at tax time.
- **Follow the Schedule C form:** One way to organize your record keeping and filing system is to use the Schedule C tax form for businesses as a guide. All of the business expense categories are listed on it, so if your system follows the form, it will be much easier to compile the information you need to complete the form.



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[Home](#) > [Blogs](#) > [Choose Your Social Security Age with Care - It Could Cost you a Bundle](#)

Submitted by Capital Preservation Partners on May 27th, 2014

With more than 10,000 Baby Boomers crossing the retirement threshold every day, the Social Security check writing machine has kicked into overdrive. Following a tumultuous decade in which pre-retirees and retirees saw their 401k plans rocked by two stock market crashes, two recessions and a financial crisis, an increasing number of people are more reliant on Social Security benefits than ever before. And, while the temptation to start taking benefits at the normal Social Security retirement age of 66, or even earlier at age 62 is great, retirees may be leaving tens of thousands of dollars on the table by not waiting as long as they possibly can to tap Social Security.



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How Your Social Security Retirement Age Affects Your Benefits

Most people know their full retirement age (FRA) – the Social Security age at which they can receive their full Social Security benefit. For most people retiring today, their FRA is 66. And, most people also know that they can take reduced benefits as early as age 62. But very few people know that if they delay their retirement they can effectively earn an 8 percent annual return on their available benefits. That's based on the Delayed Retirement Credits (DRCs) earned each year you delay your Social Security benefits.

Think about that. Where else can you earn a guaranteed 8 percent on your money? To understand the overall impact it can have on your total Social Security benefits, consider the following example:

- Mr. Jones is eligible for a Primary Insurance Amount (PIA) of \$2,000 or \$24,000 per year at age 66 (FRA).
- If he were able to wait until her Social Security age 70, her annual benefit would increase to \$31, 680. Although this increase in retirement benefits won't affect the Spousal Retirement Benefits, it will apply to a Surviving Spouse's Benefit.
- In cumulative terms, Mr. Jones would increase his total benefits from \$378,000 received by his life expectancy age of 82 to \$411,000.

But, this example doesn't account for Cost of Living Adjustments (COLAs). Assuming a 2.5 percent COLA, Mr. Jones' delayed benefit would grow to \$38,599 and her total benefit amount would increase to \$584,000 by age 82.

But, what about the four years in which he wasn't receiving benefits? Had he taken his benefits starting at age 66, he would have received \$139,000 by age 70. That's where calculating the "break even" year will help you determine whether it's worth the wait. In this example, Mr. Jones will break even at age 80, and, if he lives longer, he'll receive more money by having waited until age 70 for his Social Security benefits.

Of course, if you are considering taking early benefits at age 62, you will leave much more on the table due to the reduced early benefit amount. Unless you have absolutely no other choice, it doesn't make since to take early retirement benefits.

Choose Your Social Security Age Wisely

The big mistake many pre-retirees make to simply fill out the form and check the boxes without having consulted a retirement expert. There are dozens of different facets of Social Security which all but the most qualified retirement experts truly understand. Making a mistake with any one of them, especially when spousal retirement benefits are involved, can be extremely costly. Make sure to seek the guidance of a retirement income advisor knowledgeable in the areas of de-cumulation and sequence of return risk. If you ask an advisor about these two terms, and they look at you with crossed-eyes, move on to another advisor.

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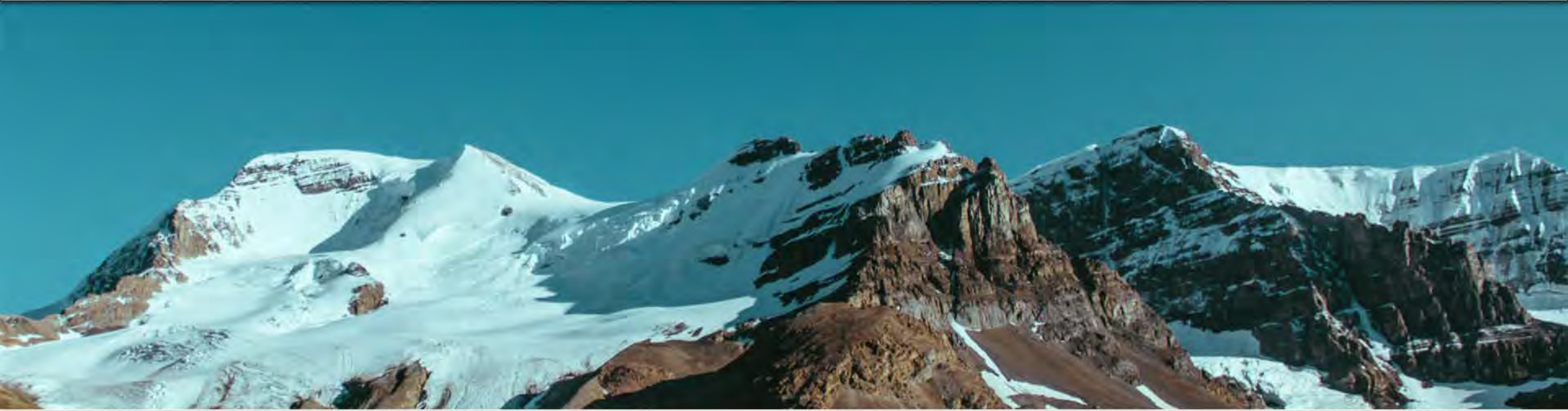
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Submitted by Capital Preservation Partners on May 27th, 2014

