

STATE OF THE UNION 2010

By John L. Jenkins, AEP[®], EA, CFP[®]

I have been debating the lead topic for our first newsletter of 2010 for the past several weeks. I have considered providing continued financial updates, updating our economic outlook, commenting on market performance and most of the usual topics you have seen over the past couple of years. What I finally decided would be more appropriate as we enter the new year was to write a State of the Union Address in order to communicate our overall take on where we think things are and to impart some wisdom that clients can use in their daily lives.

Things have changed and changed rather drastically in the last two years. We've gone from a roaring stock market and easy credit to the most significant recession since the great depression. It has not only been a whirlwind trip, it has caught most of us completely off guard. By and large we were not well prepared for the dramatic changes to our financial well being. This is generally true across the board from the individual to the family to the small business owner to the largest of our formerly "mega" corporations. Keep

in mind that in a two week period of time in late 2008 we saw the failure of Indy Mac Bank, the largest FDIC failure as of that time, Fannie Mae, Freddie Mac, Merrill Lynch, AIG and Lehman Brothers. These were not only six of the largest corporations in this country; they were six of the largest in the world! They were all brought to their knees by financial malfeasance. I fully believe that at its core, greed and irresponsibility were the primary causes of the collapse of our financial markets. There are many other factors to share in the blame, but the ultimate result is the mess we find ourselves in today.

In early 2008, January 9th to be specific, we advised our clients to reduce equity exposure in their portfolios to 40% or less. This was not recommended because we have a crystal ball. This was recommended simply because we saw recession coming in 2008. Little did we know that it would wait 9 months and arrive in one day on September 15th! Since that fateful day we have been heavily engaged in meeting with clients and modifying their portfolios to

be better positioned for the challenges ahead, which in our opinion includes the following:

- We expect between 2 and 3 million more foreclosures in the next two and a half years.
- Commercial foreclosures will also have a significant negative impact on corporate debt and balance sheets.
- Banks are still holding some \$2 trillion dollars of toxic assets: mortgage-backed securities where the properties against which those loans were written are upside down in value. There is no plan in place to bail the banks out of this mess.
- Unemployment will continue to be a significant challenge. It could easily approach 15% nationally before things turn around.
- Interest rates are going to rise. This will create a significant challenge to our national economy because of debt service on some \$12 trillion dollars in national debt.
- We anticipate that this bear (sideways) market could last for between 5 and 7 more years.

No Quick Fix — The minutes from the Federal Open Market Committee (FOMC) meeting that

ended on Nov. 4, 2009, indicate its 10 members that were in attendance believe it will **take five to six years (from now)** for the U.S. economy to return to a growth, employment and inflation level consistent with the Fed's objectives. *Source: Federal Reserve, BTN Research*

This obviously paints a rather dreary picture. Frankly, I believe that it is a synopsis of what is.

I would love to be able to paint a rosy outlook (hey, the Chargers have a shot at the Super Bowl!), but to do so in this economic environment would be irresponsible in my view.

So, this leads us to ask: What can we do? How can we get 2010 off to a great financial start?

Plenty of people make resolutions to lose weight, get a new job or make other things happen in their personal life, but relatively few make solid resolutions about money. Make 2010 the year you'll live a better life financially. Here are a few resolutions to think about:

Write down the things you really want in life: Have you ever written down the big things you want in life? Granted, all great dreams don't cost money, but many of them do. Money buys freedom – to travel, to retire early, to start a business, to change careers. Putting goals in writing gives them a formality and a starting point for the planning you must do.

Evaluate your risk tolerance: One of the most beneficial things financial planners do is help you articulate your financial goals and establish (or re-establish) your tolerance for risk. With the recent recession and market turbulence, many individuals would benefit from an analysis of how much risk they want (or need) to take based on what they want to achieve with their money.

Track your spending: If you haven't purchased financial accounting software or set up a reliable accounting method of your own, this is the year to do it. Diligent expense tracking is the first critical step to getting personal finances in order whether you do it on paper or on your computer. Mint.com or QuickenOnline.com provide free online programs that help you do this.

