

# Mid-Career Financial Planning

Presented By:

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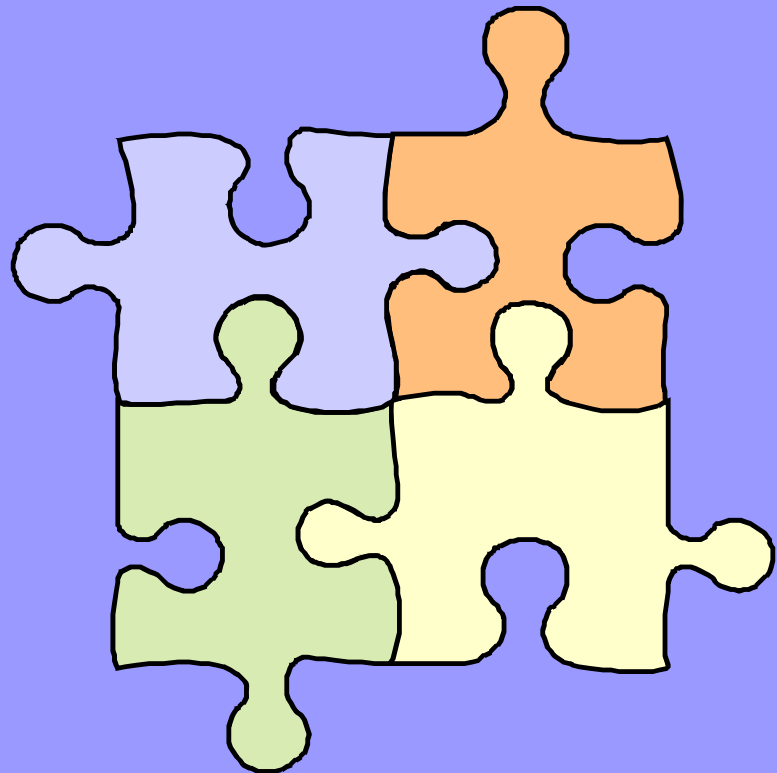
Hazlet, NJ

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# Financial Planning

- Where Do I begin?
- Start with the basics:



# The Financial Pyramid

## Strategies For Asset Accumulation

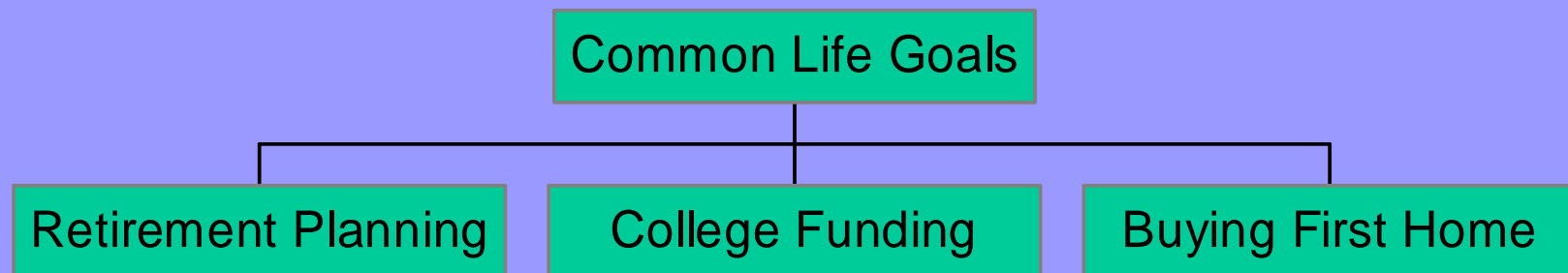


# Importance of Goal Setting



- How will I know I've arrived if I don't know where I'm going?

# Establishing Your Goals



# Investment Goals

- o Emergency Fund – Depends upon your situation (Rule of thumb – 3-6 months of expenses).
- o Short-term – Expenses for the next one-three years (Vacation)
- o Mid-term- Expenses for the next three – seven years (New Car)
- o Long-term – Expenses for greater than seven years (Retirement, College Funding, Children's Weddings)