The decision to buy life insurance is one of the most important a person can make in their financial lives, and buying a life insurance policy can be one of the more difficult things a person does. Why? Because life insurance is a complex financial instrument full of many different moving parts that people need to be able to understand. The more perplexing aspect of the life insurance purchase is the fact that there are literally hundreds of different companies, and thousands of different products from which to choose. It's no wonder that people tend to procrastinate when it comes to buying life insurance.

Solid guidance from a well qualified life insurance professional can ease the process of buying a policy and instill the peace-of-mind that the right plan is in place. A life insurance purchase is a long term commitment, and because the financial security of your family is at stake, it is vitally important to know that you have the right type of product, the right amount of coverage and that you know exactly how your plan will work for you.

Keys to Choosing a Life Insurance Professional

First Know Thyself

The more you understand your complete financial situation: your concerns, your needs, your priorities, your tax status, your preferences and risk tolerance; the better positioned you will be to identify the right life insurance professional. With the availability of online tools to do your own financial assessments, you should have a fairly clear idea of what your needs are.

Do Your Homework

Life insurance is one product that you shouldn't go searching for blindly without at least some basic knowledge of how it works and the types of products that are available. With the information available online, you could become well versed in life insurance in just a couple of hours. Before you speak with a life insurance professional, you should know the difference between term life, whole life, universal life and variable life. You should know how cash values work and how the death benefit is paid. The more knowledge you have the more control you will have in the process.

Get Referrals

When choosing any type of professional, referrals are often the best way to find the ones with whom you would like to work. Referrals can help you quickly narrow down your choices, and they almost always are provided by satisfied consumers who happen to be a friend, relative or colleague whom you trust. Don't just settle for a name. Ask your referrer what it is about the person that he or she finds so exceptional, and also ask about any negatives. Try to obtain at least three referrals so you can apply your own criteria.

Find out who they Work For

There are essentially two types of insurance professionals: A life insurance agent who represents a life insurance company; and an insurance broker who represents his or her client to a number of different insurance companies. While all life insurance professionals get paid essentially the same way, by commissions (with most products the life insurance company pays the commissions), the way they work is based in some part on their relationship with the life insurer. There are many well qualified life insurance agents who offer very professional services; however, they tend to sell only those products offered by their life insurance company. Insurance brokers are licenses with several insurance companies and can, therefore, go further to match the client's needs and preferences with the most suitable product.



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Perhaps the most important factor in formulating your investment plan is your risk tolerance; that is, the amount of risk you're willing to assume in order to achieve your most important objectives. More precisely, your risk tolerance is based on the your financial and emotional ability to withstand negative returns on your investment portfolio. Before embarking on any investment strategy it is important to know your risk tolerance to ensure that you select the right kind of investments and you are able to set clear objectives. More importantly, when your investments are aligned with the proper risk-reward continuum, you're assured of many more restful nights. So, how do you go about determining your risk tolerance?

Look at Your Time Horizon

The most important determinant is time; that is, how much time you have before you will need to access the money being invested. Younger people, those with more than 30 years before retirement, are more able to withstand the swings and the cycles of the stock market because of the tendency for the market to increase over time. When the stock market declines by 20% or more in one year, as it has a few times over the last couple of decades, a younger investor has the time to allow the market to recoup its losses and forge ahead for a couple of years. Therefore, they could take a more aggressive posture towards investing by increasing their exposure to stocks.

An older investor with less than 15 years before retirement has less time and, therefore, fewer opportunities for the market to recover from multiple down years or extreme volatility. While it is still important for investors in the pre-retirement phase of life to maintain a growth orientation on their investments, their portfolios need to be stabilized with investments that produce less volatile or more predictable returns.

The Impact on Your Current Financial Situation

Using the same stock market decline of 20%, you need to simply ask yourself, if I lost 20% of my wealth this year, would it materially change my financial position? The real question is whether your current financial position, based on the amount of wealth you have, your income, and your time horizon, could absorb the loss and still allow you to achieve your financial goals. A younger investor has time. A high earning investor has excess cash flow to invest. A high net worth investor has assets that can be rebalanced. Their answer to the question might be that such a loss would not materially affect their financial position. If all of their money was invested in the stock market, they may be able to withstand the loss and live to see future positive returns.

For an older investor, or one with minimal assets or cash flow capacity, the impact could be more significant. If they could not withstand the 20% loss, their investment portfolio would need to consist of investments with limited downside risk and limited upside return potential, such as bonds or fixed yield investments. By allocating a larger percentage of their portfolio to more stable investments, they are not likely to experience such a big decline in the overall value of their portfolio.