Get tax and planning advice toward retirement and other goals: Maybe you've always winged it with your taxes and considered your company 401(k) the ticket to your financial future. Chances are your planning is inadequate. Start getting references for good tax professionals and consider sitting down with a CERTIFIED FINANCIAL PLANNER™ professional to discuss your whole financial picture.

Cut your debt: If you can't ever seem to get yourself completely out of credit card debt, make this the year to do it. Take inventory of your balances, figure out if you can consolidate them under your lowest-rate card, and resolve to pay off an amount that exceeds

the minimum -- on time, every month. And if you can pay extra toward mortgage, auto, student or other borrowings, do so.

Start saving -- or save more: If you haven't signed up for your employer's 401(k) plan or begun a savings plan tailored for the self-employed, this is the year. And resolve to save at least 5-10 percent of your take-home pay based on your cash flow, and place the maximum amount in your retirement plans and savings. This rule applies to retirees as well. For some time we have recommended that clients maintain a cash reserve account equivalent to eight months of their living expenses. If you don't have adequate cash reserves, resolve to make this the year you correct that problem.

Invest in yourself: If going back to college or taking specific coursework will help you advance in your career, plan to do it. If investing in a health club membership that you actually use makes sense for your health as well as your insurance costs, do it. Keep in mind that bettering yourself is always a good investment. If you are retired, stay active. Exercise, socialize and get adequate rest.

Redefine the way you shop: If you're an impulse shopper, break the habit in 2010. As a suggestion, get a legal pad and make that your centralized shopping list – use a single page for groceries, stock-up goods (it's wise to start buying essentials in bulk if you can measure the savings), essential clothing or big expenditures

you'll need to make at specific times. Taking that pad with you wherever you spend money is a good way to keep a grip on your wallet as long as you don't stray from the list.

Change the way you commute: If driving is the single best option to getting to work or other destinations, it's tough to make that switch. But if you have the option to leave the car in the garage at least one day a week and walk, bike, carpool or take public transportation instead, try it. You'll save money on gas, maintenance, insurance and parking costs, you'll benefit the environment and in the case of walking or biking, the exercise may do you good.

Cut unnecessary expenses: Do you really need deluxe cable? How much are you paying for your Internet service? Can you wear a sweater around the house and lower the thermostat? In every budget, there are items that can be cut – or at least trimmed. Take a hard look at all your “essentials” to see how essential they really are. Aim for a target of at least 10 percent savings and start setting that money aside on a regular basis for the things that you really need.

This article is for general information purposes only. The opinions and forecasts expressed are those of the author, and may not actually come to pass. This information is subject to change at any time, based on market and other conditions and should not be construed as investment advice or a recommendation of any specific security. Past performance does not guarantee future results.

Business Indecision: The WRONG Decision By Gregory R. Banner, CFP®, CLU®, CRPT

“I haven't decided what I ultimately want to do with my business, or when I want to exit, or how much money I'll need, or whom to sell to, so how can I plan my exit? Besides, I don't want to exit right now.” If you've said this, or thought it, you are not alone. Many business owners are either overwhelmed with the thought of exiting or are so busy fighting daily business fires that *they think* they cannot plan their exits.

Know that in your indecision, you are making a decision. As Winston Churchill observed, “I never worry about action, but only about inaction.” When you take a passive attitude toward the irrefutable fact that you will—one way or another—leave your business, you are deciding to settle for a least profitable exit for yourself and for your family. If you are an owner who isn't sure about what you want, or when you want to leave, why is it so important to decide to act today? Why can't you wait?

- Preparing and transferring a company for top dollar takes time—on average about 5 years. Most of those years will be spent preparing the business for the transfer. If you decide to sell to employees or children (two groups who rarely have any money), they'll need that time to earn the money to pay you for your interest.
- More time often equals greater reductions in risk. Time can be used to design and implement income tax-saving strategies, build value, strengthen your management team, begin a gradual transfer of owner-

ship (not control) to key employees or children. If you wait too long, you probably won't have time to implement these strategies and you'll likely end up transferring your business on less-than-ideal terms.

