

Main Street Strategies after the Wall Street Meltdown

What to do Now? Planning For Uncertain Times



Introduction

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This presentation is for educational purposes only.

Participants should be aware that a financial planning engagement has not been established. Complete data has not been gathered and all alternatives have not been considered.

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General Introduction

- Thank you for invitation to speak
- Request for attendees
 - be “open-minded and remove emotional biases”
- Philosophy
 - Planning is the Key to Achieving Financial Security
 - Build from a strong foundation
 - Cash is King – Emphasize Liquidity & Flexibility
 - Avoid unnecessary investment risk & protect principal
- Economic Commentary
 - More Pain Lies Ahead – Plan for the Worst Case

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Retiree Issues

- Cash reserves
- Retirement Income – Investment Mgmt
- Health
- Insurance Issues
- Inflation
- Tax Management
- Estate Legacy & Administration

Difficult & Unusual Times

The Fixed Income Environment



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It's Scary Out There

- The economy down 6.2% year-on-year in the fourth quarter of 2008
- 4.4 million jobs lost 12/07 – 3/09
- Stocks down 55+% from their peak
- Blue-chip names like Bears Stearns & Lehman Bros gone, with AIG, General Motors and Citibank in trouble

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Scam Watch!

- Be careful about:
 - Offers to help get government funds
 - Easy work-at-home deals to earn extra \$\$
 - Requests to help bring \$\$ from overseas
 - Visitors telling you repair work is needed
- They might be scams!
- If it is too good to be true, it _____

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SWAN



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What Can You Do?

- You can't control...
 - The overall economy
 - The financial markets
 - Job security (not completely)
- You can control...
 - How well prepared you are to face adversity
 - Allocation of Investment Portfolio
 - Tax Management
 - Healthy Lifestyle

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Controlling Your Emotions

- Know your risk tolerance levels
- Watch your stress level
- Limit reading newspapers & watching TV
- **Things go in cycles, do not chase or panic**

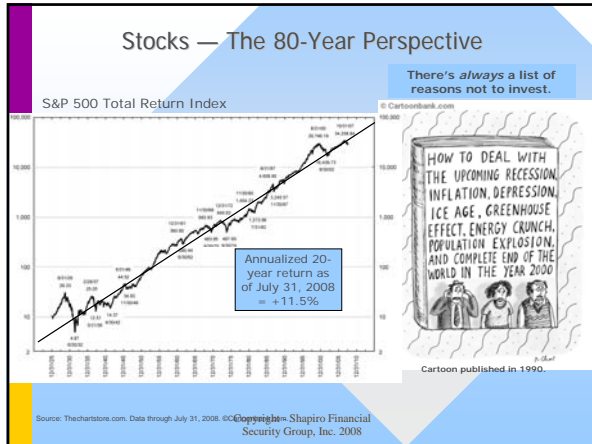
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Stock Market: Worst-Performing 10-year Periods Have Preceded Vastly Better Returns



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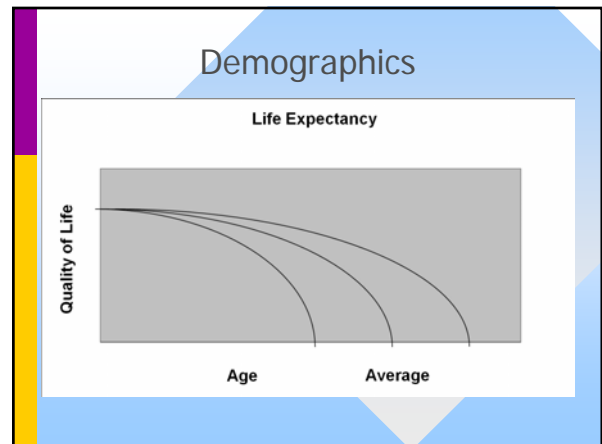
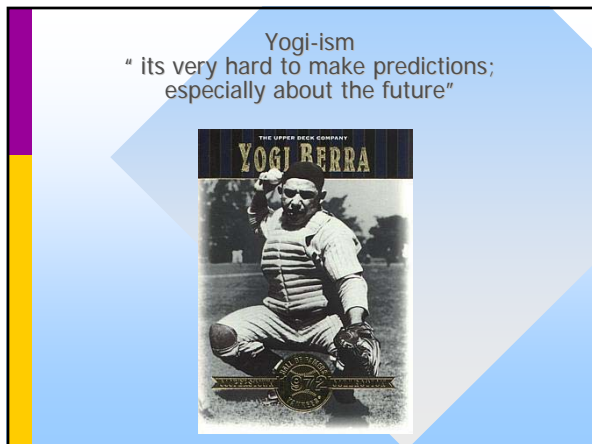
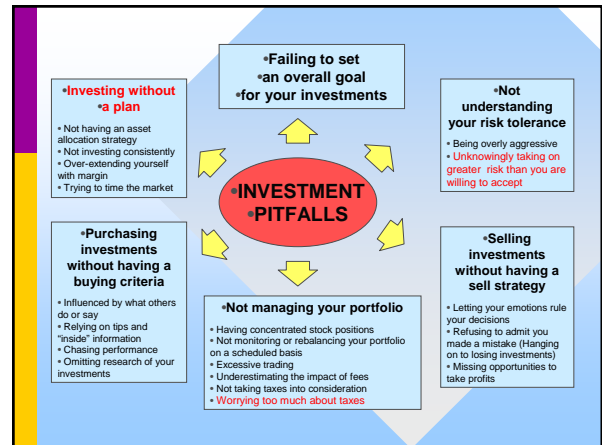