# From Goal Setting to Goal Achievement

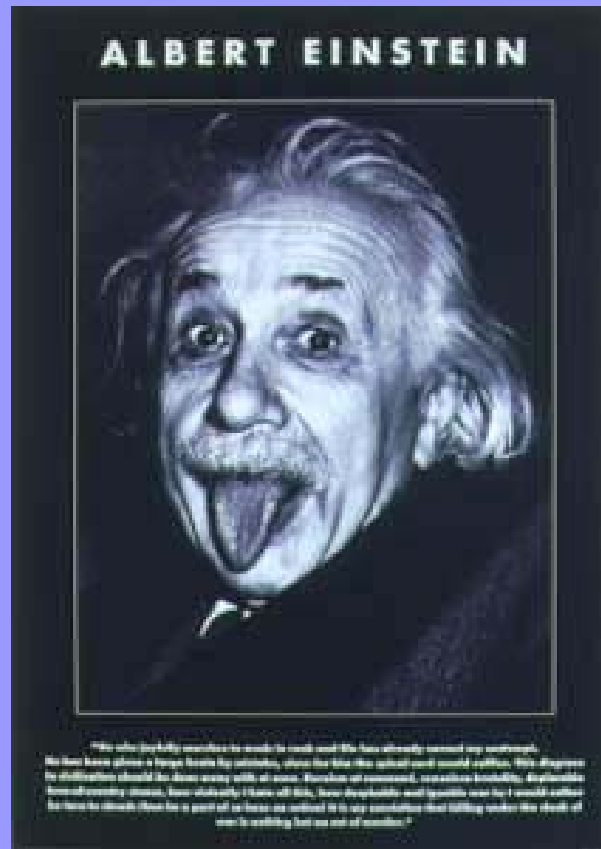
Determine how much you need to save every month to reach your goals then match the investment vehicle to the time horizon for each goal:

- o Short-term: CD's or Money Market
- o Mid-Term: CD's, Money Market and Short-Term Bonds
- Long-Term: A mix of Cash, Bonds and Equity (i.e. Stocks, Mutual Funds)

# Time is on your Side – The Power of Compounding

- **Compound interest** is the concept of adding accumulated interest back to the principal, so that interest is earned on interest from that moment on.
- Compound interest has been called the eighth wonder of the world.

Albert Einstein is said to have called compound interest one of the greatest mathematical concepts of our time