Digging Deeper for Answers

Then you need to ask yourself some questions to gauge your general attitude about risk. For instance, when you make decision about your money, such as making an investment, borrowing money, or making a big purchase, do usually feel a) anxious, b) satisfied, c) hopeful, or d) invigorated? Or, how would you describe your pursuit of life's dreams: a) cautious, b) measured, c) strategic, or d) fearless? Generally, your answers will correlate with your tolerance for risk, from risk adverse to highly risk tolerant.

Finally, your response to risk may be the most telling indicator of your tolerance for risk. Using the stock market crash of 2008 as recent point of reference, your response, either hypothetically or in reality based on your actual response, may say the most about your risk tolerance going forward. During the stock market crash of 2008 did you (or would you have) a) cash out all of your equities, b) reduce your equity exposure substantially, c) hold firm to most of your equity positions, or d) start adding to your equity positions.

It is very important to be mindful of the fact that your risk tolerance will evolve over time. This personal assessment should be conducted periodically to ensure that your current asset allocation reflects both your emotional and financial ability to tolerate risk.

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Home > Blogs > Getting the Most from Your 401(k) Plan

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Submitted by Capital Preservation Partners on May 27th, 2014

401(k) plans were established by Congress to encourage individual savings towards retirement. Offered through employers, the plans are generally available to eligible employees who are allowed to contribute a percent of their salary to the plan. In most plans, employees are given a menu of investment options that enable them to create a portfolio that is most suited for their investment preferences and risk tolerance.

Contributions are based on a percent of your salary up to a current maximum of \$17,500 (\$23,000 under the catch-up provision for people over age 50). If your income exceeds \$110,000, there may be some additional limitations depending on how many lower paid employees participate in the plan.



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Why You Should Love Your 401(k)

We live in a cynical world where most people have come to realize that there are no free lunches. But when your employer offers you free money, don't walk away too quickly, because, if it is through your company's 401(k) plan, the offer is for real.¹

In addition, the IRS is allowing you to keep more of your own money that would otherwise have been paid in taxes. And they won't make you pay taxes on money that you earn inside of your 401(k) plan which can save you a significant amount of money over the period of time you are saving for retirement.² How does all of this happen?

When you make a contribution to your 401(k) plan, three things happen:

- You receive an immediate reduction in taxes because your contribution, which comes from your salary, is made before you pay any taxes on it.
- If your employer provides a matching contribution, you receive free money instantly. A typical match is 50% up to 6% of your contribution¹
- Once your contributions are invested, they begin to grow tax deferred which means you don't owe any current taxes on their earnings.

Another Way to Save Money

Although it's not recommended, you can borrow from your 401(k) if your employer's plan allows it. Loans can be made at a very reasonable interest rate of 4% to 5% which, when compared to credit card interest at 18%, could make it a viable debt reduction option. You need to make payments and have it fully repaid within five years, or it will become taxable and an early withdrawal penalty of 10% may apply. The good news, it that you will be paying interest to yourself! Another caveat: If you leave your employer and the plan, you will need to repay the loan within 60 days or taxes and penalties will be assessed.

Loans from your 401(k) should be a last resort. If you are swimming in debt, and you need relief from high interest debt, it can be a way out, but consider other alternatives first.

Every 401(k) plan has its own rules and limitations established by the employer, so it is important to carefully review the plan document. For instance, employers who match their employees' contributions often include a vesting schedule which means that you need to stay with the company for a certain period of time before you are able to withdraw the contributions from your employer.

Some plans don't allow for loans, and those that do can attach their own requirements and charges which could increase the cost of the loan.

¹Employers are not required to provide matching contributions. For employers who do match employee contributions, the amount or percentage of the employer contribution can vary from employer to employer.

² Earnings inside a 401(k) plan are allowed to accumulate free of taxes, but withdrawals made from the plan are taxed at ordinary income tax rates. Early withdrawals made prior to age 59 ½ may incur a 10% penalty unless certain conditions are met.

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Home > Blogs > Term Life vs Whole Life Insurance

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Submitted by Capital Preservation Partners on May 27th, 2014

When the decision to buy life insurance is finally made it brings a sense of relief and comfort to most, until they begin the agonizing process of deciding which kind of life insurance to buy. The choices are many, and the process can be daunting, however, it is made easier when you have at least a basic understanding of the difference between term life and whole life.

At their core, term and whole life are two very different ways to insure your life, with one being temporary coverage and the other being a more permanent form of life insurance. Term is, essentially, a death benefit for which you pay a premium to cover the cost of insurance. The term period can be anywhere from one year to 30 years, after which the coverage ends. A whole life policy is a combination of the death benefit and a savings component, so the premium consists of both insurance costs and savings. The savings can be used for any purpose, such as retirement, or they can be applied to the premium. As long as the premium is paid each year, a whole life policy is never terminated.

