

# Financial Ink®

YOUR MONEY MANAGEMENT NEWSLETTER

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## SnapSHOTS



### RISK ASSUMPTIONS

Percentage of mutual fund shareholders willing to assume average risk for average gain and above-average risk for above-average gain.



Source: Investment Company Institute, 2007

## Up FRONT

**36%** of high-income households (\$117,000 median income) won't be able to live as well in retirement as they do now.

Source: CNNMoney, July 31, 2007



## Quick HITS

**The Federal Reserve** adjusted the federal funds rate, a benchmark interest rate, 41 times in the decade ending in 2007.<sup>1</sup>

**Eighty-three percent** of 401(k) plan participants don't know how much they are paying in fees and expenses.<sup>2</sup>

**A record** 3.3 million students are expected to graduate from U.S. high schools this year.<sup>3</sup>

**Average retirement age** is 63 for men and 62 for women.<sup>4</sup>

**Less than 6%** of Americans leave money to charitable organizations at death.<sup>5</sup>

Sources:

- 1) Federal Reserve, 2008
- 2) *Journal of Financial Planning*, December 2007
- 3) *San Diego Union-Tribune*, January 30, 2008
- 4) CNNMoney, July 31, 2007
- 5) Rutgers, 2006

## WORKING WITH YOU TO HELP ASSURE YOUR FINANCIAL SECURITY

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## Take It **YEAR BY YEAR**

The Federal Reserve has been on an interest-rate cutting spree that began with a surprise cut to a benchmark rate late last summer. There were other surprise reductions to the federal funds rate and the discount rate, including two of the largest rate cuts in decades.

These interest-rate cuts were accompanied by troubles in the credit market, slowing economic growth, and rising inflation. For some investors who owned bonds that matured during this period, it was a tough time to reinvest principal.

Fortunately, there is a way to spread the interest-rate risk associated with bonds so that they all won't mature during a period when reinvesting conditions are less than favorable.

### SPREAD OUT

One of the more appealing aspects of investing in long-term bonds is the opportunity to hedge against short-term risks. A bond is an agreement between a borrower and a lender. The interest rate and maturity date are theoretically fixed. Assuming that the investor doesn't want to trade or sell the bond before it matures, the only interest-rate volatility that matters is the economic environment when it's time to reinvest the principal.

So it follows that owning bonds with maturity dates that are spread out can help limit reinvestment risk. This strategy, known as *bond laddering*, involves building a portfolio of bonds with varying maturity dates, such as four years, eight years, and ten years.

If rates are low when one bond matures, only a portion of the portfolio's income is exposed to reinvestment risk. If rates are high when the next bond matures, the investor has the opportunity to reinvest a portion of the portfolio at the higher rate.

The principal value of bonds may fluctuate with market conditions. Bonds redeemed prior to maturity may be worth more or less than their original cost. Investments seeking to achieve higher yields also involve a higher degree of risk.

Bond investing is an important strategy for pursuing income and long-term stability. Building a bond ladder can help protect against the inevitable interest-rate risks of bond investing.

### Never a Dull Moment

Adjustments to the federal funds rate, a key interest-rate benchmark, have been frequent over the past decade.

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Direction of interest-rate adjustments	↓	↑	↑	↓	↓	↓	↑	↑	↑	↓
Number of adjustments	3	3	3	10	1	1	5	8	4	3
Rate on last day of year	4.75%	5.5%	6.5%	1.75%	1.25%	1.0%	2.25%	4.25%	5.25%	4.25%

Source: Federal Reserve, 2008

# Get Schooled on SAVING FOR COLLEGE

A record 3.3 million students are expected to don caps and gowns this year and collect their high school diplomas.<sup>1</sup> Predictably, this mass of educated humanity is crowding the college admissions process. For many applicants, even top students, the race to get into their colleges of choice has become the race to get into *any* college.

It doesn't look as though the student population will dwindle much over the next 18 years. The U.S. birth rate between 1990 and 2006 (see chart) was fairly level. Roughly 4.6 million children were born in 1990 (today's 18-year-olds) compared with 4.7 million born in 2006 (today's two-year-olds).<sup>2</sup> The birth rate dipped slightly during the intervening years, but not by much.

Are you prepared for the possibility that the students in your family may have to widen their search for higher education? One way to help keep their options open is to ensure that money is not a barrier to getting into a good school. It would be a shame to land a coveted spot in a quality school only to find that the tuition or living expenses were beyond your family's means.

