

Managing Your Finances during the Great Recession

By John L. Jenkins, AEP, EA, CFP®

Sure, this isn't the first time we've faced economic uncertainty, but we are facing a once-in-a-generation confluence of events that have not only led to a severe market downturn but a ferocious contraction of the global economy born from an unprecedented financial crisis. To have an economic crisis of this magnitude occur at a time in our nation's history when a record number of people are in or within arm's reach of retirement is significant. In that sense alone, this time is different.

In fact, it's likely that we could be in a secular bear market. Secular trends are major bull or bear trends that generally last for a decade or two. Cyclical trends are minor bull or bear trends within a secular trend. With that as a possible time horizon, our planning lenses must change to ensure we both protect any existing wealth while taking advantage of the eventual bull rallies that periodically occur within the secular bear market. The combination of the severity of the market's contraction and the possibility of an extended downturn means managing

finances in a very different way.

While there is no general prescription that will solve the woes of all investors, there are common factors to consider when deliberating how to react to the down market. Any tactical move you make should be a function of the safety of your income stream, how much you have already saved, and framed by your life stage and goals.

There's no question that especially for those in the 20 to 30 year-old range, the down market is a buying opportunity since retirement is many decades away and portfolios have plenty of time to rebound. What's more, plummeting home values coinciding with low interest rates have created the perfect storm of opportunity for qualified first-time homebuyers.

Investors in their 40s and early 50s, too, have time on their side, and need to adopt the discipline of buying selectively in the downturn – and then selling selectively in the eventual upturn. For those who have not invested heavily in

the market, it's a good time to get in. If you are ready to commit to adding funds to the market, it may be wise to use the automatic contribution option as you do with your 401(k) with your other investment accounts. However, if you already have a significant nest egg, you might consider managing that in a more conservative way than the new dollars you invest into the market. It's equally necessary to manage any existing debt to ensure you are not overly leveraged in an environment where income taxes, property taxes, and the cost of living are likely to rise.

Of course, investors in the 50 to 60 year-old group who are closing in on retirement have less time to recover from the recession's blow. According to the Employee Benefit Research Institute's recently published "The Impact of the Recent Financial Crisis on 401(k) Account Balances," 401(k) investors with more than \$200,000 in account balances had an average loss of more than 25 percent from January 1, 2008 to January 20, 2009. For many, that may mean delaying retirement or taking a part-time job. For this age group, the recession combined with increasing longevity requires a shift in their focus from return on investment to reliability of income (the new ROI).

Finally, if you are already retired,

it's important to keep an eagle eye on your portfolio withdrawals. Although 4% a year has been the accepted standard safe withdrawal rate, it may be prudent to withdraw less in years of substantial market declines. What's more, remember that this year your Required Minimum Distributions (RMDs) from IRAs and employer-sponsored retirement plans, including qualified pension plans, qualified stock bonus plans, qualified profit-sharing plans, 401(k) plans, 457(b) plans, and 403(b) plans have been suspended to alleviate the pain of making withdrawals from accounts that likely posted losses.

The challenges of planning and investing in this volatile environment are exacerbated by the fact that there is so much money on the sidelines. The S&P 500 was worth \$7.2 trillion as of the end of January 2009. At the beginning of 2009, an estimated \$8.9 trillion of cash was invested in safety oriented investments (e.g., money market funds) and not in the US stock market. (source: Leeb Capital Management, Denver Post)

When those assets are pumped back into the market, the reaction could be swift and extreme. The most successful investors as the market eventually rebounds will be those who, having integrated their intellectual and emotional concerns, embraced volatility in the right way. That is, while others look for a combination of the right policy decisions or tax structure to galvanize the stock market, I encourage investors to look inward, to their own personal economy to determine what would

make them feel more confident about investing.

Remember that a new direction is often the sum of multiple smaller shifts and changes. It's likely we'll see more tough times ahead, but there are steps you can take today with your financial advisor that can help you to regain your financial confidence. Understanding more about your goals and risk tolerance will enable you to set the right course in these challenging times. If you need motivation, it's encouraging to note that the same can-do American inner spirit we must conjure today paved the way for household names like Motorola, Hewlett-Packard, and Texas Instruments to emerge as entrepreneurial start-ups from the economic hardships of the Great Depression (source: Bhaskar Chakravorti, Harvard Business School Working Knowledge).

APS Validates Parking

Those of you who have visited our office in the last two months have learned that paid parking has been installed. Have no fear, we are happy to validate parking when you come to visit.

Why Maintaining Your Credit Score Becomes Even More Important During the Con-

tinuing Credit Crunch

It's always a good idea to be vigilant about your credit score, but even if borrowing loosens up a bit in 2009, you still need to do everything necessary to keep your credit score high.

Fair Isaac, the company that created the FICO score, has been working on a new version of its landmark credit scoring method that might have serious consequences for you if you're planning on borrowing for a home or establishing any other new credit in 2009.

The new version of FICO is going to be particularly focused on your balances, not only on your on-time payment records.

Your top priority under this new system: Get balances down.

