



The MONEY MONITOR

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Volatility Is Back, But That's Not Necessarily Bad

Wall Street traders who were looking forward to another boring summer got a rude awakening this year. After a few jolts in the spring, financial markets around the world got downright stormy in July and August as investors worried about the subprime mortgage collapse and a credit crunch. Make no mistake about it, volatility was back with a vengeance. The ride got so intense that the Federal Reserve Board felt compelled to ease credit by reducing the bank discount rate—a rare move by the nation's central bankers—and by early October, the bulls had regained the upper hand. But what does all this really mean and should you worry?

One explanation for the summer's market turbulence is that, after repeatedly shaking off bad news during the past few years, stocks were simply overdue for a correction. Despite soaring oil prices and military setbacks in Iraq, share prices had pushed steadily higher, and in mid-July the Dow and Standard & Poor's 500 stock indexes hit record highs. And it had been a very smooth ride. From May 2003 through January 2007, the Dow never dropped more than 2% in a day. That was a period of stock market stability unmatched in more than a century, but it couldn't last forever. Finally, "the past few years' speculative excesses were pulled from the market," says Doug Roberts, chief investment strategist at Channel Capital Research.

But the summer stock market was also buffeted by a sudden credit crunch. When the economy is on the upswing, things often get a little out of hand, and this time

that took the form of easy credit being offered to poorly qualified homebuyers in the form of subprime mortgages. When those homeowners couldn't keep up with their payments, foreclosures began to rise. And because those mortgages had been repackaged into complex, illiquid securities bought by hedge funds and other institutional investors, it was those sophisticated professional investors who suffered the worst losses. With these rarely traded securities still buried in some

portfolios, the full extent of the damage may not yet be known.

But much of the devastation has been on public view. For example, in June 2007, Merrill Lynch seized \$800 million in assets from two

hedge funds managed by a venerable Wall Street firm, Bear Stearns & Company. The hedge funds suffered huge losses and became insolvent because of the plunge in value of the mortgage-backed securities they owned.

Although it was debt and not equities that triggered the summer stock sell-off, stocks couldn't avoid the fallout. Hedge funds tend to be highly leveraged—they borrow money hoping to increase the impact of their strategies—and many of those holding subprime mortgage-based bonds had to sell stock to meet demands by lenders that they come up with more cash. That onslaught of selling helped push down prices. Lenders, meanwhile, fearing widespread defaults, stopped lending.

(Continued on page 4)

Get Ready! It's A New Year!

Happy 2008! As we are already moving forward into the year, we hope this edition of the Money Monitor is useful as you further your plans and resolutions for 2008. This year has started much like the old year ended, with a great deal of volatility in the stock market. Our first article addresses the turmoil in the markets and provides some interesting insight into the sources of the volatility.

For a variety of reasons many people seek part-time employment after they have retired. The article on page 2 provides a number of great tips for retirees who are thinking about a job.

Tax season is right around the corner and the use of credit cards is becoming more and more popular for the payment of taxes. The article on page 2 provides some useful information regarding the use of credit cards for the payment of Federal taxes.

The five year period leading up to retirement is a critical phase in life. Decisions during this time can have a substantial impact on the transition into retirement. The page 3 article presents a list of five significant tasks that should be completed during the run-up to retirement.

Finally, the last article on page 4 touches on an unpopular, yet important subject. Life insurance is a very important tool in financial planning, and it can be an expensive tool. This article contains eight different techniques that can save a great deal of money when purchasing life insurance.

We hope you had a wonderful holiday season and we look forward to seeing you soon.

**Ken Robinson, CFP
Senior Planner**



Part-Time Job Hunting Tips for Retirees

Retirement isn't what it used to be. Longer life expectancies and the ever-rising cost of living—to say nothing of prime-of-life retirees' skyrocketing expectations—have made life after work a much more expensive proposition. Yet many who are approaching their golden years don't have sufficient savings to pay for three decades of total leisure. In a 2007 Gallup Poll survey, "This Is Not Your Father's Retirement," 75% of not-yet-retired adults indicated they planned to rely on income from a part-time job during retirement, and 21% said that part-time work will be a major source of income. That's far different from the situation today, in which just 3% of retirees depend on income from a job.