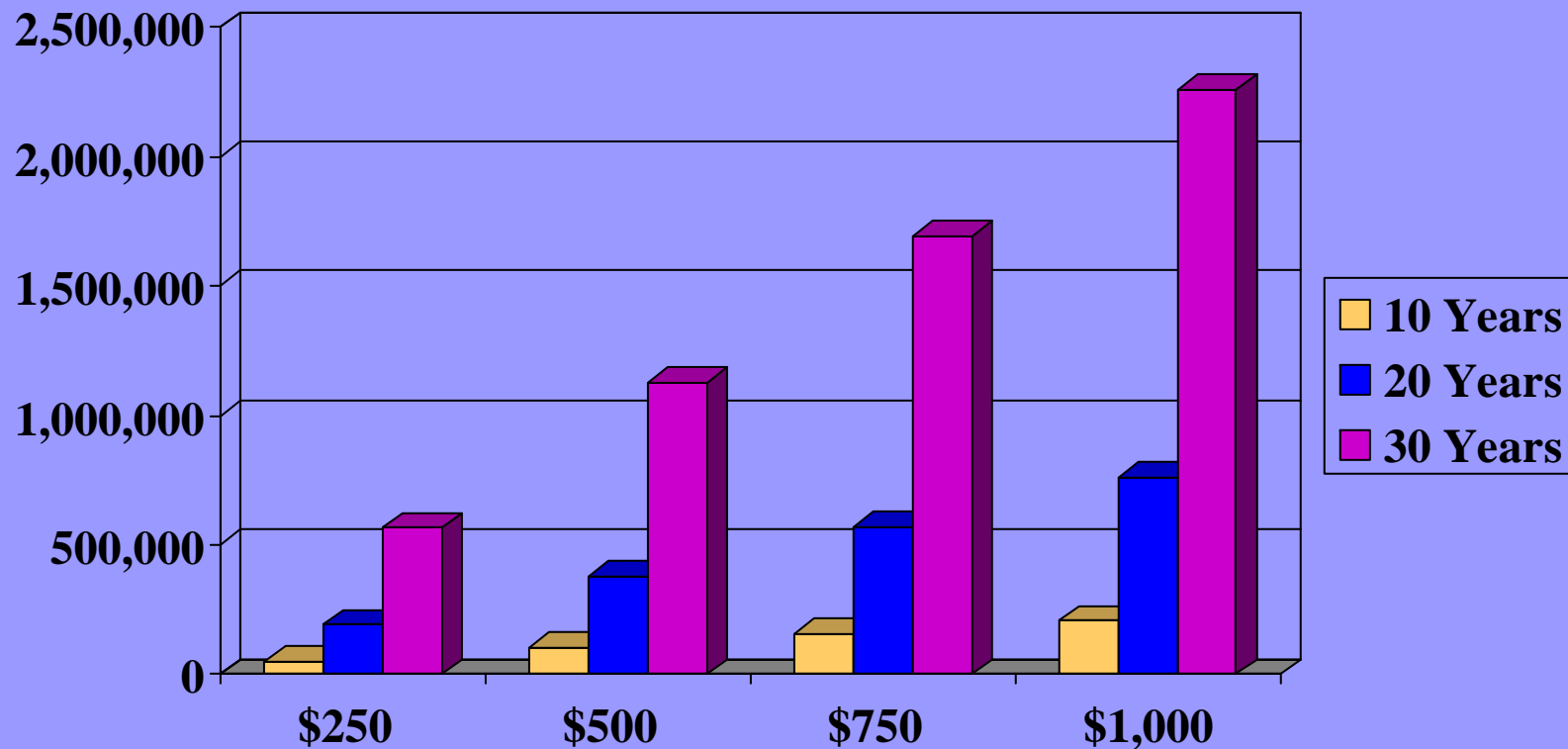


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# Compound Interest – How it Works

- When you save or invest, your money earns interest or appreciates. The next year, you earn interest on your original money *and* the interest from the first year. In the third year, you earn interest on your original money and the interest from the first *two* years. And so on. It's like a snowball -- roll it down a snowy hill and it'll build on itself to get bigger and bigger. Before you know it ... avalanche!

# When Do You Want to Retire and How Much Do You Need To Save Each Month?



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# Inflation- The Dark Cloud



- A Dollar tomorrow is not worth the same as a Dollar today.

# What is Inflation?

- At its most basic level, inflation is simply a rise in prices.
- Over time, as the cost of goods and services increase, the value of a dollar is going to go down because you won't be able to purchase as much with that dollar as you could have last month or last year.

# How to Handle the Effects of Inflation:

- When planning for your longer term goals, such as retirement, make sure you include inflation in determining how much money you will need in the future.

# Investment Planning



- Making our savings work for us
- The right investments help us reach our goals sooner

# Risk Tolerance

Matching our investments to our  
time horizon and comfort zone

Ability to Take Risk

Willingness to Take Risk

# Ability to Take Investment Risk

Investment Horizon	Max Equity Allocation
0 -3 years	0
4 years	10
5 years	20
6 years	30
7 years	40
8 years	50
9 years	60
10 years	70
11-14 years	80
15-19 years	90
20 years	100

These are not formulas, but rather guidelines for prudent asset allocation

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# Willingness to Take Risk

Max Tolerable Loss	Max Equity Allocation
5 %	20
10 %	30
15 %	40
20 %	50
25 %	60
30 %	70
35 %	80
40 %	90
50 %	100

These are not formulas, but rather guidelines for prudent asset allocation

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# Diversification



- Distributing your assets among securities of different industries or classes (e.g. pharmaceuticals, energy, financial, international, etc)
- Don't put all your eggs in one basket.



# The Callan Periodic Table of Investment Returns (including REITs)

## Annual Returns for Key Indices (1985-2004)

Ranked in order of performance (Best to Worst)