Term Life Essentials

Term life insurance is an inexpensive way to buy life insurance because you are simply paying for the cost of the death benefit. The premium rates are determined by mortality tables which reflect the fact that the cost of insurance goes up as you get older. Depending on the type of term policy, your premium could increase each year, or, it can be leveled over the course of the term period.

Yearly Renewable Term (YRT): The most basic form of term is a yearly renewable term which pegs your premium to your increasing mortality costs. Each year, your premium will increase while your death benefit remains level. This policy is ideal for people with tight budgets who expect their cash flow to improve over time. While it is possible to renew your coverage each year for as long as you pay the premium, it can eventually become prohibitively expensive to own.

Level Term: This form of term provides a level death benefit and the premiums are leveled out for the term period. While, the premiums start out higher than a YRT policy, the remain fixed so that, at the end of period of time, they can be lower than a YRT policy held for the same length of time. This policy is best for older people who want to budget for the life insurance expenditures.

Whole Life Essentials

The death benefit of a whole life policy is also level and so are the premiums. The difference is that the premiums are calculated based on a projected amount of savings to be accumulated over a period of time. As your savings grow, the amount for which the life insurer is at risk decreases, so your insurance costs may actually decrease over time which is how it is able to level your premium. Some whole life policies also pay a dividend which can be used to reduce, and, ultimately pay for your premium which can lower your net cost of ownership. Your savings, also known as cash value, accumulates tax deferred and can be used to supplement retirement expenses.

Whole life can be more cost effective for people who recognize that their need for life insurance is more than just temporary and will likely continue in their later years.

Which is Right for You?

Whether a person selects a term or a whole life policy will come down to several factors, including the purpose of the coverage, how long the coverage is needed, the age of the insured, as well as budget and health considerations. Because these factors tend to change over time, it's not unusual for people to make several life insurance purchase decisions throughout their lifetimes. And, it is also not unusual for people to own some combination of both term and whole life.

When Term is the Right Choice

- You have a need for a large death benefit.
- Your need for life insurance is for a specific period of time (i.e., until your children are fully grown)
- You have limited current cash flow.
- You are older and have budget constraints.

When Whole Life is the Right Choice

- You expect to have a need for life insurance well into the future (i.e., providing for the long-term financial security of a non-working spouse or a special needs child, business protection, estate protection)
- You want to own life insurance for the long term on a more cost-effective basis, and your current cash flow can support it.
- You are concerned about protecting your insurability for future life insurance needs.

When choosing from among term or whole life, all factors need to be carefully considered. While the idea of a low initial premium may seem appealing, the cost of insurance can go up dramatically if, later in life, you find that you still have a need for life insurance. If, after your term life policy expires, you need to buy additional insurance, you run the very real risk of not being able to qualify if your health becomes an issue. At a minimum your premium costs could be much higher if your policy is rated for medical reasons.

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Asset Allocation = Risk Allocation

Submitted by Capital Preservation Partners on May 27th, 2014

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Finance Lessons for Your Teen

Submitted by Capital Preservation Partners on May 27th, 2014

The current economic environment has caused most everyone to reconsider their personal finances with many people having to drastically change their spending and savings habits. Out of this economic malaise may come an opportunity to finally instill the right habits in your teens that can carry them into adulthood on the right financial footing.

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Understanding Your True Risk Tolerance is Vital to Portfolio Performance

Submitted by Capital Preservation Partners on May 27th, 2014

As anyone would have expected, the extraordinary convergence of extreme stock market volatility, low interest rates, declining home values, diminished retirement savings accounts, and chronic economic sluggishness has taken a severe toll on the American psyche. For many investors, it may have forever altered the way in which risk is perceived and managed.

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Retirement Income Planning Requires Realistic Spending Assumptions

Submitted by Capital Preservation Partners on May 27th, 2014

If you have read any literature on retirement planning or have received advice from a financial professional, chances are you were presented with the 70% rule, the one that suggests that retirees will need between 70 and 80% of their pre-retirement income in order to maintain their standard of living.

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Is a Fixed annuity Right For You?

Submitted by Capital Preservation Partners on May 27th, 2014

One of the principal tenets of investing is that no one single investment is right for everyone. Every investment has certain characteristics, risks, and objectives that must match those of the investor, and fixed annuities are no different.

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Most investors understand the risk-reward nature of financial markets, known in investment parlance as market risk. Investors who go into the market with eyes wide open do so with some expectation of an amount of money they'll receive at some future date. Anyone who invests in mutual funds expects that they will get back more than they invested. Some have higher expectations than others; however, those expectations run commensurate with the amount of risk they are willing to assume in order to achieve better results. Others, with a lower tolerance for risk, will be satisfied with lower returns.

Market Risk May be the Least of Your Worries

While investors of all risk tolerances may be rejoicing over the recovery of their portfolios, there are a host of other financial risks looming just over the horizon that, if left unchecked, could wreak even more long term havoc. After nearly two decades of dormancy, risk factors such as inflation, deflation, increasing interest rates, and taxation are rearing their ugly heads, and portfolios that are ill-prepared to cope with them could experience some serious long term consequences.