## THE POWER OF TAX FREEDOM

A Section 529 savings plan might help make the difference. These state-sponsored plans are designed to help families save for future higher-education costs. Any investment earnings in the account accumulate on a tax-deferred basis. Contributions and earnings can be withdrawn free of federal income tax, provided they are spent on qualified higher-education expenses, including tuition, fees, room and board, and school supplies.

Family members who want to contribute to a 529 plan can contribute up to \$12,000 per year (or \$24,000 for a married couple) per student without incurring gift taxes. It's also possible to contribute up to \$60,000 (or \$120,000 for a married couple) in a single year, as long as no other gifts are made by that person to the student for five years.

As with other investments, there are generally fees and expenses associated with participation in a 529 savings plan. In addition, there are no guarantees regarding the performance of the underlying investments.

The tax implications of a 529 savings plan should be discussed with your legal and/or tax advisors because they can vary significantly from state to state. Also be aware that most states offer their own 529 plans, which may provide advantages and benefits exclusively for their residents and taxpayers.

*Before investing in a 529 savings plan, please consider the investment expenses, risks, charges, and expenses carefully. The official disclosure statements and applicable prospectuses, which contain this and other information about the investment options and underlying investments, can be obtained by contacting your financial professional. You should read this material carefully before investing.*

1) San Diego Union-Tribune, January 30, 2008

2) HS Dent Foundation, 2008

## Got Class?

Behind the bumper crop of 2008 high school graduates are other similarly large classes. This chart shows the estimated number of children living in the United States by age, based on the U.S. immigration-adjusted birth index.



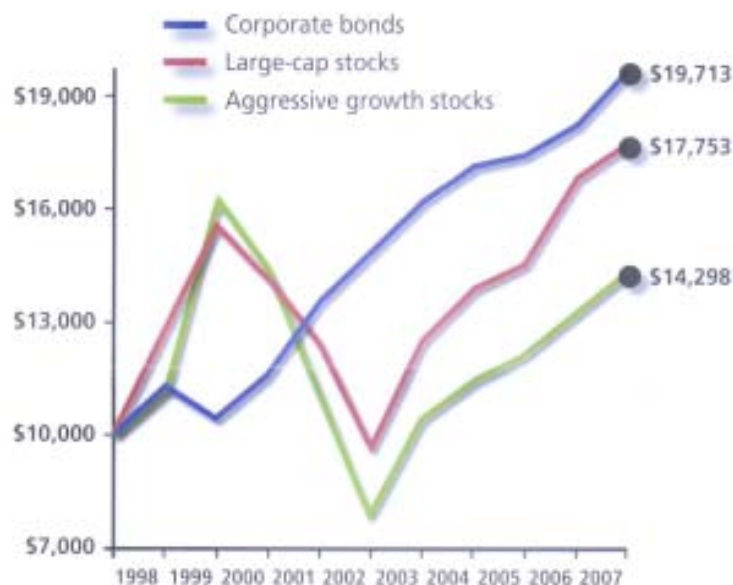
Source: HS Dent Foundation, 2008

## Testing the **TRACK RECORD**

**T**he financial services industry is forever preaching about investing for the long term. But is buying and holding carefully selected investments really a sound approach?

During the past 10 years, investors have had to bear more than the usual share of pain. Although they were treated to a spectacular bull market in the late 1990s, investors also lived through the longest bear market since the Depression, a U.S. recession, fallout from the attacks of 9/11, subprime mortgage problems, and many other challenges. Any of these challenges might have sent undisciplined or uneducated investors scurrying for safer ground.

The graph shows how a \$10,000 investment in each of these asset categories would have fared during this tumultuous period. Despite all the ups and downs, none would have lost money, nor would they have during any of the 10 previous 10-year periods.



Source: Thomson Financial, 2008, for the periods 1/1/1988 to 12/31/2007 and 1/1/1998 to 12/31/2007. Large-cap stocks are represented by the S&P 500 Composite Index total return. Aggressive growth stocks are represented by the Thomson U.S. Aggressive Growth MF Index. Bonds are represented by the Citigroup Corporate Bond Composite Index, which is generally considered representative of the U.S. bond market. The performance of an unmanaged index is not indicative of the performance of any particular investment. Individuals cannot invest directly in an index. Past performance is no guarantee of future results. The effects of taxes and investment fees are not shown. Actual results will vary.

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*It appears that we may be in for more interest-rate volatility. We can help you manage your cash and debt investments to make the most of the current environment.*

*Tom Lovell*