Spring 2013

FINANCIAL FITNESS FOCUS

Over 35 Years of Enhancing Clients' Financial Peace of Mind

Financial Planning - It's Not Just About the Numbers

During first quarter of 2013, the CCMI team has been working on our website to make it more three-dimensional and to provide more financial information and planning recommendations for our clients.

While we were preparing for the video portion of this project, we thought a lot about our purpose and what makes us come in to our offices each morning. Certainly, it is to improve our clients' lives by being responsive, knowledgeable and listening carefully. Moreover, the CCMI team is in the business of helping our clients make wise financial decisions so they can get the most out of their lives with the assets they have - with less stress. It is also about transferring financial wisdom to our clients, based on our years of experience with a variety of planning challenges, periodic market volatility, and life's tougher moments.

Key to transferring financial wisdom is helping clients understand their money mindset. Before behavioral finance was a well developed subject of research and study, we have asked about an individual's financial history. We pose questions such as, "What was money like for you as a child?" and "What does the word 'money' mean to you?" The responses to these questions are very revealing and give us insight as to what the respondent is likely doing with their money as an adult. The answers can help explain why a balance sheet may have too much debt, why there is an insufficiently diversified portfolio, why there are little cash reserves, or why there is a concentration of wealth in assets, which they may not understand.

An example of how one's early socialization with money can direct an individual's adult financial behavior is the case of a client who had $75,000 in his money market account earning far less than the credit card interest he paid on his credit card balance of $5,200. Monthly, the client paid only the minimal amount due, as the non-deductible interest continued to accrue on the balance. When we asked about his money history, he told us that when he grew up, his family was quite poor and never had any savings. He also mentioned that his father had taken two extra jobs to help cover the client's medical school tuition. For this client, keeping the full $75,000 in savings provided emotional comfort to him, even though it may not have been the best financial decision. Slowly, he started to understand how his early financial life impacted his adult financial behavior and six months later, he paid the credit card balance in full.

In addition to plentiful research being done by academics such as Dr. Richard Thaler at the University of Chicago and Dr. Meir Statman of Santa Clara University, behavioral finance research is being done by our peers. Clinical psychologist and fellow CFP® practitioner, Brad Klontz is a pioneer in an emerging field of financial therapy. Klontz has stated, "Even before the money crisis in 2008, three out of four Americans said money was a major stressor in their lives and this was when the economy was doing great."

In order to assist him in his own practice, Klontz and his father Ted Klontz, Ph.D. have developed an inventory of four types of money scripts that are formulated in childhood:

- Money Avoidance- Money is bad or not deserved
- Money Worship- More money will always make things better
- Money Status- Money equates to self-worth and net worth
- Money Vigilance- Money is shameful and requires secrecy

Klontz says some of our money beliefs are accurate and functional; others are partially true and may become twisted over time. Klontz gives an example of one money belief that changes over time: "You should work hard for your money" becomes "Money not earned is not worth having." Occasionally we see evidence of this in the client who feels guilty about receiving an inheritance and thus is loathe to spend any of it or hesitant to change the decedent's asset allocation, which often is inappropriate for their own financial situation and risk tolerance.

As money is a significant stressor in American's lives, and research indicates that money issues are a primary reason for conflict in relationships or divorce, understanding one's money mindset is extremely helpful for clients who want to make significant changes in their financial lives and also remain in a meaningful relationship.

Lest anyone think that "CFP" stands for Certified Financial Psychologist", we want to unequivocally state that we do <u>not</u> provide psychological counseling on money issues; however, assisting clients to become more self-aware of their money history and how it affects their financial decision making can motivate clients to implement some of the advice we provide. In addition, it helps clients to understand how they react financially during times of transition in their lives, such as heading into

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" It's important to listen. Most people just want to know that they are heard."

-Anne Meara

Financial Planning (Continued)

retirement or life as a widow/widower.

Thus, the financial planning process is not just about “crunching numbers”. Rather, it is a process, during which we help clients examine their money history that can help them to more clearly articulate their financial goals. In addition to gathering financial data, it is our conversations with clients that contribute to formulating a personally designed roadmap to assist them in reaching their financial objectives. Clients who have gone through the financial planning process at CCMI tell us that they feel more in control of their finances, have a better understanding of the various parts of their financial lives, feel better equipped to make sounder financial decisions, and feel less stressed overall. The biggest compliment a financial planning client can offer is that they sleep better at night, having a firm grasp of their finances and a well-defined path to lead them toward a more enjoyable, less stressful life.

“True heroism is remarkably undramatic. It’s the urge to serve others at whatever cost.”