For younger investors it may require a history lesson to fully comprehend that, not only are double-digit interest rates and inflation possible and they can inflict as much if not more damage as a stock market decline. Of even greater consequence, there are some economists who believe that we may be entering a deflationary period, which, as recent history in Japan and Ireland, as well as our own Great Depression, has shown can lead to severe, long lasting economic stagnation or recessions.

Back to Asset Allocation Basics

Asset allocation has become an established investment strategy for those who understand the long term nature of investing and the need to achieve an optimum level of portfolio balance and diversification in order to mitigate risk and achieve more stable returns. The core strategy involves selecting a mix of asset classes based on an investor's financial profile, investment objectives, preferences, time horizon and risk tolerance.

The key behind the strategy is the mix of asset classes that, depending on how much or how little they correlate with one another, will create a basket of counter weights that will keep the overall value of the portfolio from tipping too far in one direction. For instance, the correlation between stocks and bonds is relatively low, so that, when stocks perform poorly, bond are likely to perform better. Or, during inflationary periods, precious metals are a well known counter weight to stocks which tend to respond poorly to inflation. A well balanced and diversified portfolio will consist of several different asset classes - stocks, bonds, precious metals, real estate, cash equivalents, etc. - all with varying levels of correlation with one another.

Risk Allocation can turn Risk into Rewards

All investments are susceptible to some form of risk: market risk, interest rate risk, inflation risk, liquidity risk and the risk of taxation. A well planned asset allocation strategy is as much about allocating risk as it is allocating asset, and, when done effectively, the overall risk of the portfolio is mitigated by off-setting the market performances of the various asset classes. A properly allocated portfolio should even welcome economic change and uncertainty as there is more likely be portions of the portfolio that do respond favorably.

Portfolios require frequent tune-ups, also known as rebalancing. Certain parts of the portfolio will perform as expected while others will under-perform or out-perform expectations. As a result, the portfolio can become unbalanced relative to the assumptions and objectives on which the allocation was based. The one certainty about the economy is that it will change as will the risk factors. Most important is that the allocation of assets and risk in your portfolio continue to reflect your needs, preferences, prioritized and your outlook on risk.

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It's tax season again, and a question we get from a number of clients after receiving their yearend statements is, "Are my investment advisory fees tax deductible?" And the answer is an equivocal, "It depends."

Congress did grant a tax deduction for certain investment expenses, but with anything to do with the tax code, the devil's in the details. Not to worry though, we'll use this opportunity to settle the issue no matter your situation.

In general, the tax code allows for the deduction of expenses incurred in the production of income. With regards to investment income expenses, there are essentially two types:

1. Any expense incurred in the purchase or sale of a security, such a commission or a sales load on a mutual fund. These expenses are not tax deductible. Rather, they are applied against the cost basis in the purchase or sale of the security.
2. Expenses incurred in the production of income are tax deductible on line 23 of your Schedule A above the 2 percent of AGI threshold (investment expense deductions cannot be taken on the 1040 short form). Examples of expenses that can be deducted are:
 - Investment advisory fees
 - Maintenance fees
 - Distribution fees
 - Subscriptions for investment newsletters, magazines and services
 - Investment or financial planning software or online services
 - Depreciation on a computer used exclusively for managing investments

Contrary to what may be advertised, the cost of attending seminars, on land or on water, is not deductible. Also, expenses incurred in the production of income through tax exempt investments (municipal bonds) are not deductible.

There are two main requirements for taking a deduction for taking a tax deduction for investment expenses:

1. You must pay for the expense from your own pocket. Essentially, that means you have to write a check for the expense or from an account that you actually own. This distinction is important because you don't actually own your IRA. If you have fees and expenses deducted from your IRA balance, you are not allowed to deduct the expenses; but, you can if you write a check. Generally, you have to arrange with your custodian for this option.
2. Expenses are only allowed if they are "ordinary and necessary" and the amount of the expense in relation to the income produced should be "reasonable and proximate."

For many investors, investment advisory fees represent their biggest deductible investment expense, but all expenses related to generating investment income can quickly add up. So it would be important to ensure you realize the full benefit of all eligible deductions. Our services include an audit of your investment expenses and we can help you maximize your deductions. However, it is always advisable to seek the guidance of a qualified tax professional for final determination of what is and what isn't tax deductible.



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A will is the foundation of your estate plan and it is essential if your financial affairs are to be settled in accordance with your wishes. If you die without a will, or “intestate” as the law refers to it, essentially the state becomes your executor and your property will be distributed according to its laws. Drawing up a will has become so easy, and it is relatively inexpensive, leaving very little reason why everyone shouldn’t have one. The question becomes whether you should have a living trust in addition to your will.

What is a Living Trust?

A living trust, or “inter-vivos” trust, is an estate planning mechanism that enables you to have your property transferred to, and managed by a trust during your lifetime. And, because it is revocable, you can change it at any time depending you’re your circumstance. After your death, the trust becomes irrevocable and all of its provisions must be carried out by a trustee who is designated by you.

