The Wealth Advisor

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We're in a Recession, So What's the Good News?

The experts have finally told us what we already know: the economy is in recession. Now what should we do? How should we feel? More importantly, how does this report of the obvious economic slowdown affect our investment behavior?

Let's put these questions into a larger context. The economic and market turmoil we are currently experiencing is a consequence of the overheating of the post-911 economy. The overstimulation of the consumer and financial markets brought on by cheap money led to over-leverage and unabashed euphoria for the future of real estate, home equity as a financing vehicle and speculation in global financial markets. That's the bad news.

So, what's the good news? Let's focus on four points:

1. The housing bubble has burst. The frantic trading-in of condos around the world, from Miami to the Mediterranean, is over. Prudence and patience are now the operative words in real estate.

2. We've been told for a long time that the low (even negative) savings rate in this country was unhealthy and dangerous. Now that "savings in the form of real estate appreciation" is over, people will begin saving more.

3. The fear that the consumer would be strapped with credit card debt is now a reality. Credit card debt is not going to excessively fuel anyone's holiday shopping this year. And less debt is good.

4. The exuberance of the past few years has made baby boomers wonder if they would ever see reasonable stock prices again. Well, stock prices are now lower than they have been in a while, and are at these prices just in time for an entire generation nearing or entering retirement.

Less debt, more savings and cheaper investment opportunities. These are all positive features of our new economic order. With this economy, we expect a slowdown in spending – a negative economic growth. That slowdown is what makes a recession.

Looking ahead, we can anticipate a re-energized consumer and renewed economic expansion as the world population grows.

The U.S. economy has prospered and grown throughout periods of turmoil – times of war, the Great Depression, numerous recessions, political scandals and more. We believe the economy will flourish again and investors who stick with their investment course will be rewarded.

For a review of your investment portfolio and how to position it so you can continue delivering on the vital promises you make in life, call us today at (410) 363-7211 to schedule a wealth management appointment.

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Our Mission Statement

To provide comprehensive wealth management solutions tailored to meet the unique needs of our clients that emphasizes value added services aligned with our clients' best interests. We are committed to our clients' success.

Our Best Compliment is a Referral From You.

The Prosperity Consulting Group, LLC
A Wealth Management Company

Bear Market 2008

The recent market meltdown has us all feeling anxious and in pain. As your advisors and fellow investors, we feel the same pain you are experiencing. However, calamities like the ones we are currently encountering are not unique – just think back to 1987 or September 2001. Crises, like the current one, have occurred before and will occur again. When they start or when they end is just about impossible to predict. While we can't predict such events, we can anticipate them. That is why now is a good time to revisit the principles upon which we built your investment portfolio. These principles have served true in bad times as well as the good times, and we firmly believe these principles will be a rock-solid foundation as we move ahead.

When we established your investment portfolio, we told you that we would work with you to attain your goals and dreams by building a diversified portfolio of investments suitable for the long term. Our investment program, built on the twin disciplines of asset allocation and diversification, and executed by excellent managers, has functioned exactly as designed. We have prudently diversified your portfolio across a set of distinct asset classes through a variety of disparate investments. We didn't just scatter your eggs in several baskets; we made sure we placed them in different kinds of baskets. This strategy has, to a great extent, inoculated your portfolio against potentially massive economic and capital market disruptions. *Diversification of your overall investment portfolio does not assure a profit or protect against a loss in declining markets.*

Through multi-asset class diversification, your portfolio should not suffer nearly as much as any single asset class or single investment. Because of the cushioning effect of asset allocation, we urge you to stop focusing on isolated pieces of your portfolio, like any single asset class (for example: U.S. equity markets), single mutual fund, manager or stock, and think **only in terms of your overall portfolio performance**. The discipline we used to structure your portfolio remains solid and will be our framework for moving forward, today and in the future. It is also crucial to consider your current stage in life. If you are in the wealth accumulation stage, it is imperative to invest in a portfolio discipline based on diversification and asset allocation, as we have always preached. For our clients in the distribution/income phase or who are approaching that phase, we recommend and continue to implement investment models that are less volatile and place more emphasis on income generation than growth. All of our clients' portfolios are specifically customized to match your unique goals and time horizons.

We understand the anxiety induced by the current market volatility. This anxiety is being escalated by the media; the talking heads at CNN, MSNBC and all the other cable and broadcast news shows that are trying to bolster their ratings. They know that creating extreme anxiety through sensationalized media benefits their station with higher advertising rates, and higher profits and revenues for their companies. Remember, behind all news presented by the media lies an agenda. We urge you to stop listening to the media or at least think critically about the media's point of view and motives. When you want to hear the facts or need an educated opinion, please contact us. We can help you by separating the important information from the unimportant and interpret what it all means to you and your wealth management plan.

Our experience suggests that investors who require constant, complete and detailed information about everything (including the current value of their securities) do not fare well in the long term. Investors who can tolerate a state of "not knowing" obtain more favorable financial results. This psychological phenomenon, called "information deficiency paradox," is a strange concept, but it makes sense. You may be suffering, in small part, because of your reliance on short-term information to evaluate your investment portfolio, and right now, that information is not good. However, history has shown that when investors have fled the equity markets and go to cash in a bear market, they rarely get back into the markets in a timely fashion. Historically, when bear markets bottom out, 33 to 50 percent of the market recovery occurs in the first 40 days.[1] Missing out on an upsurge can severely hamper your long-term investment returns.

In our opinion, free market capitalism is not in trouble. Capitalism has passed the test of time through a variety of horrific historical events. Owning good investments through both good times and bad is the only way to earn the rewards of an economic system based on the private ownership of property.