But where will older workers find gainful employment? In many cases, it may be with the same employer they've known for years. According to a recent report by Deloitte & Touche—It's 2008: Do You Know Where Your Talent Is?—there's a labor crunch on the horizon, particularly in the executive suite, as baby boomers prepare to depart *en masse*. Often enough, however, those who are leaving wouldn't mind a little part-time work to finance retirement lifestyles, and some are returning to their old positions, though with more

flexibility, fewer hours, and proportionately higher compensation.

A survey by Dartmouth's Tuck School of Business found that 85% of corporations plan to expand recruiting strategies to include temporary professionals (for project-based work)

Other sites—Seniors4Hire, Retirementjobs, and AARP—target retirees specifically with full-time, part-time, and contract opportunities covering a broad range of professional skills. Guru.com and Elance.com offer freelance, contract, and temporary opportunities through online

marketplaces that not only help place workers but handle invoicing and payment as well. These services even offer consolidated tax reporting to simplify the administration that comes with working part-time during retirement.

Of course, as useful as such online services may be, they'll never be as effective as personal networking. If you're approaching or already in retirement and would like to work part-time, the best place to start is with people you know. It's not at all unusual for would-be retirees, right after saying their good-byes, to get a call asking them to consider a six-month assignment, say, to get a new department up and running. So ask around the company, and contact former colleagues who've moved on to other ventures. Chances are, even if they don't immediately need someone with your skills and experience, they'll know someone who does. ●

A Job With Your Name On It

These sites have postings for part-time, freelance, and contract work as well as full-time employment.

www.monster.com	www.retirement-jobs-online.com
www.careerbuilder.com	www.guru.com
www.hotjobs.yahoo.com	www.elance.com
www.seniors4hire.org	www.myparttimepro.com
www.retirementjobs.com	www.dice.com
www.aarp.org	

and those who have left the work force. That will represent quite a change from the current situation, in which only one in three employers is open to hiring older employees who want flexible hours or the option to telecommute, among other perks. Yet big companies won't hire just any retiree. In the Tuck survey, six in 10 employers listed updated, fresh skills as a make-or-break attribute for job hunters.

Already, opportunities for seniors are becoming easier to find. Major job boards such as Monster, CareerBuilder, and HotJobs have launched special contract employment sections featuring the kinds of part-time positions many retirees will want.

Ease The Bite If You Owe Money On Your Federal Taxes By

If your tax bill is substantial, you probably wish you could pay it with a credit card that earns airline miles or other rewards—and you can, for a whopping 2.49% commission. That sounds like a lot, and may outweigh any rewards your card provides. Still, you may not want to dismiss the idea out of hand.

For several years, the Internal Revenue Service has allowed Official Payments and Link2Gov to collect tax payments via credit card. They tack on that extra 2.49% to cover fees charged by the card issuers and to make a profit.

If your credit card earns one mile for every \$1 you spend, and it takes 25,000 miles to obtain a domestic airline ticket to fly coach, you'd have to spend \$622.50 in fees to get one ticket. In most cases, you could probably just buy the ticket and save money.

So why would you ever use a credit card to pay your federal taxes? One reason is that many credit card companies offer benefits allowing you to more than recoup the lost fee. For example, if you're heavily indebted to Uncle Sam, you might pay a \$45,000 tax bill with a card that earns double airline miles.

That would cost you a \$1,020.90 fee, but would earn you 90,000 miles—enough for a business-class seat on a Delta plane from Chicago to London. That's probably less than you'd pay for the same business class fare on the open market.

Meanwhile, you may be able to offset the 2.49% Official Payments and Link2Gov fee by using credit card points you've accumulated for other purchases. When paying taxes with an American Express Card enrolled in the American Express membership rewards program, for example, you can

Smart Moves Five Years From Retirement

The notion of outliving your retirement income is not a happy one, and now, with tens of millions of baby boomers about to embark on decades of life after work, anxiety is running high. But with some wise preparation, you can create a retirement strategy that keeps you comfortable and financially secure.