The key advantages of a revocable living trust:

Keeps your assets out of probate: The assets owned by your trust are passed directly to your family, thereby avoiding the delays and costs of probate court.

Keeps your affairs private: What goes into your trust stays with your trust, at least as far as your private financial matters. Your will is a matter of public record, but a trust is not.

Keeps things running smoothly: You can arrange for a trustee to manage its assets even after your death in order to maintain the continuity of income from a business or an asset.

Keeps the trust going: In cases, where a trustee in no longer able to perform the duties, your trust can designate successors who can step in immediately.

Revocable Living Trust Basics

Parties to the Trust: A trust includes a grantor (you), a trustee (you, your spouse or anyone you designate), and a beneficiary (typically your surviving family).

Establishing the Trust: A living trust can be set up fairly quickly. It usually requires an attorney to draft and authenticate the trust which is a legal document that specifies all of the grantor’s terms, names a trustee and beneficiary, and then lists all of the trust’s assets. After the grantor and the trustee sign the trust, the title of selected properties and assets can be changed to the trust as owner.

The Life of a Trust

A revocable living trust is a living document that can be changed or revoked by the grantor at any time during his or her life. So, if changes in marital status or other family relationship occur, they can be reflected in the trust. Assets and properties can be added or removed. Trustee designations can be changed.

Your living trust should be reviewed periodically, because after the death of the grantor, it will become irrevocable (if the grantor includes both spouses, it continues as a revocable living trust).

You Still Need a Will

The living trust is the mechanism for distributing your property, however, you still need a will in order to execute the trust. The trust is the primary beneficiary of your will. The added benefit of having a will is that, for any property or assets that might have been excluded from the trust, the will acts as a “catch all” to ensure that all property is distributed according to your wishes.

Additionally, if you need to designate a guardian for dependent relatives, you need a will, because there is no place in a trust to establish guardianship.

No matter how large your estate, if you have any concerns with the distribution of your assets, you should consider a revocable living trust. It is recommended that you seek the services of an estate attorney in drafting your trust as well as for periodic reviews.



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[Home](#) > [Blogs](#) > [Finance Lessons for Your Teen](#)



Submitted by Capital Preservation Partners on May 27th, 2014

The current economic environment has caused most everyone to reconsider their personal finances with many people having to drastically change their spending and savings habits. Out of this economic malaise may come an opportunity to finally instill the right habits in your teens that can carry them into adulthood on the right financial footing. Just as our parents and grandparents of the Great Depression era developed deeply ingrained attitudes about finances from their experience, our teens can share in the lessons of today's "great recession" generation. The first step is to make your teen a partner with a stake in the family financial enterprise.

For most teens, it's not about the money. Not yet anyway. It's more about what the money can get them – weekend entertainment, clothes, toys, cars. Money, no matter its source, is simply the means for what is important to them. When the family goes through a "belt tightening" it may be an opportunity to turn these teen expenditures into teen motivators for learning about budgeting, savings and smart financial management.

Get Them on Board

Teens have a stake in the family's financial picture so it is important to communicate to them the family's goals (especially as they relate to the teen), the current situation, what has changed and why, and their role in the new financial plan. It doesn't necessarily mean that what they have been enjoying will suddenly stop. Rather, they need to become more accountable for their expenditures and begin to gain a sense of satisfaction from smart financial management.

- Have them set their own goals and priorities. It's a good time to start them with a financial journal for budgeting and record keeping. Some teens might respond well with a software program such as Quicken or Microsoft Money. Get them to distinguish between needs and wants and then prioritize
- Have them develop a budget based on their priorities and other goals. Some teens are looking ahead to be able to buy a car or finance a trip. Their savings for future needs or wants should be a part of their budget. Both the expenditure side of their budget and the revenue side should be negotiated to the point where everyone signs off on it.
- Have them establish a relationship with a bank. Have them meet the bank manager, set up a savings account and issue them a student "bucks card" as their spending vehicle.
- Have them want to save. If they understand that their wants will need to be financed, in part, from their savings, they will soon see the value in it. You can further encourage their saving habits by applying a "match" to their savings, much like an employer match to a 401(k) plan. The match can be applied monthly or quarterly. You could put withdrawal restrictions on the match portion so that they become "long-term" savings.
- Show them how they can be a millionaire. Teens have aspirations and dreams just like adults and, given the chance they will share them with you. Show your teens how they can become a millionaire by the age of 40 by saving just \$250 a month starting today.

Teens are adults in training and, given the opportunity, they will demonstrate increasing amounts of responsibility and a penchant for smart financial management. Certainly they can be motivated by their own wants and needs, however, when they begin to see the vital role they play as part of the family financial picture, they may surprise you and exceed your expectations.



