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What Do Your Children Know About Building Wealth?

When you were 20 or 25, what was your level of financial literacy? What would you like to have known at 18, 25, or 35? What did you think of when the nightly news mentioned Wall Street or the Federal Reserve? Did you even care about those things at that time? Few young adults fully understand how wealth can be built. Decades from now, many will wish they had started planning to amass wealth earlier in life. How can you encourage your children to start that process?

Help them start before they turn 18. If your child is a minor, there are still several ways she or he can get a head start on growing wealth. Besides the basic move of opening a savings account, it is possible for your child to open a Roth IRA. The IRS sets no minimum age limit for IRA contributions; if your son or daughter has earned income from a job and filed taxes, he or she can open a Roth or traditional IRA with your assistance and contribute to it. Your child may also buy a government bond with your help, or buy equity shares or make a direct stock purchase via a guardian account or custodial account. [1,2,3]

Encourage them to set life and financial goals. Why not? It is not far-fetched if your teen wants to become a millionaire; given inflation over time, we may need to be millionaires down the road. Even if your son or daughter simply sets a life goal – for example, to start a business someday or to graduate from a prestigious university – he or she will start to think about what that will take financially.

Wean them off plastic. As your children become young adults, the great lesson is a simple one – spend less than what you make. If they have to go into big debt, it better be for education's sake and not for comparatively frivolous reasons. Remind them that it is possible to pay off debt and plan to build wealth at the same time.

Convey that is not what you own, but what you do that counts. Hopefully, your son or daughter will start investing early – and sensibly. Some young investors like the thrill of day trading – of looking for the next hot stock that will be the talk of Wall Street. It is better for your son or daughter to learn principles of diversification from the start (and not retrospectively). Getting rich slowly is not a bad idea. Investing seriously means staying invested through market cycles.

Remind them of the power of compounding. If your child opens an IRA or 401(k) before age 30, that does so much in terms of retirement savings potential. Yet few young adults focus on these retirement savings tools. The tax information service CCH took a poll in 2007 and found that just 4% of employees aged 25 and younger were maxing out retirement plans. That same year, Charles Schwab conducted a survey and learned that only 40% of adults aged 26-40 were contributing to an IRA.[4] Looking back, what did you wish you had known? Today is as good as any day to let your son or daughter know about some investment and asset-building principles. At first glance, it may seem boring to them – but making money sure isn't. The more they know now, the more years they have on their side to grow wealth.*

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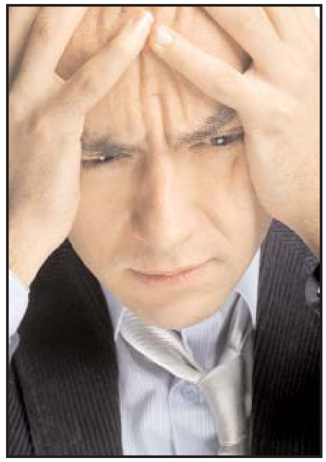
Anxiety Versus Fear

The unpredictability and volatility of the capital markets in recent months has elicited fear in the minds of many investors. As the markets plummeted to a new bottom on March 9, 2009, we all felt fear – fear of the loss of our savings, fear for the promises that we may not be able to keep and fear of the unknown.



Fear is a natural, protective response and is experienced when we realize that danger is imminent. When we feel fear, we react with one of two actions: fight or flight. If we choose to fight, we reexamine the situation, rebalance, recalibrate our tolerance for volatility or take other actions to combat the current circumstances. If we choose flight, we get out of the stock market or take another action to remove ourselves from the situation.

As the Dow Jones Industrial Average has increased 57 percent and the Standard & Poor's 500 Index has grown 62 percent since March,* your feelings of fear may have been replaced with anxiety. The improvements in the market are good, but the unemployment rate was announced to be at 10.2 percent in October, which is the highest it's been in 26 years.**

While this feeling of anxiety is a normal response to uncertainty, the problem with anxiety is that we don't know how to respond. There is no typical fight-or-flight reaction. Those who got out of the market are unsure whether or not to get back into it, and those standing on the sidelines with additional funds are tempted but afraid to invest them. Many investors want to avoid missing out on returns; however, they are uneasy about returning to the market only to find that the recent upswing was merely a fluke and not an indicator of true growth. You might find yourself or someone you know at one end of this spectrum or somewhere in the middle.

Despite the feeling of anxiety you had when the markets declined earlier this year, one thing is certain: You are not alone. We are available to review your accounts at any time.

If you know someone who is feeling anxiety about the markets right now, introduce them to us. We can help alleviate the anxiety and the stressors so they can enjoy the New Year. We can set up an action plan that can help remove some of the anxiety in your loved one's lives.