Here are five critical moves to consider five years in advance of your retirement deadline.

1. Visualize your retirement. Steven Covey, author of *The Seven Habits of Highly Effective People*, famously

suggested: “Begin with the end in mind.” So before you crunch the first number, dig deep and imagine what you want from retirement. You might begin by making sure you want to retire at all. These days, more and more people are deciding to continue working, at least part time. And if you will leave work behind, how will you spend your time? Pursuing adventure travel? Kicking back at your lake cottage? Downsizing and moving to a new community?

If you’re married, talk to your spouse about what she or he envisions. It’s important that you get on the same page about your plans and goals. Once

you’ve identified your objectives, determine what they’ll cost and consider where your income will come from—Social Security, a company pension, distributions from your 401(k), rental property income, interest and dividends on other savings, perhaps an inheritance.

2. Examine your footprint. Most people underestimate what retirement

will cost, but a simple cash-flow planning exercise can help set the record straight. Start with your core living expenses, and project those out for the next five years, adding in other goals that will require funding: helping a child with wedding expenses, for example, or a house renovation.

Next, consider what your expenses will be in retirement. It’s likely the early years will be more active—and more expensive. A big cost that many pre-retirees don’t see coming is health insurance, which can easily run \$16,000 a year for a married couple until age 65, when Medicare kicks in.

Thanks to health care costs and other rapidly increasing expenses, many financial experts now suggest retirees have as much income during retirement as when they were working.

3. Address your liabilities.

There’s good debt and bad debt. As you approach retirement, it’s critical to get rid of anything on which you’re paying double-digit interest rates.

That likely includes credit cards and possibly even car loans.

For longer-term obligations, if you’re paying between 5% and 7%, that’s probably all right, particularly if it’s on a mortgage or home equity loan for which some of the interest may be tax deductible.

4. Max out your savings. You’re in your peak earning years, and now is the time to push hard to save all that you can. Many experts recommend saving 20% of your income as a rule of thumb. At the very least, make the maximum allowable contributions to your retirement plan and, if eligible, to an IRA as well. This is your last, best chance to increase the size of your nest egg and your income during retirement.

5. Fine-tune your investment portfolio. One factor to consider during this crucial period is whether stock options, restricted stock, or company stock you own outright in taxable or tax-deferred accounts leaves you dangerously overexposed to the fortunes of your company. You may do well to diversify, to the extent you can, even if it generates taxable capital gains. But now is also the time to revisit your overall asset allocation. The risk of major losses on the eve of retirement argues for a more conservative approach, yet it’s important for your portfolio to continue growing, now and during retirement.

If we have not run the Financial Independence Model for you—or if we have, but it’s been a while, contact us to get started on this smart move. ●



Paying Uncle Sam With A Credit Card

redeem membership rewards points to pay for the cost of the 2.49% convenience fee. According to Official Payments, 40,000 points will cut \$200 off your fees. Of course, you still might do better using some of those points for an airline ticket.

If you own a business, charging tax payments could have greater benefits. Starting in 2007, small businesses can use a credit card to make payments related to federal business tax Forms 940, 941 and 944 for an expanded number of filing years: 1997 through the present. You might use a credit card to solve

a cash flow problem, in effect postponing the due date for a federal payment by putting it on your card and then paying off the balance before interest charges accrue. (That’s essential whenever you use plastic to pay taxes; interest costs will quickly kill any advantage of using the card.) And while you’ll still pay the 2.49% fee, you can write off the cost as a business expense.

It’s also possible to pay other types of taxes, such as local real estate taxes, with a credit card. See www.officialpayments.com or www.link2gov.com for details. ●

Eight Ways To Save On Life Insurance

The price you pay for life insurance largely depends on things you can't or don't want to change: your age, health, habits, and other lifestyle choices, such as smoking and skydiving. Still, there are ways to save when buying a policy.

Buy the type of insurance you need.