The basic economic law of supply and demand teaches us that when consumer goods go down in price, there is a corresponding increase in demand, and when prices goes up, there is a decrease in demand. Why is it that this sound economic law that has worked so well for consumer goods is somehow ignored or rejected when it comes to intangibles like investments? **When stock prices go down, as in today's climate, there should be a significant increase in demand for these equities at lower prices.** Clearly there are some good buying opportunities right now, but where are the buyers? Warren Buffet states, "A bear market is a period of time when the stocks of companies get transferred back to their rightful owners." That creation of value in stocks is happening right now and you should think of yourself as "a rightful owner," not a panicked seller. We need to discuss the strategy of rebalancing your portfolio and buying more equities, not selling them.

In light of the uncertainties of today's markets, and the media noise pressing in on all of us, we invite you to call on us to discuss your investment portfolio and your total wealth management picture. We can provide you the comprehensive perspective you need to analyze, evaluate and act prudently to help safeguard the important promises you make in life.

1 Standard & Poors. 8 October 2008. <http://money.cnn.com/2008/10/08/pf/money_crisis.moneymag/index3.htm>.

Can Your Afford Long-Term Care Insurance?

Many consumers question the need for long-term care insurance. They wonder if it is truly a necessity and if they can afford it. The question should be, "Can I afford not to own it?"

Long-term care insurance is rapidly becoming a priority product for many people. Serious consideration is being given to the idea of protecting their assets not only from death and disability, but also from the potential need for extended long-term care.

Long-term care insurance, however, can be expensive, especially at older ages. A typical benefit package, $150 per day for three years of coverage with a 100 day elimination period and inflation protection, costs approximately $2,000 per year at age 60 and $4,500 per year at age 70. But these premiums are very inexpensive when compared to the costs you and your family could incur if you do not own long-term care insurance.

Younger adults, especially those from the baby-boom generation, are also becoming increasingly aware of the need for long-term care insurance. They understand the financial benefits of purchasing coverage early in life to realize significant cost savings. They are also very interested in seeing that their parents have adequate coverage, so they will have first-class professional care available if needed and will not become a financial or emotional burden.

Baby-boomers recognize that the mobile society in which they live, combined with their own family and career demands, do not make them good candidates for caregivers. In fact, many people are purchasing long-term care insurance for their parents at their own expense, either on an individual basis or through an employer sponsored plan.

Whether you are a younger or older consumer, here are a few suggestions that can make the purchase of this valuable coverage more affordable:

1. While the best possible option is to purchase a lifetime benefit, statistics indicate that most people don't require long-term care for more than three years. As a result, you can reduce your premium by choosing a limited benefit period.

2. For consumers who are in their 60s and older, another good way to reduce the premium is to decline inflation protection. Generally, older consumers are more likely to use their benefits within a few years so the risk of inflation is much less than it would be for someone in their 40s. For younger consumers, however, inflation protection can be a very important feature as it is extremely difficult to predict the costs of long-term care insurance over a 20 to 25-year period.

3. Consider a lower level of benefits and longer elimination periods. Just be careful not to choose levels that won't cover the full costs of care and cause you to self-insure more than necessary.

4. Many people have substantial assets in deferred annuities that can serve as a funding mechanism for long-term care coverage. Most annuities allow for a 10 percent withdrawal of assets each year without penalty. These withdrawals can be used to pay premiums for long-term care insurance while the remaining money in the annuity continues to grow on a tax-deferred basis.

5. Another option to consider is a single-premium life policy that provides both death benefit and living benefits for long-term care expenses. By repositioning an asset such as a Certificate of Deposit or Money Market Account, you can turn a taxable investment into tax-free benefits. You may also use the cash values of a paid-up life insurance policy to fund the multipurpose life policy by utilizing a Section 1035 tax-free exchange.

One thing to remember, long-term care insurance should not be viewed as nursing home care insurance. In fact, it is "anti-nursing home care" insurance. A nursing home is the last option to be considered, usually after home health care services, adult day care services and assisted living options have been exhausted.

Long-term care insurance is truly an asset protection tool. Contact The Prosperity Consulting Group about this valuable planning opportunity today.

Did You Know...

In 1840, it was estimated there were 20 millionaires in the United States.

By 1836 Wall Street was widely recognized in the US and "came to stand for the American Securities market."

In 1792 the Bank of the United States was first formed by Alexander Hamilton. It was one of the first Hot issues in the IPO market. Trading began before the stock was even issued (when issued).

Source:

http://www.financeprofessor.com/trivia

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Start Planning for Your Retirement Now

Do you have a plan for your retirement? Few financial goals elicit as strong a response as planning for your own retirement. Television and magazines constantly bombard you with images of happy retirees enjoying an active lifestyle, traveling on a whim and living without a care in the world. You may look forward to retirement as a time to savor the finer things in life, and as a reward for many years of hard work.

Advertising paints a rosy picture that is seldom in line with reality. Many baby boomers may have to take care of parents or children even in retirement, and others will have to think about long-term care options. What's more, many people have dreams for retirement that don't necessarily include a life of luxury. Some have more modest goals, such as seeing a child or grandchild through college, or simply living in comfort. Retirement dreams can inspire you, but you need to set goals if your retirement is to live up to your aspirations.

You should approach your retirement planning from three fronts: your Social Security or other government programs, any retirement plans your employer sponsors, and any plans you individually own. There are many options to choose from and we can help you better understand the benefits and limitations of each solution.

If you know of others who should regularly receive this newsletter, or you would like to be removed from this mailing list, please email cpf@prosperityconsult.com.