- ### AICPA Article
- By Kenneth B. Shapiro, CPA/PFS, CFP
 - AICPA Wealth Management Insider
 - October 16, 2008
 - “Weathering the Economic Storm”
 - It’s not always about growing wealth - Sometimes its about keeping it
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Area of Discomfort

- “We were told by prominent investment professionals for almost a year that this pending correction was going to be one of the worst since the Great Depression. People today are fearful of a total collapse and the word panic is appearing in the media with greater frequency. Why did it take so long for people to listen?” – KBS 10/16/08

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Longevity Risk

% probability of reaching a certain age once you attain age of 65
Roughly 1 in 3 chance

Age 65	70	80	90	95
Husband	92.0%	63.0%	20.0%	6.0%
Wife	94.0%	71.0%	32.0%	13.0%
Either	99.5%	89.0%	45.0%	18.0%

Source: Society of Actuaries Retirement Participants 2000 Table.

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Three Major Retiree Risks

- **Inflation** = losing purchasing power due to rising prices
- **Longevity risk** = outliving your \$ by underestimating life expectancy
- **Investment Risk** = impact of stock/bond market fluctuations on your retirement savings

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Ability to Take Investment Risk

Investment Horizon	Max Equity Allocation
0 -3 years	0
4 years	10
5 years	20
6 years	30
7 years	40
8 years	50
9 years	60
10 years	70
11-14 years	80
15-19 years	90
20 years	100

These are not formulas, but rather guidelines for prudent asset allocation
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Willingness to Take Risk

Max Tolerable Loss	Max Equity Allocation
5 %	20
10 %	30
15 %	40
20 %	50
25 %	60
30 %	70
35 %	80
40 %	90
50 %	100

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Investment Returns

It takes a 67% profit to offset a 40% loss

100	60
(40) -40%	40 +66.67%
60	100

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"A penny saved is a penny (___)"
Benjamin Franklin

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Dealing with Volatile Markets

- **HAVE A PLAN**
- Control your emotions
- **Protect principal – do not worry about yield in short term**
- **Build your cash reserves**
- Use laddered CD/bonds for cash needs in next 5 yrs.
- Have a diversified portfolio
- Use of "tactical" asset allocation vs "rebalancing" to targets
- Avoid urge for "market timing" is critical

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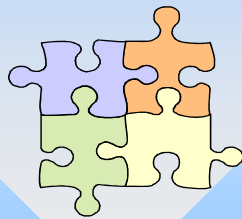
True-ism

Money in the bank
is one of the
most effective stress reducers known
to humankind.