Though there are dozens of variations, life insurance basically comes in two flavors: term or permanent. With a term policy, you pay an annual premium and, assuming you die during the term of the policy, the insurer guarantees it will pay your beneficiaries the face amount of the policy upon your death. A permanent policy does the same thing, but premiums are higher, because you build up cash value that you can borrow against or withdraw if you cancel the policy. The right type of insurance for you depends on several factors, including your age, family situation, and financial goals. Often a term policy can save you money.

Don't be loyal to one company. You may receive free or discounted life insurance through a current or former employer. But you'll probably need to supplement that coverage, and buying additional insurance from that insurer may

not get you the best deal. Keep in mind, though, that you'll likely have to qualify medically for a policy you buy on the open market, which may not be required if you buy through an employer.

Negotiate. Smoke one cigar a month? You'll probably be lumped into the same category as someone who smokes two packs of cigarettes a day. And a dangerous activity, such as skydiving, that you tried just once could also ratchet up your premium, even if you

have no intention of doing it again. Your premium may be negotiable, if you write to the insurer explaining why you think you should qualify for a better rate.

Find a specialist if you have health problems. Some insurers specialize in covering people with heart disease, cancer, or diabetes. These companies employ underwriters trained to differentiate, for example, between people with high blood



pressure who take their medication regularly and those whose hypertension is uncontrolled.

Buy in bulk. If you're planning to buy \$950,000 of coverage, a \$1,000,000 policy may actually cost less. Insurance is priced in multiples of \$250,000, and an insurer may charge disproportionately more for an in-between amount.

Avoid hidden fees. Before you sign up for any convenience, find out how much it costs. For example, some insurers charge for deducting monthly payments automatically from your checking account.

Choose riders carefully. An insurer may pad your policy with extras called riders. For example, the accidental-death rider, more commonly known as double indemnity, pays twice the normal death benefit if you perish in an accident. But the chance of that happening is quite small and may not be worth the extra cost. Be sure you understand what riders you are buying.

Review. It's wise to review your policies every two or three years. The ultimate savings may be realized when you discover you don't need life insurance any more! ●

Volatility Is Back

(Continued from page 1)

The sudden credit crunch spurred the Fed on August 17 to lower the discount rate—the rate at which the U.S. central bank lends to commercial banks—a full half percentage point. Little money is actually borrowed from the Fed at the discount rate, but this largely symbolic move demonstrated that the Fed, which had been thought more likely to raise interest rates than to lower them, had suddenly changed direction. The Fed followed up by reducing other key rates.

Even before this market correction, however, stocks were not wildly overpriced by historic standards. One key measure of stock value is the market's price-to-earnings multiple. Since 1935, investors have been willing to pay an

average of \$15.80 for every dollar of profit on stocks in the Standard & Poor's 500 stock index—in other words, the ratio of stock prices to corporate earnings was 15.8. When the stock market peaked on July 20, its price-to-earnings ratio was above average, at 18.3, but relatively low compared with other recent bull market highs. For instance, during the bull market that ended in 2000, the p-e ratio of the S&P 500 topped out at 34. Investors seven years ago were willing to pay almost twice as much for every dollar of corporate profit as they were this summer.

As worrisome as volatile markets may be, they're nothing new. Some research speculates that ancient Babylon suffered through a rough stretch between 1740 and 1700 BCE, when costs more than tripled, and a run on donkeys in Roman Egypt around 200 AD pushed up

the price of the animals eightfold.

These days, the markets are still jumpier than they were a year ago, but the shifting balance has helped the Dow and S&P 500 climb back to their July highs and even beyond. There's less mystery about what the Federal Reserve and other central banks will do, p-e ratios have retreated a bit (making stocks seem cheaper on an earnings basis), and some of the most irrational exuberance has gotten a dose of reality as investors remember just what risk means.

Hopefully, dissecting the summer decline calms any fears you may have. As long as your investment portfolio remains aligned with your long-term financial goals and attitude toward risk, you're likely not too upset about the stock market correction. But if you are still concerned, please give us a call. ●