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[Home](#) > [Blogs](#) > Understanding Your True Risk Tolerance is Vital to Portfolio Performance

Submitted by Capital Preservation Partners on May 27th, 2014

As anyone would have expected, the extraordinary convergence of extreme stock market volatility, low interest rates, declining home values, diminished retirement savings accounts, and chronic economic sluggishness has taken a severe toll on the American psyche. For many investors, it may have forever altered the way in which risk is perceived and managed.

Understanding your risk tolerance is one of the most important elements of investing; knowing how your risk tolerance effects your investment decisions is vital to the health of your portfolio.

Risk tolerance is most prevalently understood as a measure of one's financial ability to withstand losses. On the risk-reward continuum, the more risk one takes, the greater the reward should be expected, and vice versa. For example, an investor who can withstand a 25 percent loss in his portfolio value without it affecting his ability to meet his long-term goals may be able to invest more aggressively in order to achieve potentially higher returns than someone who couldn't afford to lose more than 10 percent. The financial measure of risk tolerance is a function of several factors including time horizon, income, liquidity, and net worth. Generally, the more of each an investor has the more risk he may be able to assume because of the greater capacity to recoup losses.

Know Your Emotional Risk Tolerance

Less understood is the emotional component of risk tolerance, yet it can have far more influence over investment decisions than the financial ability component. Emotions are far more powerful than logic and can drive investors to make decisions without regard for their financial ability. The two emotions that can be the most devastating to investors are fear and exuberance, and both can be triggered through the irrational behavior of a reactionary crowd. It's what can lead investors to flee the stock market in masse after it has already fallen by 15 percent; and it's what can draw investors into a raging market rally near its peak. In either case, investor risk tolerance is skewed by emotions which often results in investment decisions that bear no reflection of their long-term investment strategy.

Still, emotions are an important element in risk tolerance when they are understood. Fear breeds caution which is never a bad thing in investing. But realizing that emotions are reactionary mechanisms that tend to drive decisions based on short term events, may help investors keep them in check when viewed in the context of a long-term investment strategy. It would be hard not to lose some sleep when the stock market experiences a flash crash of a 1000 points. You wouldn't be human if you didn't. However, realizing that, the only people affected by such a crash are the ones who actually sell their stocks, might help to keep a short-term event – positive or negative – in perspective.

Stay Focused on Long Term Objectives

Generally, investors who tend to focus primarily on the markets might experience a roller coaster of emotions. As a consequence, their confidence is more inextricably tied to the performance of the market. Conversely, investors who stay focused on their long-term investment strategy need only to have confidence in the strategy. If it's well-conceived with optimum diversification and well-managed through proper rebalancing and adjustments for an evolving risk tolerance, they can be more secure in their confidence.



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Home > Blogs > Retirement Income Planning Requires Realistic Spending Assumptions

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Submitted by Capital Preservation Partners on May 27th, 2014

If you have read any literature on retirement planning or have received advice from a financial professional, chances are you were presented with the 70% rule, the one that suggests that retirees will need between 70 and 80% of their pre-retirement income in order to maintain their standard of living. There are several flaws with this formula, the least of which is that it doesn't consider your actual income and expenses at the time of retirement.

Retirement income planning needs to be grounded in today's realities and it must anticipate the cost of aging, not just the cost of inflation. It also must be based on the practical expectation that you will only be able to save as much as you are able to sacrifice while you are working. More planners are applying the concept of "consumption smoothing" that combines an attitude about current spending and lifestyle needs with a vision of the same in retirement.

The concept seeks to "smooth" out your consumption over your working and retirement years so there is less of a discernible drop in your standard of living. Essentially, it is a part of the retirement planning process that is designed to gradually prepare for the transition by moderating spending over time, and increasing savings proportionately. Certainly, life events, such as children leaving the nest, or eliminating the mortgage, will allow for major adjustments in consumption. But, the process is helped, and even accelerated, when additional consumption smoothing is applied through a moderation of lifestyle.

What You Can do Now to Prepare for a Financially Sound Retirement

Set Realistic and Achievable Goals

Whether you envision a "life transition" retirement, or you're intent on making age 65 or any other age your target for a traditional retirement, you will need to map out a complete strategy that includes paying off debt, stepping up savings and assuming some risks. The plan will need to be tight with frequent benchmarks that allow you to track your progress and make necessary adjustments along the way. It is important to use realistic assumptions in your planning, such as an achievable rate of return on your money and a challenging inflation rate.

Track Your Spending Now

It is vitally important to know your specific income requirements to determine whether your available capital will meet your needs over your lifetime. If you aren't already, you should be tracking your spending now so you will have enough time to adjust it as you approach retirement. With the advent of easy-to-use software budgeting tools, such as Mint.com (free online) and Quicken, there is no excuse for not knowing where every dollar is going or how to manage your cash flow with better results.

The initial setup for these programs can be somewhat involved because you will be inputting all of the information about your existing accounts, creating a budget, and setting goals. But, once done, you will be able to manage your finances like a pro in less than five minutes a day. Because the programs work in concert with your online bank and credit card accounts, your cash flow data is automatically providing you with a real-time snap shot of your finances. Mundane personal finance tasks such as bill paying and account reconciliation are automated and tax preparation is far easier. And, if you're concerned about record-keeping in the Cloud, don't be, it is considered much more secure than keeping a bunch of paper statements around.