- The market does not operate on your schedule and may not be paying peak prices when you are ready to sell to an outside party. Witness the state of the M&A market in 2008 and 2009: activity is almost non-existent in many business sectors and down in almost all. If leaving a company you've worked so hard to build and having little or nothing to show for it, is unacceptable to you, let's look at a few of your options.

Wait for a buyer. According to Deloitte's Entrepreneurship UK: 2008 survey, 35 percent of business owners said they will wait for a third-party offer for their businesses. Owners in this group believe that one day a buyer will contact them, negotiate a sale, and that will be that. Well, this is a decision of sorts—but one that flies in the face of reality. While few businesses are being sold today, there will likely be a significant number of Baby Boomer business owners vying with you to sell their businesses when the M&A market recovers.

In a competitive buyer's market, only the best-prepared businesses sell for top dollar. And the owners of those well-prepared businesses will be those who made the decision to act to prepare their company years ahead of the actual sale.

Liquidate. Liquidation is a common exit path for owners of companies whose cash flow is flat and has
(continued on page 5)

- a) should you sell today; and/or
- b) it has the value necessary to meet your financial and other exit objectives.

Based on your objectives and the realities of your business, use a skilled Exit Planning Professional to forge a plan with accountability/decision deadlines.

Deciding *to do something now* to create the best possible exit path is not difficult. The failure to act, however, can potentially be fatal to a successful exit. The success of your business exit is simply too important to you (your family and your employees) to leave to chance. Why wait? Why decide not to decide?



An investment strategy with the objective of providing an inflation-adjusted income for life

Provided by John L. Jenkins, AEP®, EA, CFP®

Will you outlive your savings?
Or will you have Income for life?

Many investors may not reach desired returns on their investments and plans.

Why?

Lack of strategy

Individuals often chase performance and unintentionally become players in momentum-driven markets.

Lack of patience

Investors may not give their investment decisions enough time to realize their potential or take advantage of time.

Emotions

Many investors are prone to emotion-based decision making, often driven by a strong desire for profit, followed by a fear of risk and loss.

And, of course, inherent risks

Investing by its very nature has many different risks that can affect an investment's or plan's final outcome.

The Challenge

For the first time in history, retirees are more concerned about living too long than they are about dying too soon. A married couple at age 65 has a nearly 40% probability of at least one of them living to age 95 or beyond.* We are all living longer. We could live well beyond the monetary benefits of our retirement plans. It's a serious problem but there is a solution – *The Income for Life Model™*.
*Source: Mouton & Company, Inc.

Retirees Continue to Ask

- Do I have enough assets to last as long as I plan to live?
- Are they in the right place?
- Which assets do I use first?

Longevity is the New Retirement Risk!

A Solution

An investment strategy with the objective of providing inflation-adjusted income for life.

Our proprietary analysis can offer you a unique report that will answer the previous three questions, and help you navigate through retirement by developing a plan designed to specifically address:

- Inflation
- Taxes
- Asset Allocation

We then work with you diligently to define a distribution strategy designed to:

- Increase Income
- Decrease Risk
- Save Taxes
- Preserve Principal

The Planning Process

Developing a plan for the distribution phase of your life is an important endeavor and one that requires a thorough process.

Fact Finding: We ask pertinent questions to discern your goals and objectives.

Analysis: We give you a customized Income for Life Model™ report.

Strategic Design: We make specific recommendations for ways to help achieve your financial goals.

Implement: We can help you ensure that your strategies are

Let our New Year's resolution be this: we will be there for one another as fellow members of humanity, in the finest sense of the word. Goran Persson

carried out.

Review: We will review your financial situation relative to your changing circumstances.

Please call us to schedule your appointment to discuss how The Income for Life Model can be applied to your circumstances.

The Income for Life Model™ is a trademark of Wealth2K, Inc. © Copyright 2006 Wealth2K, Inc. and Philip G. Lubinski, LLC. All Rights Reserved. Wealth2K and the Securities America companies are not affiliated. Revised 09/09. SAI#103649.