*As of November 20, 2009. Source: The Associated Press "ALL BUSINESS: Can the stock market rally last?" Past performance is no guarantee of future results.
**Source: U.S. Department of Labor Bureau of Labor Statistics
http://www.bls.gov/news.release/pdf/empsit.pdf

Market Volatility

During periods of market volatility, a disciplined investment program becomes increasingly important. You as an investor need to remain focused on long-term goals with an asset allocation mix that fits your individual investor profile and expert advice to ensure you that you are still on the right track. As your wealth management advisors, we are here to make sure that together, we keep your investment program on track.

1. Review your investment portfolio. Is your asset allocation the same as when you started your investment program? Should the mix be rebalanced? How much volatility are you really comfortable with? Together, we can make sure your portfolio is best positioned to meet your long-term goals.

2. Reassess your investor profile and revisit your investment policy statement. Is your tolerance for volatility the same as it was or have current events made you realize that you need to re-evaluate your risk tolerance?

3. Revisit your fixed income holdings. Now may be a good time to reposition fixed income portfolios for price stability and risk reduction. It's also an opportunity to match your future liabilities with concrete fixed income solutions.

4. Evaluate your savings and investments programs. With prices down, are you contributing enough to your 401(k), IRA, and other savings or investments programs? Could you increase your contribution?

As your advisors, we can answer your questions and address your concerns about today's markets. Please contact us schedule an appointment to review your current investment portfolio and your long-term investment goals.

Roller Coaster Ride

Do you remember your first roller coaster ride? The anticipation you felt as you stood in line with a mix of both fear and excitement?

As time passed, you became more and more nervous, with various thoughts racing through your mind, "Will I be safe?" "Do I stay or do I go?" Finally it was time. You took your seat in the car, put on your safety harness, and before you knew it the cars were moving.

At the beginning of the year there was a lot of fearful anticipation, but as the year progressed, the markets (and your emotions) have relaxed and rebounded nicely.

At first, fear set in, and you asked yourself, "Did I make the right decision?" But as the ride progressed, you began to relax and have fun.

Market conditions in 2009 have been very similar to this roller coaster experience. At the beginning of the year there was a lot of fearful anticipation, but as the year progressed, the markets (and your emotions) have relaxed and rebounded nicely.

As we enter the fourth quarter, let's take a look back at where we were and where we are headed.

We began the year rather dismally. After all, the third and fourth quarters of 2008 were some of the worst on record. However, we finished the first quarter of 2009 on an upward trend. In fact, we have seen this upward trend in the markets continue.

As each week passes, bad news gives way to good news, with hopes the trend continues. We have learned that a few banks who took TARP funds are in shape to repay those funds; and in fact, a couple of them have already repaid the U.S. Treasury.

This is good news for the financial sector. Also, recently we heard Federal Reserve Chairman Ben Bernanke state that this recession is likely over.[1]

The good news has continued as the Consumer Confidence Index, which is a gauge of how consumers feel about the economy, continues to rise. The Case-Shiller Housing Price Index reports that home prices have started to stabilize.

This is great news for the U.S. housing sector as it appears that a rebound is probable. Lastly, we have returned to pre-November 2008 numbers in the Dow Jones Industrial Average. It has been a remarkable recovery so far this year, and we feel we are beginning to see light at the end of the tunnel!

As we reflect back on the last 12 months, thoughts of that memorable roller coaster ride come back to mind. At first it was a little scary, but as time progressed, it turned out much better than we originally anticipated.

With so much optimism for the future, are you prepared to take advantage of it? If you decided to move to cash and wonder when the right time is to get back into the market, or you would like to review your current wealth management strategy, contact our office today. Together we can discuss your long-term plans and your short-term goals and objectives.

[1] Aversa, Jeannine. "Bernanke: Recession „Very Likely Over.?" Time Magazine. 15 September 2009. http://www.time.com/time/business/article/0,8599,1923331,00.html.

Did You Know...

Reminiscences of a Stock Operator was 1st published in 1922. It tells the story of Jesse Livermore who may be most famous for making $250,000 when the San Francisco earthquake seriously damaged Union Pacific's railroad and stock price. Livermore had been shorting the stocks for days on a whim.

Joseph Kennedy got his start in finance and helped to thwart a hostile takeover of Columbia trust in 1914.

At the end of 1999, roughly $33 trillion in derivatives were outstanding. Of this only $4 million was exchange trades. The rest were over-the-counter derivatives.*

Source: http://www.financeprofessor.com/trivia
*Alan Greenspan March 2000

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Required Minimum Distributions (RMDs): Act Suspends Rules for 2009

If you have a balance in your 401k, and are over the age of age 70½ , you may need to take an annual minimum distribution requirement. Each year, unless still employed and not an owner, a taxable distribution must be calculated and processed from your account(s). We will evaluate this for you.

When congress passed the Worker, Retiree, and Employer Recovery Act of 2008, they suspended the distribution requirements for 2009 providing retirees with additional flexibility given the state of the market. The one year exemption will be applied to qualified defined contribution plans allowing participants to keep their money invested in hopes that the recovery continues.

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.