Reports say that the new FICO revision will actually allow a bit of lenience on late payment – something that might affect more than a few consumers with the downturn in the economy. Obviously, this won't mean that someone can chronically pay late, but once or twice won't make the same impact as in earlier FICO versions.

Yet credit utilization – essentially the amount of credit you're actually using relative to your credit limit – is a much bigger deal simply because high balances are so prevalent right now. From the lender's perspective, high balances mixed with a tough economy

means a higher risk of default among customers.

So what's a good target utilization rate for all your revolving credit accounts? No more than 50 percent of your credit limit, and if you can get it significantly lower than that over time, that's a good plan. So, the lower your credit utilization, the better your score.

What does that mean for ordinary Americans who don't meet that under-50 percent goal? It means you shouldn't be applying for new credit or refinancing for awhile. But because most lending institutions may continue their strict lending requirements, you might as well defer borrowing goals in favor of reforming your credit behavior.

So instead of bemoaning your tougher chances of getting a loan for a home or a car, why not use the current environment to launch a credit makeover that will position you for a better shot six months to a year from now? Some ideas:

You'll need at least a 740 score for the best rates: You'll often hear that credit scores of 700 and up will get you best customer status with lenders. You should aim higher. For the lowest rates and best terms, you need to get your credit score above 740 (the top credit score, by the way, is 850), so keep that target in mind.

Budget: If you've never reviewed your spending and picked out areas where you can cut, you've never done a budget. Start tracking your spending either on paper or with financial planning software and start pinpointing what spending you can shift over to paying off debt.

One more time -- get those balances down: Get all your non-deductible debt under 50 percent of your credit line in each account. Go after your balances with the highest interest rates first, and once you hit 50 percent...keep trying and get those balances down further.

Get some advice: It might not be a bad time to sit down with a tax professional or a financial adviser -- such as a Certified Financial Planner™ professional -- to talk about the way you're going to manage your debt going forward.

Keep an eye on your credit reports: Remember that you have the right to get all three of your credit reports -- from Experian, TransUnion and Equifax -- once a year for free. You can do so by ordering them at www.annualcreditreport.com.

Don't order all three of them at the same time, though. By staggering receipt of each of your credit reports, you'll get a continuous picture of how your credit picture looks because the three bureaus feed each other the latest information. You'll also be able to clean up errors as you find them -- errors can drag down a credit score -- and you'll also keep an eye out for identity theft. Oh, and by the way, keep in mind that all "free" credit report sites are not free -- if they ask you for a credit card number, remember they're doing that because they want to *charge you*. Just go to the site above and you'll be fine.

Get on time and pay more than the minimum: Yes, we indicated above that you might get a bit of a break on late payments with the new FICO system, but that's a break you should consider only in a dire emergency. Electronic bill payment will

allow you to save on postage while guaranteeing on-time postage, and the budgeting advice mentioned above will allow you to put a few more bucks toward getting that loan or credit card bill paid off.

Once you're paid off, don't close the account: In the world of credit scoring, closing accounts (even those that have not had balances for years) is a lousy idea. Lenders want to see a long record of credit management, and longtime accounts that you haven't touched in years may actually help your score because it shows you have some restraint.

This column is produced by the Financial Planning Association, the membership organization for the financial planning community, and is provided by John L. Jenkins, AEP, EA, CFP®, a local member of FPA.

While Managing Short-Term Business Issues, Don't Forget Your End-game!

Presented by Gregory R. Banner, CFP®, CLU®, CRTP

Most business owners are currently waist-deep cutting expenses, minimizing risk, and minimizing taxes in order to protect their companies. For that reason, we kick off this more detailed discussion of by focusing creating value. While you are busy cutting expenses and minimizing risk and taxes, we want you to keep your eye on your end-game: someday leaving your business for an amount of money that will enable you to live the rest of your life in style. *The actions you take today must not only preserve value, but must ultimately create value for a future owner.*

Even the most pessimistic among us acknowledge that these tough times will not last forever. We may never return to the days of an over-heated M&A market, but once credit loosens and confidence returns, good companies will sell. *Will your company be one of them?*

Demographically, we know that the future holds many more sellers than buyers. What we don't know is how this crisis has affected that imbalance between the number of sellers and the number of buyers. We suspect that the market's inability to support business sales over the past few

months has put the sale plans of many owners on hold. We also suspect that many owners are not having a whole lot of fun getting lean and mean. If those two assumptions are true, when this market turns around, there will be a host of owners scrambling for their exits. If (or when) that happens, only the "best" companies will sell.

What can you do today to prepare for tomorrow's scramble? Re-examine and realign your objectives to adjust to today's realities. Assuming, as we do, that the most effective strategies for dealing with this crisis are those that address short-term challenges and support long-term goals, let's revisit your long-term goals:

Successor

Most owners have a preferred successor in mind: a child (or children), a key management team, a third party or an ESOP. We encourage all owners to re-examine their choices. You may, for example, feel that your only viable exit strategy is to just not leave the business; that a sale to an outside party is just not in the cards — now or in the future. That feeling may very well not be accurate, especially given the changes in the Small Business Administration loan programs

promoted by the Obama Administration.