1965	1966	1967	1968	1969	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
MSCI EAFE	MSCI EAFE	MSCI EAFE	Russel 2000 Value	S&P BARRA 500 Growth	LB Agg	Russel 2000	Russel 2000 Value	MSCI EAFE	MSCI EAFE	S&P BARRA 500 Growth	NAREIT Equity	S&P BARRA 500 Growth	S&P BARRA 500 Growth	Russel 2000 Growth	NAREIT Equity	Russel 2000 Value	LB Agg	Russel 2000 Growth	NAREIT Equity
16.14%	19.48%	24.54%	29.47%	36.40%	8.56%	11.19%	29.14%	32.57%	7.78%	36.13%	23.27%	36.62%	42.16%	43.08%	21.37%	14.02%	10.36%	48.54%	21.58%
S&P BARRA 500 Value	S&P BARRA 500 Value	S&P BARRA 500 Growth	MSCI EAFE	S&P 500 Index	S&P BARRA 500 Value	Russel 2000	Russel 2000	Russel 2000 Value	NAREIT Equity	S&P 500 Index	S&P BARRA 500 Growth	S&P 500 Index	S&P 500 Index	S&P BARRA 500 Growth	Russel 2000 Value	NAREIT Equity	NAREIT Equity	Russel 2000 Value	Russel 2000 Value
33.31%	21.67%	6.93%	28.26%	21.99%	0.20%	16.04%	18.61%	23.77%	3.17%	37.68%	23.87%	33.36%	28.58%	28.24%	22.83%	13.83%	5.12%	47.25%	22.25%
S&P 500 Index	NAREIT Equity	S&P 500 Index	Russel 2000	S&P BARRA 500 Value	S&P 500 Index	Russel 2000 Value	NAREIT Equity	NAREIT Equity	S&P BARRA 500 Growth	S&P BARRA 500 Value	S&P 500 Index	Russel 2000 Value	MSCI EAFE	MSCI EAFE	LB Agg	LB Agg	Russel 2000 Value	Russel 2000 Value	MSCI EAFE
21.73%	19.16%	5.25%	25.02%	26.13%	-3.11%	11.70%	14.59%	18.63%	3.13%	36.68%	22.96%	21.78%	20.09%	25.98%	11.63%	8.43%	-11.43%	46.00%	20.25%
Russel 2000 Value	S&P 500 Index	S&P BARRA 500 Value	S&P BARRA 500 Value	Russel 2000 Growth	S&P BARRA 500 Value	S&P BARRA 500 Growth	S&P BARRA 500 Value	Russel 2000	S&P 500 Index	Russel 2000 Growth	S&P BARRA 500 Value	S&P BARRA 500 Value	S&P BARRA 500 Value	Russel 2000	S&P BARRA 500 Value	Russel 2000	MSCI EAFE	MSCI EAFE	Russel 2000
21.45%	16.07%	0.60%	21.67%	29.17%	-5.22%	36.37%	10.52%	16.60%	1.22%	21.04%	22.89%	20.30%	14.03%	21.20%	0.08%	2.40%	-15.04%	38.92%	10.33%
Russel 2000 Value	LB Agg	LB Agg	Russel 2000 Growth	Russel 2000	NAREIT Equity	NAREIT Equity	Russel 2000 Growth	S&P BARRA 500 Value	S&P BARRA 500 Value	Russel 2000	Russel 2000	Russel 2000	LB Agg	S&P 500 Index	Russel 2000	Russel 2000	Russel 2000	NAREIT Equity	S&P BARRA 500 Value
11.01%	15.30%	0.78%	20.37%	18.36%	-18.25%	35.70%	7.77%	18.61%	-0.84%	28.65%	21.37%	23.38%	8.76%	21.64%	-3.02%	-8.23%	-20.48%	27.13%	15.71%
Russel 2000 Growth	S&P BARRA 500 Growth	NAREIT Equity	S&P 500 Index	LB Agg	Russel 2000	S&P 500 Index	S&P 500 Index	Russel 2000 Growth	Russel 2000	Russel 2000 Value	Russel 2000	NAREIT Equity	Russel 2000	S&P BARRA 500 Value	S&P 500 Index	S&P BARRA 500 Value	S&P BARRA 500 Value	S&P BARRA 500 Value	Russel 2000 Growth
30.97%	14.92%	-5.64%	16.61%	14.52%	-17.41%	30.47%	7.62%	13.37%	-1.54%	25.75%	16.49%	20.26%	1.23%	-9.11%	-11.71%	-20.85%	31.79%	21.79%	14.31%
S&P BARRA 500 Value	Russel 2000 Value	Russel 2000 Value	NAREIT Equity	Russel 2000 Value	Russel 2000	S&P BARRA 500 Value	LB Agg	S&P 500 Index	Russel 2000	LB Agg	Russel 2000	Russel 2000	Russel 2000	LB Agg	MSCI EAFE	S&P 500 Index	S&P 500 Index	S&P 500 Index	S&P 500 Index
39.68%	7.41%	-1.11%	13.49%	12.43%	-19.48%	22.89%	7.40%	18.08%	-1.82%	18.48%	11.26%	12.95%	2.55%	0.82%	-14.17%	-11.89%	-22.10%	28.68%	10.84%
LB Agg	Russel 2000	Russel 2000	S&P BARRA 500 Growth	MSCI EAFE	Russel 2000 Value	LB Agg	S&P BARRA 500 Growth	LB Agg	Russel 2000 Growth	NAREIT Equity	MSCI EAFE	LB Agg	Russel 2000 Value	Russel 2000 Value	S&P BARRA 500 Growth	S&P BARRA 500 Growth	S&P BARRA 500 Growth	S&P BARRA 500 Growth	S&P BARRA 500 Growth
22.13%	5.68%	-4.89%	11.95%	10.83%	21.77%	16.03%	9.06%	9.75%	-2.43%	15.27%	6.06%	9.84%	6.48%	-1.49%	-21.08%	-12.73%	-23.59%	25.36	6.13%
NAREIT Equity	Russel 2000 Growth	Russel 2000 Growth	LB Agg	NAREIT Equity	MSCI EAFE	MSCI EAFE	MSCI EAFE	S&P BARRA 500 Growth	LB Agg	MSCI EAFE	LB Agg	MSCI EAFE	NAREIT Equity	NAREIT Equity	Russel 2000 Growth	MSCI EAFE	Russel 2000 Growth	LB Agg	LB Agg
19.13%	3.68%	-13.48%	7.39%	8.14%	-23.45%	12.14%	-12.18%	1.88%	-2.92%	11.21%	3.64%	1.78%	-17.93%	-4.62%	-22.43%	-21.44%	-30.26%	4.18%	4.34%