Workshops

All workshops take place at the Southern California Institute, 3636 Nobel Drive, Suite 450, San Diego, CA 92122 unless otherwise noted. **Please RSVP to Sam at (858) 455-1825 or samhaskell@asset-preservation.com.**

Seven Steps to a Successful Business Exit

with Gregory Banner, CFP® CLU®, CRPT, Asset Preservation Strategies, Inc., and Alejandro Matuk, Esq., Strazzeri Mancini LLP, will take place on March 4, 2010 from 2:30—4:00 PM at the Southern CA Institute.

Every business owner needs to plan with the end in mind as to how they are going to transition out of their business. Exit planning is a customized process of setting goals and deciding how to best achieve them. Proper exit

planning will help maximize a business owner's return and minimize the tax liability when the business is transferred or sold.

=====

(Business Indecision continued from page 3)

little probability of improving—absent the design and execution of a business/exit plan. If you find yourself in this group, we recommend that you meet with your tax and other advisors to do the planning necessary to create the most tax-efficient liquidation possible.

Decide to exit and plan accordingly. Start today and take the following steps:

1. Fix a departure date.
2. Determine your financial needs.
3. Decide whom you want to succeed you.

Have your business valued to see if: a) should you sell today; and/or b) it has the value necessary to meet your financial and other exit objectives.

Based on your objectives and the realities of your business, use a skilled Exit Planning Professional to forge a plan with accountability/decision deadlines.

Deciding *to do something now* to create the best possible exit path is not difficult. The failure to act, however, can potentially be fatal to a successful exit. The success of your business exit is simply too important to you (your family and

your employees) to leave to chance.

Why wait? Why decide not to decide?

Tax Tidbits

Provided by John L. Jenkins, AEP®, EA, CFP®

Here are some new or changed tax items to consider.

Qualifying §529 Expenses Include Computer Technology

For 2009 and 2010, the American Recovery and Reinvestment Act of 2009 provides that qualifying expenses under a §529 plan include computer technology (computers, peripheral equipment and software, Internet access and related services. The computer technology must be used predominantly for education.

2009 Form 1099 Delayed Until February 15, 2010

Brokerage and wire houses have been granted an extension of the due date to distribute Form 1099.

CA Estimated Tax Payments

To balance the budget last year, the Legislature changed the required payment percentages for 2009. Later, the Legislature moved more money forward by again adjusting the required payments for 2010.

Here are the required payment percentages for 2010:

1st Qtr.	30%
2nd Qtr.	40%
3rd Qtr.	0%
4th Qtr.	30%

Referrals

Thank you for your Referrals

Most of our new clients come as a result of referrals from people like you. If you know a friend, family member or small business owner who might benefit from our services, please let us know. Be assured that anyone you refer to our firm will be treated with the same high standards of professionalism and confidentiality that we extend to you and all of our clients.

Please Join Us at the Circle of Friends Gala

Please mark your calendars and plan to join us at our annual Circle of Friends Gala on February 25, 2010 from 6:00 - 11:00 PM at the Grand Hyatt La Jolla (UTC).

Asset Preservation Strategies, Inc. co-sponsors this annual event as an appreciation night for Southern CA Institute Laureates, Members, their families, clients and friends.

This year's Mardi Gras event will be an elegant evening offering

cocktails, dinner, music, live auctions and casino style gaming. Dress is "black-tie optional" and costumes are encouraged.

All proceeds will benefit the Autism Discovery Institute, Diagnostic and Treatment Center at Rady Children's Hospital.

Please RSVP to (858) 455-1825.

Securities offered through Securities America, Inc., member FINRA, SIPC, John Jenkins, CA Insurance License #0647708 and Gregory Banner, CA Insurance License #0B64761, Registered Representatives. Advisory and tax services offered through Asset Preservation Strategies, Inc., a SEC Registered Investment Advisor. Asset Preservation Strategies, Inc., and the Securities America Companies are separate, unaffiliated entities.



3636 Nobel Drive, Suite 440
San Diego, CA 92122-1042