- Arthur Ashe

Four Risks to Retirement

As Americans are living longer, the challenge of managing money after retirement gets more complex. Typically, a retired individual in their mid-60s has a different risk profile than an individual closing in on 90. Let’s look at various types of risk from the vantage point of how they affect retirees at different life stages. Here are four key risks to consider:

1. **Investment Risk** - Balancing risk and return takes on a different meaning for individuals as they age. A negative rate of return during the early years of retirement could leave an individual with a significantly smaller nest egg when compared with negative returns later in the retirement life cycle. When we build portfolios, a proper allocation is critical as it can smooth out returns over the long-term and increase the chances that an investor will not outlive their assets.

2. **Longevity Risk** - Withdrawing too much from a portfolio during the early years of retirement may heighten the chance of depleting your assets during your later years. For this reason, we generally recommend limiting annual withdrawals to 5% or less of a portfolio’s value, adjusted for inflation, to make assets last as long as possible.

3. **Inflation Risk** - Do not assume that when you turn 65 your portfolio should hold only bonds! Because younger retirees typically are planning for a time horizon of 20 years or more, it is important that their portfolios include a source of growth that is likely to exceed inflation over the long-term. Asset classes such as REITs provide an inflationary hedge as well as decent cash flow. To complement this potential growth, many retirees rely on more conservative investments that may generate income and help to balance risk and potential return. However, holding longer-term bonds can create undue risk in an investor’s portfolio when future interest rates increase and inflation flares.

4. **Health Care Risk** - It is not unusual for medical costs to increase as retirees’ age; therefore, we always encourage clients to plan for these costs before the need is immediate. Pre-retirees and younger retirees may want to explore options for medical insurance that supplement Medicare, as well as long-term care insurance, to reduce the possibility of dipping into personal assets to finance illness or accident-related expenses. One way to eliminate some of health care risk to your financial health is to remain active, eat wisely, exercise, get sufficient sleep and consciously decide to keep company only with positive people.

Out and About

At the firm…

First quarter of 2013 has been extremely busy. The CCMI team has taken on three major initiatives- (1) to make our website more interactive, (2) to streamline the format of our financial plans, and (3) to create more visual material to use during investment portfolio reviews. We will be providing webinars on various financial topics by mid-year 2013. In addition, we will offer an option to conduct an annual investment management review via online video conferencing for clients who are outside San Diego County.

In addition, we are working on a video for the website that will feature our services and our team. Monica Larson arranged for two talented videographers to spend a full day with us and also arranged for professional make up services and proper filming equipment. Alex and Cole Larson, St. Augustine students, did the filming, editing and are finalizing the first video for us. Jessica Hurley is taking on more responsibility in the investment management area doing more research and attending investment management annual review meetings with clients. Emily Oliver has spent weeks studying financial planning material to prepare for the February 13 paraplanner exam. (See the announcement of the results on the next page.)

In January, CCMI hosted their annual *Year in Preview* client breakfast featuring Dr. Esmael Adibi from Chapman University. Dr. Adibi's presentation was informative as well as entertaining and client feedback was overwhelmingly positive. In January, Brian and Matt presented a second Lunch and Learn on Money Management Tools. In February, Bob and Matt presented a Lunch and Learn on Medicare which was oversubscribed; therefore, Bob and Brian are presenting the topic again on March 26. In February, Peg was a featured speaker at the American Medical Association Alliance Western Regional Conference. Her topic was "Money, Relationships and Reality-- for all Ages and Stages". In late March, Peg will present "Love, Relationships and Money" at a Scripps Research Institute Lunch and Learn. As a member of the San Diego Chapter of the Financial Planning Association, Brian volunteered at the Interfaith Shelter on a February Saturday, providing general financial guidance to nine homeless individuals. Matt volunteered as part of Francis Parker School's Centennial Celebration and spent a Saturday in February cleaning the trails and pathways along the San Diego River. Also in February, Brian and Matt presented a financial planning program to attorneys who work in a CCMI client's law firm. They have recently joined San Diego Venture Group and enjoy the informative breakfast meetings focused on the launching of new enterprises primarily in the bio tech community. Brian and Matt also participated in a charity bocce ball tournament in March in Del Mar. Bob continues his pro bono financial counseling work with two young Marines. Matt is learning a lot about the future of San Diego through his participation in LEAD San Diego. His group will work with a Linda Vista pre-school to help them transition from a state subsidized program to a partially fee-for-service program to alleviate the impact of budget cuts on children. In print this quarter, Peg was quoted in the *Wall Street Journal* and *Financial Planning* magazine. Peg continues to write her financial and family business columns for the *San Diego Daily Transcript*.