- S&P 500 Index measures the performance of large capitalization U.S. stocks. The S&P 500 is a market-value-weighted index of 500 stocks that are traded on the NYSE, AMEX and NASDAQ. The weightings make each company's influence on the Index performance directly proportional to that company's market value.
- S&P/BARRA 500 Growth and ■ S&P/BARRA 500 Value indices measure the performance of growth and value styles of investing in large cap U.S. stocks. The indices are constructed by dividing the stocks in the S&P 500 Index according to price-to-book ratios. The Growth index contains stocks with higher price-to-book ratios. The Value index contains stocks with lower price-to-book ratios. The indices are market-capitalization-weighted and their constituents are mutually exclusive.
- Russell 2000 Index measures the performance of small capitalization U.S. stocks. The Russell 2000 is a market-value-weighted index of the 2,000 smallest stocks in the broad-market Russell 3000 Index. These securities are traded on the NYSE, AMEX and NASDAQ.
- Russell 2000 Value and ■ Russell 2000 Growth indices measure the performance of growth and value styles of investing in small cap U.S. stocks. The Value index contains those Russell 2000 securities with a less-than-average growth orientation, while the Growth index contains those securities with a greater-than-average growth orientation. Securities in the Value index generally have lower price-to-book and price-earnings ratios than those in the Growth index. The constituent securities are NOT mutually exclusive.
- MSCI EAFE is a Morgan Stanley Capital International index that is designed to measure the performance of the developed stock markets of Europe, Australasia and the Far East.
- NAREIT Equity measures the performance of Real Estate Investment Trust (REIT) stocks traded on the NYSE, AMEX and NASDAQ. The index composition and market capitalization changed significantly starting in 1994; comparisons between pre- and post-1994 results are problematic.
- LB Agg is the Lehman Brothers Aggregate Bond index. This index includes U.S. government, corporate and mortgage-backed securities with maturities of at least one year.

# Asset Class Diversification

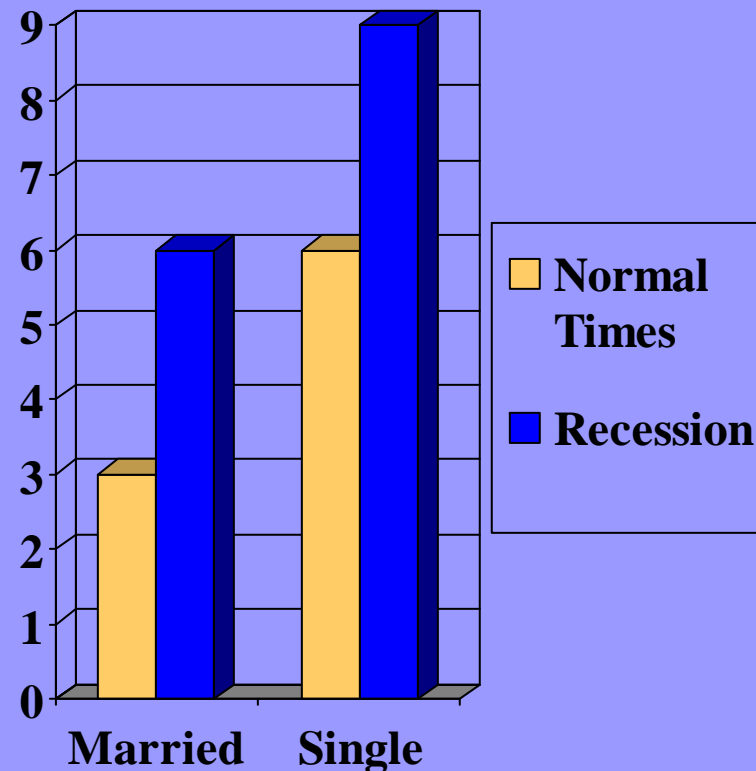
<u>Cash</u>	<u>Bonds</u>	<u>Stocks</u>	<u>Alternatives</u>
Savings	Short-Term	Large Cap	Real Estate
Money Mkt	Long-Term	Mid Cap	Gold
CD's	Corporate	Small Cap	Oil & Gas
	Tax-Free	Growth	
	High Yield	Value	
		Sector	