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Financial Planning

- Where Do I begin?
- Start with the basics:



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Financial Planning is a Process

- Keeps you in control & builds financial strength and security
 - Gather Data
 - Determine Goals
 - Analyze Needs
 - Create Plan
 - Execute Plan
 - Monitor Progress

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Steps to Get Started

- Prepare Personal Financial Statement
 - Where do I stand?
 - What resources do I have to work with?
- Prepare TWO budgets
 - Normal spending activities
 - Transitional spending
- Review Insurance Coverages
- Prepare Tax Projection – Base Case +
- Identify Existing Strengths & Weaknesses
- Realign Investments Re: Liquidity, Flexibility & Risk

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The Financial Pyramid Strategies For Asset Accumulation



Document Organization

- In the event of an accident, hospital stay, death, or any emergency, it may be necessary to contact family, professional advisors and to have certain documents
 - **Keep a list of key people in your life**
 - **Keep key documents together where they are easily accessible**

Document Management Tips

- Consider a home safe
- Safe deposit box
 - **Do not put these items in a safe deposit box**
 - Wills
 - Living wills or medical directives
 - Trust documents
 - Passports
 - Insurance policies
 - Access limited to banking hours
 - Bank may seal box on death
 - Consider joint ownership w/family member

Fidelity Retirement Survey

- **Greatest risk when planning for retirement is the cost of health care, 48%**
 - Concern is greater than inflation and outliving retirement savings
 - Concern is greatest among baby boomers and pre-retirees, 54%
- **Couple retiring at age 65, w/o employer-provided health insurance will need \$215K for health care**
- **77% do not have a detailed retirement plan that outlines required savings**

Insurance Concerns for Retirees

- **Medical Insurance**
- **Umbrella Liability Insurance**
- **Long Term Care Insurance**
- **Life Insurance**

Do I Need Insurance?

- Do I need insurance?
 - **Who would suffer** if loss or illness occurred?
- If I do, how much do I need?
 - This question is best answered by an insurance expert
 - However, you can estimate the financial loss or future income need

Spending Plan Tips

- Snip out little non-essentials
 - Deli lunches, fancy coffees, premium cable
- Reconsider your big “necessities”
 - Too much car?
- Talk with your family – everyone has to live by it so get their support/suggestions

"Little" Expenses are Not so Little Over a Lifetime

Item	Cost
One soft drink each day	\$21,000
Cable TV over an adult's lifetime	\$21,000
One pack of cigarettes each day	\$55,000
\$4 convenience store purchase each day	\$69,000
Fast food lunch each day	\$74,000

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Use Buckets to Match Needs

- **Short Term Needs (1-5 years)**
 - Money Markets
 - Certificate of Deposits
 - Short Term Bond Funds
- **Intermediate Term Needs (5-10 years)**
 - Laddered Maturity CD's & Govt/Investment Grade Bonds
 - Intermediate Term Bond Funds
 - "Defensive" Equity Mutual Funds
- **Long Term Needs (Over 10 years)**
 - Equity Mutual Funds, ETF's & Individual Stocks
 - High Yield Bond Funds

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Sources of Income

- **Employment**
- **Investment Interest & Dividends**
 - NOT CAPITAL GAINS
- **Pensions & IRA's**
- **Social Security**

Resources = Cashflow

- **Liquid Assets**
 - Checking & Savings
 - Investment Portfolio
 - Cash Value Life Insurance
 - Stock Options
- **Retirement Assets**
 - Individual Retirement Accounts (IRA)
 - 401K, 403B, 457 Plans
 - Deferred Comp Plans
 - Defined Benefit Plans
- **Personal Assets**
 - Personal Residence
 - Other Real Estate
 - Tangible Assets
 - Vehicles,
 - Coin Stamp Collection
 - Jewelry & China
 - "Stuff"
 - Intangible Assets
 - Patents,
 - Copyrights
 - Family Relations
 - Hobbies

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Mortgages

- **Home mortgage is good debt**
 - As opposed to credit cards
- Current environment makes refinancing attractive
 - Low interest rates
 - Use 30-year fixed mortgage
 - Cash out option
 - Only the first \$100,000 is tax deductible
 - Consult accountant or professional advisor
- **Reverse mortgage ??? – Pros & Cons**

Other Hot Planning Topics

- Roth Conversion
- 0% Capital Gains
- Tax Loss Harvesting
- Gifting Strategies
- NJ Tax Amnesty
- Life & Viatical Settlements
- Future Inflation & Tax Rates

Wise money management leads to a financially secure future...

- Develop a Plan
- Establish cash reserve
- Stay insured
- Save for retirement
- Establish savings & investment program
- Eliminate debt
- Maintain healthy lifestyle
- Spend wisely
- Create an estate plan

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Good Luck & Good Health

Thank you

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Questions ???

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