On March 22, the CCMI team will hold their annual all day business planning meeting to develop the firm's short and intermediate term goals. As in prior years, Sean and Ryan Eddy will attend this important strategic planning session.

CCMI has retained Canadian based Advisor Impact to conduct a client satisfaction survey. The survey should be out to all clients by the end of March 2013 and a summary of the survey findings will appear in our next quarterly newsletter.

On the home front…

In January, Jessica Eddy started her new job in marketing for the knee division of Stryker. Ryan and Jessica Eddy headed to the Maldives in late February stopping in Dubai and Abu Dhabi on their way. Sean Eddy travelled to India and North Carolina in February for his Wells Fargo work; Alison Eddy returned to teaching at Doris Eaton School in Walnut Creek; six month old Lucy Eddy is becoming more mobile every day.

"Do not stop thinking of life as an adventure. You have no security unless you can live bravely, excitingly, imaginatively; unless you can choose a challenge instead of competence."

- Eleanor Roosevelt

Alison, Sean and Lucy Eddy at the Birch Aquarium

Bob and Peg travelled to San Francisco in February to visit their families and to take care of their granddaughter, Lucy, while her parents enjoyed a night away. In mid-March, Bob and Peg will celebrate Lucile Eddy's 97th birthday in Jenkintown, Philadelphia.

In March, Brian, Nikki, and their three kids will travel to Hawaii to visit with family and friends. They will also celebrate Nikki's grandmother's 96th birthday while in Honolulu.

Monica and son Alex visited the University of Alabama in January. They were lucky to see snow and the BCS National Championship football parade. March will hopefully bring more college acceptance letters to Alex with a college decision coming in May.

Matt and Alex continue to enjoy their renovated house and are making plans to finish their new front yard by summer. Their daughter Elizabeth keeps them quite busy with her high energy, weekly swim classes, and love of picture books.

Jessica, and her husband Mike, are looking forward to a Spring Break visit from their niece and nephew.

Emily and Kenny Oliver visited Big Bear in late January for snowboarding with their two huskies and Emily's sister.

Tax Tips and Planning Pointers

$ *Financial Literacy Tip for Children/ Grandchildren*

Incentivize a young person by asking them to cut out coupons for items you normally purchase for the household. Take them with you on your shopping trip and ask them to locate the item for which there is a coupon-and which you actually need! Ask them to make sure that the coupon savings results in a lower price for the item than prices for comparable products. Offer to share a part of the coupon savings with them to reward them for their clipping and comparison shopping skills.

$ *Tax Planning*

As we write this newsletter, there is no clear indication from Washington on further tax “reform”. Suffice it to say, that both sides of the aisle are dragging their feet on reducing spending and it is inevitable that more taxes are likely. In addition, some of the tax treatments extended for this year expire on 12-31-13, such as the $1,000 Child Tax Credit and the deduction for state and local taxes. Thus, this ever changing tax landscape makes tax planning even more important on a year around basis.

“We contend that for a nation to try to tax itself into prosperity is like a man standing in a bucket and trying to lift himself up by the handle.”

- Winston Churchill

$ *Ownership Agreements*

For shareholders in closely held businesses, partners in a limited partnership or members of an LLC, it is financially wise to have ownership agreements drafted and signed by all owners. These written agreements outline what happens in the event of an owner’s death, divorce, disability, disillusionment or bankruptcy. In addition, most of these agreements outline to whom an interest can be transferred and/or sold and what the terms will be, should the other owners or the entity redeem the departing/departed owner’s interest. If your ownership or buy sell agreement hasn’t been recently reviewed, make March the month you will read it to make sure it properly reflects the current business format, that the method of valuation still is appropriate and that the agreement reflects the current plans for the business.

Bravo, Emily Oliver!

At CCMI, we encourage and embrace lifelong learning. Last fall, Emily Oliver let us know that she had decided to “go for it” and become a Registered Paraplanner℠. Her course work covered all of the major areas of a financial plan: cash flow/ tax planning, retirement planning, risk management/insurance, estate planning, and investment allocation. Emily studied on her own and also attended online classes after her CCMI work day and on the weekends.

After completing the paraplanner curriculum under the auspices of the College for Financial Planning, on February 13 Emily passed the examination to become a Registered Paraplanner℠. As Emily has already been assisting the four CCMI advisors with clients’ financial plans, it won’t take her long to work through the additional requirements to obtain this professional designation.

Congratulations, Emily!

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Because Money Doesn’t Come with Instructions...℠

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