Departure Date

As we mentioned above, the current economy has forced many owners to postpone their exit dates. We encourage you to talk candidly with your advisors about how to re-set your exit clock including in that discussion the fact that for most owners, their sale dates do not equal their retirement dates. (Most buyers require sellers to work past their closing dates to ensure that the company continues to perform.)

Financial Security

Most owners have some idea of the amount of money they need (from both the sale of their businesses and from other investments) to fund a comfortable "life after sale." (If you don't know that dollar amount, ask your financial planner for a financial needs analysis *today*.)

What you may have overlooked in your focus on surviving today's challenges, is that both the amount you can expect from the sale/transfer of your company and the value of your other investments have changed. Every owner should be working closely with his or her financial advisor not only to re-assess the make-up and *(continued on page 6)*

“If my hands are fully occupied in holding on to something, I can neither give nor receive .” – Dorothy Solle

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.**

Town Hall Meeting An Open Forum

We are hosting a Town Hall Meeting on Tuesday, May 5, 2009 from 10:30 - Noon.

The meeting will be facilitated by John Jenkins, Greg Banner and Joe Strazzeri, Esquire.

You should consider attending if you are nervous about the economy & your investments. Topics will include:

- Why the financial strategies you used in the past may not be appropriate today or in the future
- What to do now/future expectations
- Concern about a possible prolonged recession
- Concern about outliving your assets
- The impact inflation will have on your financial future, retirement and legacy

In addition, we will facilitate an open, question and answer session on any additional topics, concerns or questions you may have.

Please RSVP and bring a friend along with your questions.

Seven Steps to a Successful Business Exit with Gregory Banner, CFP® CLU®, Asset Preservation Strategies, Inc., and Alejandro Matuk, Esq., Strazzeri Mancini LLP, will take place on May 7, 2009 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.

Don't Let the IRS Take the Majority of your Retirement Distribution

Attend one of the following free workshops if you have an IRA, 401k or Retirement Plan of \$250,000 or more and want to learn how to:

- Take retirement funds out before age 59½ without penalty
- Rollover to Traditional or Roth IRA
- Avoid the pitfalls of stock savings plans
- Protect your Retirement Distribution from the Government
- Stretch your distributions over multiple generations
- Avoid the 20% withholding rule on IRA Rollovers

Wed, May 13th
10:30-Noon
So Cal Institute
3636 Nobel Dr Ste. 450
San Diego UTC

Thurs, May 14th
6:30-8:00 PM
Morgan Run
5690 Cancha De Golf
Rancho Santa Fe

Sat, May 16th
9:00-10:30 AM
Doubletree Hotel
7450 Hazard Ctr. Dr.
San Diego Mission Valley

Please RSVP to Sam at (858) 455-1825 or samhaskell@asset-preservation.com and bring co-workers or friends who might also benefit from this education.

"It's Your Estate" - San Diego - a series of workshops presented by San Diego Professionals

This 8 week series starting on Tuesday, May 12th and running weekly through June 30th offers a variety of estate topics for professionals and lay persons. All workshops take place at the Joslyn Center Rancho Bernardo, 18402 W. Bernardo Dr. San Diego, 92127, (858) 487-9324 from 1:30 - 3:00 PM. To learn more go to <http://its-your-estate-sandiego.org>.

John Jenkins presents on Tuesday June 16th on: IRA, 401k, 403b & 457 plans, distributions and beneficiary designations.

Encinitas Guitar Orchestra

The Encinitas Guitar Orchestra turned in a terrific performance on Friday night, April 24th. Those in attendance not only enjoyed themselves, but ended the evening with a resounding standing ovation!

A summer session is in the plans with a performance scheduled for late August. We'll keep you posted.

John still has a few CDs of past orchestra recordings available. There is a \$10 cost to reimburse production expenses. Just let us

Best Wishes to Ron

know if you would like one.

wish he and his family nothing but the very best in this endeavor and for the future.

Bon Voyage to Ron Ceniceroz

As announced in our last newsletter, Ron is leaving APS and opening his own financial planning firm. We have enjoyed and mutually benefitted from our association with this fine planner and

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 services offered through Asset Preservation Strategies, Inc., an SEC Registered Investment Advisor. Asset Preservation Strategies, Inc., Genworth Financial Wealth Management, Inc. and the Securities America Companies are separate, unaffiliated entities.



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performance of non-business assets, but also to establish a new benchmark of the value of your business today.

Long-Term Growth

In addition to your desires about successor, departure date and definition of financial security, we think you should include long-term growth in your short-term decisions about expenses and risk. As you prune expenses – especially in management -

make sure those cutbacks don't prevent new growth. This can only be done if you have a good sense of where you want to take your company as the recession wanes.

Try to keep in mind that future owners (of whatever stripe) will not be interested in investing millions of dollars in a company that either does not have a motivated management team or in one whose management team is not willing to stay on after the sale.

