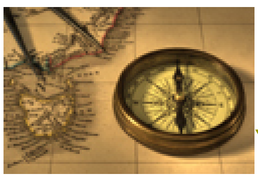
February 2009 Issue

In This Issue...



Your Financial Road Map

Are you making progress toward your financial goals? Are your finances in order? Are you prepared for a financial emergency? If you're not sure, take time to thoroughly assess your finances so you have a road map for your financial life:

Assess your financial situation.

Evaluating where you currently stand financially will help you determine how much progress you are making toward your financial goals. There are several items to consider:

- **Your net worth** - Prepare a net worth statement, which basically lists your assets and liabilities, with the difference representing your net worth. Prepared at least annually, it can help you assess how much financial progress you are making. Ideally, your net worth should be growing by several percentage points over inflation.
- **Your spending** - Next, prepare a cash flow statement, detailing your income and expenditures for the past year. Are you happy with the way you spent your income? You may be surprised by the amount spent on nonessential items like dining out, entertainment, clothing, and vacations. This awareness may be enough to change your spending patterns. But more likely, you will need to prepare a budget to help guide your future spending.
- **Your debt** - Debt can be a serious impediment to achieving your financial goals. To assess how burdensome your debt is, divide your monthly debt payment, excluding your mortgage, by your monthly net income. This debt ratio should not exceed 10% to 15% of your net income, with many

lenders viewing 20% as the maximum. If you are in the upper limits or are uncomfortable with your debt level, take active steps to reduce your debt or at least lower the interest rates on that debt.

Increase your savings.

Calculate how much you are saving as a percentage of your income. Is it enough to fund your future financial goals? If not, go back to your spending analysis and look for ways to reduce expenditures. That may mean reassessing your lifestyle choices, since you need to live below your means to find money to save. Commit to saving more immediately and then take steps to make that commitment a reality. For instance, you may decide to increase your saving by $25 per week through your 401(k) plan at work. To do that, you may need to forego your daily stop for coffee and a donut, cut back on how often you dine out for dinner, and reduce your monthly clothing allowance. Not sure it's worth that much sacrifice to save $25 a week? After 20 years, that weekly $25 savings could grow to $63,811 at an 8% annual rate of return, before the payment of any income taxes. (This example is provided for illustrative purposes only and is not intended to project the performance of a specific investment.)

Rebalance your investments.

At least annually, thoroughly analyze your investment portfolio:

- Review each investment in your portfolio, ensuring that it is still appropriate for your situation.
- Calculate what percentage of your total portfolio each asset type represents, compare this allocation to your target allocation, and then decide if changes are needed.
- Compare the performance of each component to an appropriate benchmark to identify investments that may need to be changed or monitored closely.
- Finally, calculate your overall rate of return and compare it to the return you estimated when setting up your investment program. If your actual return is less than your targeted return, you may need to increase the amount you are saving, invest in alternatives with higher return potential, or settle for less money in the future.

Prepare for financial emergencies.

To make sure you and your family are protected in case of an emergency, set up:

- A reserve fund covering several months of living expenses. The exact amount you'll need depends on your age, health, job outlook, and borrowing capacity.

- Insurance to cover catastrophes. At a minimum, review your coverage for life insurance, medical insurance, homeowners insurance, auto insurance, disability income insurance, and personal liability insurance. Over time, your insurance needs are likely to change, so you may find yourself with too much or too little insurance.

Review your estate plan.

The estate tax laws have been changing substantially over the past few years. Take a fresh look at your estate planning documents and review them every couple of years during this transition period. Even if the increases in exemption amounts mean that your estate won't be subject to estate taxes, there are still reasons to plan your estate. You probably still need a will to provide for the distribution of your estate and to name guardians for minor children. You should also consider a durable power of attorney, which designates someone to control your financial affairs if you become incapacitated, and a health care proxy, which delegates health care decisions to someone else when you are unable to make those decisions.

[Back to topics.]

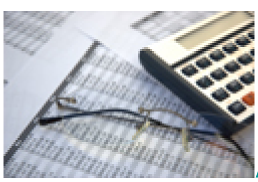
Raising Financially Responsible Children

It's not unusual to have concerns about the impact money may have on your children's lifestyles. Even beyond basic financial responsibility, you want to make sure that wealth does not remove your children's incentives to work hard, to pursue a meaningful career, or to care about other people. How do you help your children obtain the values you'd like them to have? Consider these tips:

- **Lead by example.** Of course, you want to have many discussions with your children about the values you consider important, including the value of hard work, caring about others, and preserving their legacy. But it is equally important to ensure that your behavior supports these values, since children watch their parents' actions closely. Make sure your handling of spending, debt, asset purchases, investments, and charitable donations support the behaviors you are trying to instill in your children.

- **Teach financial basics.** Encourage your children to take finance courses in high school and college that help explain the basics of investments and personal finance. Include your children in discussions about significant financial decisions, such as which investments to select, which charitable organizations to support, and which major assets to purchase.
- **Allow your children to make their own financial decisions.** Don't just give them money every time they want to make a purchase. Give your children an allowance that increases as they get older to cover certain expenses, such as entertainment, lunches, clothing, and gasoline for their car. Let them learn how to spend the money, but don't give them extra money if they make bad choices. It is important for your children to learn from their mistakes. You can discuss options with them, but the final decisions should be theirs.
- **Encourage philanthropic values.** If charitable causes are important to you, require your children to contribute a certain percentage of their allowance to a charity of their choice. Get children involved with charitable organizations that you are involved with. If you have a charitable foundation, find a role for your children in the foundation. Include children in discussions of how family funds will be used for charitable causes.
- **Counsel your children on continuing your financial legacy.** You should have plans in place to help ensure your financial legacy lasts for an extended period of time. That could include setting up trusts that will distribute funds to your children gradually, such as in thirds when each child reaches age 25, 30, and 35. Or, you may want to structure distributions to promote behavior that is important to you. Once your plans are in place, explain them in detail to your children so they understand what you are trying to accomplish.