# Why Do I Need Cash?

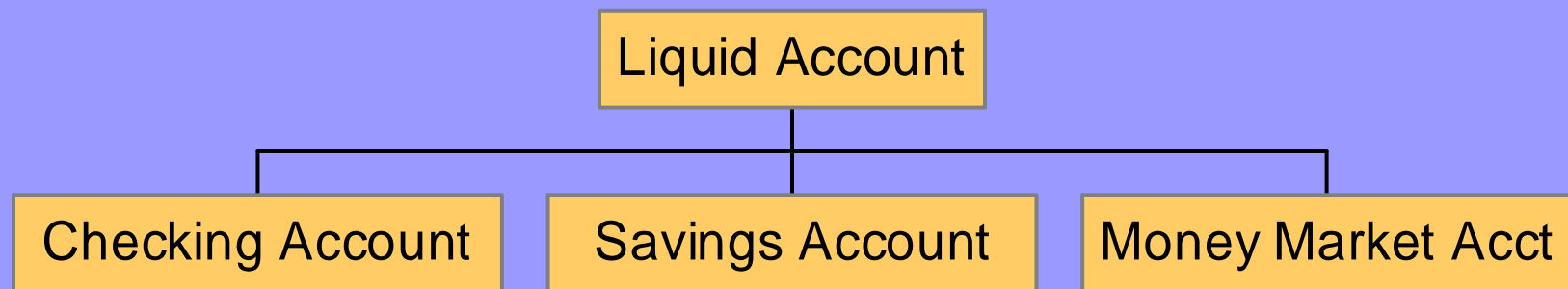
- Cash is King!
- Prevents you from going into debt to pay for unexpected expenses.
- Avoids need to sell stocks and bonds when their value is down.
- Helps to smooth out investment returns over time.

# Emergency Reserve Funds

- Rule of Thumb
  - 3 months of living expenses if married; 6 months if single
  - During a recession, those amounts should double



# Where to Keep Your Emergency Reserves



# What is a Bond?

- A **bond** is a debt security, in which the authorized issuer owes the holders a debt and, depending on the terms of the bond, is obliged to pay interest (the coupon) and/or to repay the principal at a later date, termed maturity. It is a formal contract to repay borrowed money with interest at fixed intervals.

# Types of Bonds

- Corporate Bonds
- Government Bonds – U.S. Bonds, Municipal Bonds
- International Bonds
- High Yield Bonds
- Callable Bonds
- Zero Coupon Bonds
- Convertible Bonds

# Risk/Reward Relationship of Bonds

- Rewards
  - Guaranteed return of principal if held to maturity
  - Predictability of income
  - Tax-free income from municipal bonds
- Risks
  - Inflation Risk
  - Interest Rate Risk
  - Credit Risk