Start Living like a Retiree

For many people, out of necessity, their new vision of retirement includes living in downsized homes, driving less expensive or fewer cars, entertaining less and vacationing closer to home or at home. People are beginning to focus on "quality of life" as opposed to "life style" when envisioning retirement. You can still have an excellent quality of life with a tempered life style. Why not make that a focus now? Why not begin making the transition to retirement while you're still in your peak earning years? By downsizing your home and other life style choices, you'll not only increase your cash flow for savings and debt reduction, you'll find the transition into actual retirement to be much smoother.

Regardless of your planning method or process, it would be a mistake to succumb to standard formulas or a generalized approach to retirement planning. Right now, your retirement vision, formed by your own needs, wants, attitudes and beliefs, rests in your mind, and it will undoubtedly change as your outlook and priorities change, but you should always base your income needs on realistic assumptions.

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Home > Blogs > Is a Fixed annuity Right For You?

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Submitted by Capital Preservation Partners on May 27th, 2014

One of the principal tenets of investing is that no one single investment is right for everyone. Every investment has certain characteristics, risks, and objectives that must match those of the investor, and fixed annuities are no different. Although fixed annuities have become more popular in light of the recent financial turmoil and the carnage it has left behind in retirement accounts, investors should still take care in considering whether they are best suited for them.

As economic uncertainty increases, concerns over financial security mounts causing people to look for alternatives that provide more guarantees and predictability. Currently, more than 50% of pre-retirees fear that their assets won't generate the income they need for their lifetime. Because fixed annuities protect principle while providing a guaranteed income that can't be outlived, investors are looking to them for at least a portion of their retirement portfolio.

Before expending the time and effort exploring specific fixed annuity products, you should assess your own situation to determine if the benefits of fixed annuities can meet your particular needs. Here are five questions you should ask regarding their situation before considering fixed annuities:

Am I contributing the maximum amount to my retirement account?

Fixed annuities do offer the advantage of deferring taxes on earnings until they are received, just as qualified retirement plans, however, contributions to fixed annuities are not tax deductible. As a general rule, you should take every advantage of using you before tax dollars to save for retirement before considering other investments. It is possible to invest in fixed annuity within your qualified plan. Although you wouldn't benefit from the tax deferral of a fixed annuity inside your plan, it can add stability to your portfolio and produce a guaranteed stream of income at retirement.

Do I pay the maximum amount of taxes?

If your income is subject to taxes in the higher brackets, you stand to benefit more from the tax deferral of fixed annuities. The deferral of taxes is important because it helps offset the fees and expenses associated with fixed annuities and it enables your money to compound faster. Investors in lower brackets wouldn't realize the same amount of benefits as investors in higher brackets, so they may be better off in taxable investments.

How much time before I need the money?

An investment in a fixed annuity is for the long term. Although fixed annuities allow access to your funds, the early withdrawal penalties limit your access to 10% of your balance per year. There are also IRS penalties for withdrawals made prior to 59 ½. More to the point, fixed annuities work best when they are left to work so that the tax deferred compounding can work its full magic. Unless your timeframe is such where you can hold the fixed annuity for at least 15 years, it may not be right for you.

Do I have enough cash?

If your investment funds are committed to long-term or illiquid assets, you need to ensure that you have enough liquid assets in the event that your circumstances require them. This is especially important after you have retired. Once a fixed annuity is annuitized (converted to a stream of income), your capital is committed to the insurer. It's always advisable to have at least six to nine months of living expenses set aside in a liquid savings account.

Do I lie awake wondering if I will run out of money in retirement?

Most studies done on the subject indicate that an alarming number of Baby Boomers will fall short of their income needs during retirement, which means they will need to delay retirement or drastically cut back on their life style expectations. Life expectancies are expanding in the face of economic uncertainty and that is enough to keep most people up at night. Fixed annuities are the only vehicle that can provide a secure, predictable flow of income coming for as long as you live.

Am I getting anxious about losing anymore of my principal investment?

There's no question that the financial markets have people on edge about the safety of their principal. The last few years has seen record outflows from stock mutual funds in to cash and other secure investments. While it is always advised to have some exposure to the stock market as a hedge against inflation over the long term, physicians need to balance the volatile side of their portfolio with more stable or fixed investments. As the retirement time horizon shortens, physicians are advised to reduce their exposure to risk. Fixed annuities, with their record of safety and their guarantees, certainly could comprise a portion of the low risk side of the portfolio.

The final analysis

If your assessment produced more than one affirmative answer then you may be a candidate for a fixed annuity and it would be worth exploring the different types that are available. Fixed annuities are complex instruments and they include many features that need to be fully understood. And, because they are a long term investment, it is important to go into a fixed annuity investment with eyes wide open. If it is determined that a fixed annuity is right for you, they be one of the best investment you can make.



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