Back to topics.



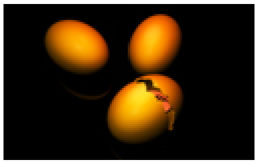
Asset Allocation Basics

The theory behind diversification, or asset allocation, is to spread your investments across different asset classes to help protect your portfolio from downturns in any one asset. Diversification is a defensive strategy - it is meant to protect your portfolio during market downturns and to reduce your portfolio's volatility.

Your asset allocation strategy will depend on your risk tolerance, return needs, and time horizon for investing. While each person's asset allocation strategy will be unique, you should consider these tips:

- **To moderate your portfolio's risk, invest in both stocks and bonds.** Stocks tend to have a low positive correlation with corporate and government bonds, meaning that on average, movements in stock prices will only moderately match movements in bond prices. Thus, owning both reduces your portfolio's risk.
- **With a long time horizon, you can increase your allocation to stocks.** By staying in the market through different market cycles, you reduce the risk that volatility will adversely affect your equity performance. Those with a time horizon of less than five years should not be invested in stocks. Look at cash and bonds for those short-term needs.
- **Diversify within as well as among investment classes.** For instance, in the stock category, consider value and growth stocks, small- and large-capitalization stocks, and international stocks. Bonds could include long-term bonds, intermediate-term bonds, high-quality bonds, lower-quality bonds, Treasury securities, municipal bonds, and international bonds.
- **Make sure you have reasonable return expectations for various investment categories.** Basing your investment program on return estimates that are too high could cause you to increase the risk in your portfolio in an attempt to obtain higher returns.
- **Once you develop an asset allocation strategy, rebalance it at least annually.** Since your strategy is designed to provide a stable risk exposure, you need to periodically rebalance so your allocation does not get out of line.
- **Make sure you have enough cash to handle short-term needs.** That way, you won't have to sell investments at an inappropriate time, such as immediately following a market downturn.
- **Evaluate new investments carefully, ensuring they add diversification benefits to your portfolio.** Don't keep adding similar investments, such as several stocks in the same industry. Not only does this not add much in the way of diversification, but it makes your portfolio more difficult to monitor.
- **Avoid following the market too closely.** Your asset allocation strategy is designed to guide your portfolio's long-term makeup. Don't rethink that strategy simply as a result of a market downturn.

Back to topics.



How Retirees Can Protect Their Nest Eggs

While stock market fluctuations are painful for all investors, they are even more so for those nearing or in retirement. Investors who won't be retiring for many years have plenty of time for their investments to grow. Current and prospective retirees, however, may be concerned about how market fluctuations will affect their retirement plans. If you're looking for ways to help protect your retirement nest egg, consider the following:

- **Try to withdraw as little as possible from your investments.** If your investments have declined in value, reevaluate your current withdrawal amounts. Withdrawing the same amount from a substantially smaller portfolio means that you will deplete the balance much sooner. If you must make the same withdrawals, at least calculate what impact that will have on your current portfolio.
- **Consider postponing retirement or going back to work.** If you haven't retired yet, you may want to postpone retirement until you are sure your investments will provide enough income for retirement. Those who are already retired may want to consider going back to work on at least a part-time basis to avoid withdrawing too much from investments.
- **Build up a reserve of investments not tied to the stock market, totaling three or four years of retirement expenses.** With this reserve, you won't have to sell your stock investments during market declines.
- **Withdraw funds in a tax-efficient manner so they last longer.** In general, you should withdraw taxable investments first so that your tax-deferred investments can continue their tax-deferred growth. In most cases, however, you will need to start taking minimum required distributions from your tax-deferred investments by age 70 1/2.
- **Reassess your asset allocation.** The recent stock market fluctuations may have made you realize that your portfolio contains too much risk. While you may not want to make major asset allocation changes immediately, you can take steps to gradually add diversification to your portfolio.
- **Decide whether you want a professional to manage your investments.** In volatile markets, you may feel more comfortable allowing an investment professional to make investment decisions for you.

Back to topics.

Be Prepared for a Layoff

In these economic times, job security is a notion from the past. All workers should be prepared financially for the possibility of a job layoff. Here are some tips to help with that process:

- **Stay on the lookout for signs of potential cutbacks.** Those signs could include layoffs at competitors, declining financial performance, top management changes, or a major tightening of expenditures. Under federal law, only companies with more than 100 employees are required to give 60 days notice of layoffs or plant closures.
- **Set up a cash reserve of at least three to six months of living expenses.** It typically takes at least that long to find a new job. It may take even longer in this economic environment or if you are middle-age or older.
- **Apply for a home-equity line of credit or other type of loan.** It is usually easier to obtain credit when you are employed, so get borrowing options in place to help during a layoff.
- **Look for ways to cut your living expenses.** Avoid nonessential expenses like extravagant vacations, clothing, and entertainment. Even if you aren't laid off, you can use those savings to increase your retirement savings.
- **Keep your resume up to date.** While you may not want to actively start looking for another job, be aware of the current job market and expand your professional contacts.
- **If faced with a layoff, don't just accept your employer's severance package.** Try to negotiate for more severance pay or for an extension of your health insurance benefits. Also check whether the company offers services to help you find another job.