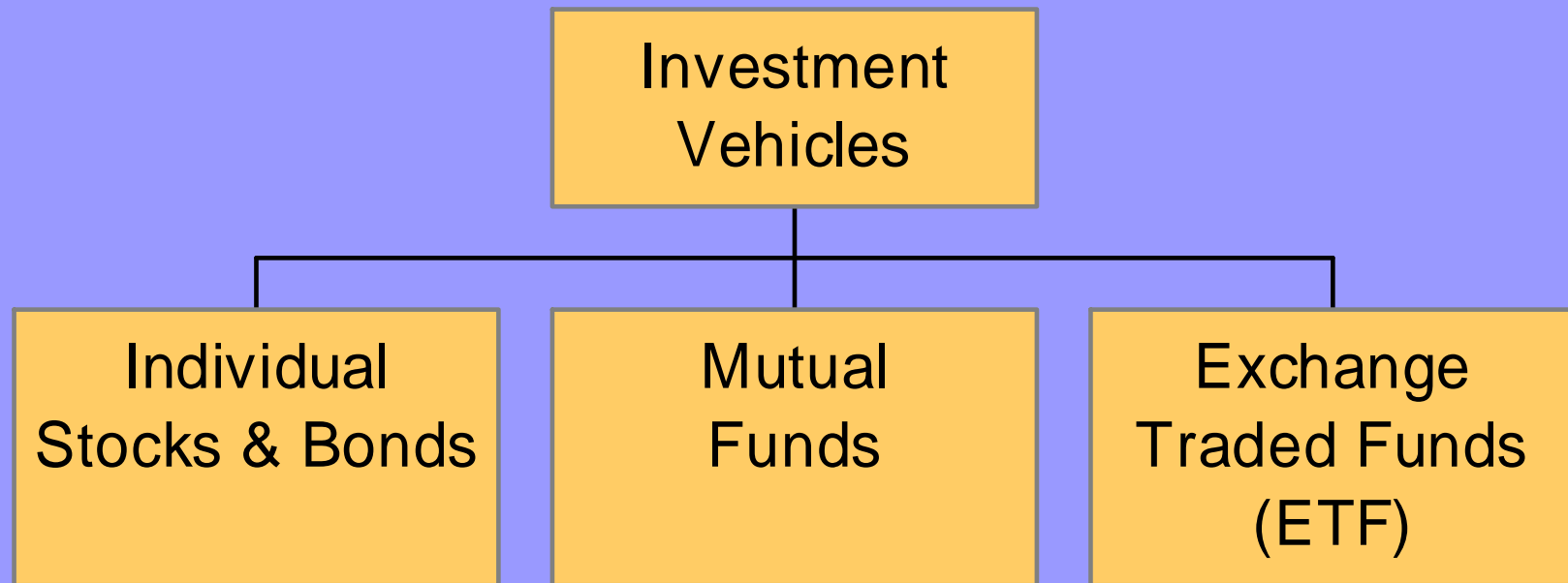
# Bond Mutual Funds

- Enables you to purchase shares in a pool of bonds.
- Can provide greater diversification than investing in individual bonds.
- Easy to purchase.
- Minimum investment may be lower than purchasing individual bonds.

# Bond Ratings

<u>Moody's</u>	<u>S&amp;P</u>	<u>Fitch</u>	<u>Category</u>
Aaa	AAA	AAA	Prime, Max Safety
Aa1	AA+	AA+	High Grade
Aa2	AA	AA	High Grade
Aa3	AA-	AA-	High Grade
A1	A+	A+	Upper Medium
A2	A	A	Upper Medium
A3	A-	A-	Upper Medium
Baa1	BBB+	BBB+	Lower Medium
Baa2	BBB	BBB	Lower Medium
Baa3	BBB-	BBB-	Lower Medium
Ba1	BB+	BB+	Non-Investment Grade

# Equity Investing



# Equity Investment Vehicles

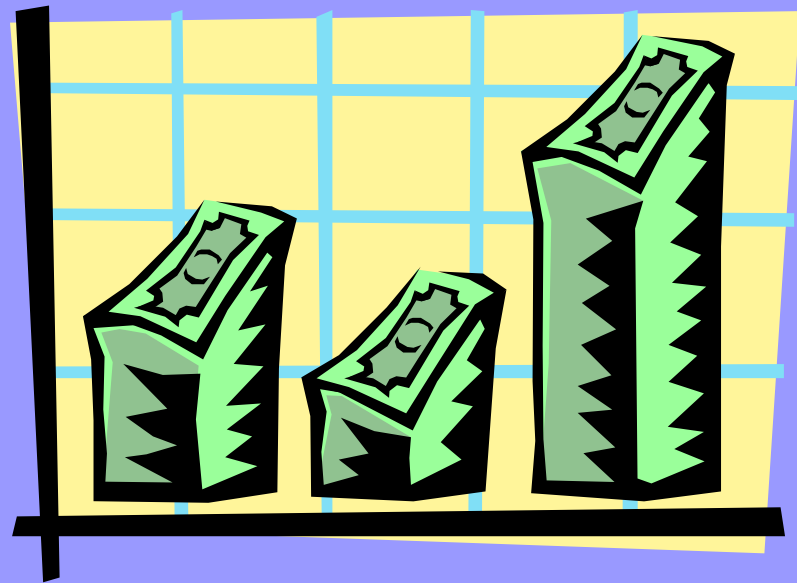
- o Individual Stocks
- Mutual Funds
  - o Provide diversification by investing in baskets of securities
  - o Load vs. No Load Funds
- Exchange Traded Funds (ETF)
  - o Trade like stocks but holding baskets of securities like mutual funds
  - o Track a wide variety of indexes (S&P 500, Gold, etc)
  - o Typically have smaller expenses than mutual funds
  - o Unlike mutual funds, ETFs should never have to distribute capital gains to shareholders

# Equity Investing

- o Timing the Market
  - Buy and Hold vs. Active Trading
- o 95% of the stock market's cumulative gain between 1963 and 1993 occurred in just 1.2% of the trading days.
- o Business cycles usually occur in waves of four to seven years. If you can stay in the market for five to ten years, you minimize your losses because you ride out the cycles.

# 2008 Returns by Stock Category

- Large Caps -38.62%
- Mid Caps -40.81%
- Small Caps -37.78%
- US R/E -39.56%
- Global R/E -46.67%
- Foreign St. -44.70%



# Historical Returns from 1926-2007

Large Company Stocks (S&P 500)	10.4%
Small Company Stocks	12.5%
Intermediate-Term Gov't Bonds	5.3%
U.S. Treasury Bills	3.7%
Inflation	3.0%

# Importance of Dividends

- Stocks that pay rising dividends significantly outperform stocks that don't (10.4% vs. 8.2% for stocks that paid static dividends).
- Dividends can supplement your cash flow.
- Preferential tax treatment.

# Retirement Plans to Help You Reach Your Goals

- Traditional Defined Benefit Plans
  - Employer makes contributions
- Defined Contribution Plans
  - Deductible Employee Contributions
  - Matching Employer Contributions – Like Free Money
  - Tax-Deferred Earnings
- Individual Plans

# Individual Plans - IRA

- **Annual limit for 2008 is \$5,000, plus an additional \$1,000 catch-up provision for those 50 and over**
- **Earnings grow tax-deferred until distribution**
- **Withdrawals before 59 ½ subject to 10% penalty, plus ordinary income tax rates**
- **Must take required minimum distributions by April 1<sup>st</sup> following the year you turn 70 ½ (Exception for 2009)**
- **50% penalty if required minimum distribution is not taken (Exception for 2009)**
- **Deductible contributions are limited by your Adjusted Gross Income**
- **Non-deductible contributions are permitted if income level is too high**

## Individual Plans – Roth IRA

- Non-Deductible Contributions
  - o Tax Free Withdrawals if 5-Year Holding Period is Satisfied
  - o Annual limit for 2008 is \$5,000, plus an additional \$1,000 catch-up provision for those 50 and over
  - o Income limits for contributions
  - o No mandatory required minimum distributions at age 70 1/2

# Roth Conversion

- \$100,000 Adjusted Gross Income Limit
- No income limit for 2010 and future years
- Amount converted must be included in taxable income.

# Putting It All Together



- A Financial Planner can help you develop a plan to achieve financial success

# What is Financial Planning?

- It is NOT just investment recommendations
- Process of review/analysis of interconnected financial aspects of life to satisfy a goal.
- Can be piecemeal or comprehensive
- Help you to see the “Big Picture”

# What is Financial Planning?

- Setting of Objectives/Goals
- Identifying Constraints
  - Liquidity (How fast can you obtain cash)
  - Marketability (How fast can you sell your assets)
  - Risk Tolerance
  - Diversification
  - Tax Rates
  - Time Horizon (Retirement = 1 yr to ???)
- Review Alternative Strategies
- Implementation
- Monitoring of Results

# Components Parts of a Financial Plan

- Data Gathering
- Risk Management
- Investments
- Tax Planning
- Retirement Planning
- Estate Planning

# How to Choose a Financial Planner

- o What type of Credentials do they have
  - Certified Financial Planner (CFP)
    - o Minimum 3 Years Experience
    - o Pass a Comprehensive 10 Hour Exam
    - o 30 Hours of Continuing Education Every 2 Years
    - o Abide by strict Code of Ethics
  - Personal Financial Specialist (PFS)
    - o CPA who passed an 8 hour Exam
  - Chartered Financial Consultant (ChFC)
    - o Minimum 3 Years Experience
    - o Pass Ten 2 Hour Exams
    - o 80% Sell Insurance

# How to Choose a Financial Planner

- Registered Investment Advisor (RIA)
  - o No educational or experience requirements
  - o Not a stand-alone designation
  - o Let's you know the advisor is registered with the SEC and is paid to give advice

# How to Choose a Financial Planner

## o Questions to Ask:

- How many years of financial planning experience do you have?
- Given my age and assets, what would be your investment philosophy regarding risk and reward?
- Please provide me with three or four references of people with similar income who use your services
- How are you compensated?
- What kinds of periodic feedback may I expect?
- What kind of advanced training have you had, and what type of financial designations do you hold?
- Most importantly - What do you need to know about me? (Make sure they ask you lots of questions)

# How to Choose a Financial Planner

- o How are Planners Compensated
  - Flat fee
  - Hourly fee
  - Percentage of Assets under management
  - Commission for products sold

# Thank You

- Diane K. Taylor, CFP®, EA
- Shapiro Financial Security Group, Inc.  
Hazlet, New Jersey
- “Planning is the Key to Security”

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