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FINANCIAL FITNESS FOCUS
*Creative Capital Management, Inc.*

*3rd Quarter, 2011*
*Over 35 Years of Enhancing Clients' Financial Peace of Mind*

# Mind Over Money
# Keeping the Mental Trap Door Open

*"In prehistoric times, mankind often had only two choices in crisis situations: fight or flee. In modern times, humor offers us a third alternative: fight, flee -or laugh."*

**- Robert Orben**

*"Avarice hoards itself poor; charity gives itself rich."*

**- German Proverb**

The tendency of many investors in rising markets is to experience an emotional rush similar to putting all the poker chips into the game with the flawed belief that markets will only go up; likewise, in falling markets, investors pull their money out of the market to preserve their cash-- sadly the wrong course of action in both instances. Why do so many intelligent individuals continue to make bad investment decisions? One explanation is that the "Reptilian brain" -the part of the human brain that developed over 100 million years ago and which acts as the body's emotional alarm center, is not able to adapt quickly enough to our ever changing world. The Reptilian brain is partially responsible for 95-99% of everything we do, in which we are not in conscious control.

According to Dr. Ted Klontz Ph.D., psychologist and money therapist, there are three distinct parts to the human brain. First, the cortex, or Einsteinian brain, contains our wisdom as it is the portion that interprets and manipulates abstract information. Next comes the limbic part of the brain, or Mammalian brain, which has the mental capacity of a 7 year old chimp. Finally, the last part of the three distinct brain parts is the Reptilian brain, which is located in the brain stem and processes information at 4 billion bits per second. It is responsible for survival-related behaviors such as breathing, temperature, and the fight or flight response. Whenever we encounter stress or anything that the mind interprets as a threat, the "trap door" between the Mammalian and Reptilian brain slams shut, allowing the Reptilian brain to dominate the body's response to any given situation. In essence, the person is literally unable to think rationally. This is precisely why the Reptilian brain can be particularly damaging to investors during volatile periods in the market. To quote Professor Ted Klontz, "*Human brains operate on two levels: a reason-based side and a reptilian side that can do little more than avoid danger and seek pleasure. Unfortunately, though we are asked to conduct a great deal of abstract thinking in the modern world, more than two-thirds of our brainpower is devoted to the reptilian side*."

When the anxiety center is in control, people tend to retreat from financial risks. In 2008-2009, many who succumbed to their Reptilian brain moved to cash at market lows. This move caused them to miss out on a huge upside move in prices that they may never see again. It is believed that the pain we get from losing $1,000 is greater than the pleasure we get from gaining $1,000. Reptiles, like many animals, will fight ferociously to protect their territory, but they won't fight nearly as hard to extend their territory. This is the Reptilian brain telling us that gaining territory won't benefit us as much, but losing territory might be a threat to our existence. This can cause individuals to shy away from investing at the worst possible time, which actually may be the best time to invest if one wants to "buy low." So, how do we keep the trap door open and detach our emotions from money?

One way to keep the Reptilian brain at bay during turbulent financial times is to turn off the stimulus. Do not give in to the sensationalism of CNBC's parade of experts roaring "Buy! Sell!" shifting our focus to short-term results and getting emotions churned up, effectively setting off the body's built in emotional alarm center. The industry jargon of these "experts" can easily cause the trap door to shut. In fact, every time the human brain hears a word that it doesn't understand, the mind stops listening to the speaker for about 20 seconds.

Having the ability to recognize when you are emotionally charged is a crucial skill of any wise investor, as you are more likely to act irrationally during times of fear or excitement. Once you realize that you are emotionally keyed up, you can begin to take long, deep breaths and repeat an inner mantra such as "let go". This will expedite the relaxation response and bring your mind back into a state where it can process rational information. Even though you may feel relaxed, you can still evaluate the accuracy of your thinking by coming up with supporting evidence for each thought. Finally, give yourself the gift of time to avoid making rash decisions. Although you may feel relaxed following an emotional peak, you might want to have a good night's sleep to help ensure you're making the best choice.

At CCMI, we always encourage clients to contact us regarding their portfolios at any time. We try to respond in layman's terms in order to reduce the amount of stress our clients can experience if we use industry jargon or non-relevant terminology. If we can learn to recognize when a client's mental "trap door" has effectively closed for business, we can improve communication by speaking the language of the unconscious, as the lower brain responds to the specific, the tactile, and the visual. This allows us to help our clients move away from Reptilian brain investing and adhere to rational, long-term investment plans based on an appropriate diversified asset allocation strategy.

# Investing Does Not Equal Financial Planning

*"Eduation today, more than ever before, must see clearly dual objectives: education for living, and education for making a living."*

**- James Mason Wood**

Recently, a gentleman who had been interested in retaining our firm to complete a personal financial plan for him and his family sent this email: "I don't need to meet with your team for financial planning, as I have hired a stock broker to invest my money for me." After 37 years in practice, his comment shouldn't have surprised us; however, his statement was the genesis of these thoughts on his incorrect inference-- that investing equals financial planning.

Before the real financial planning process is outlined, here are some sobering facts. According to the Employee Benefits Research Institute's 2009 Retirement Confidence Survey, 53% of workers in the U.S. have less than $25,000 in total savings and investments. The typical American household (headed by a 43-year-old) has just over $18,000 in savings! This may be the result of the market meltdown in late 2008 through March 9, 2009; however, more recent statistics from 2010 survey findings continue to point out the dismal condition of most Americans' financial health:

- 35% of Americans over the age of 65 rely almost totally on Social Security for their retirement income!
- According to one survey, 36% of Americans say that they don't contribute anything at all to their own retirement savings.
- According to an official U.S. government report, rapidly growing interest costs on the U.S. national debt, together with spending on major entitlement programs such as Social Security and Medicare, will absorb approximately 92 cents of every dollar of federal revenue by the year 2019.

Certainly one can make the case that unless our elected officials address the national debt and overspending at all government levels, Americans are doomed to lives of financial frugality. However, we strongly suggest that each of us has a responsibility to look after ourselves, rather than being part of the 35% of Americans over the age of 65 who rely solely on Social Security benefits!

*"You're going to find that 95 percent of all the decisions in your career could be made by a reasonably intelligent high school sophomore. But they'll pay you for the other 5 percent."*

**- Marion Folsom**

A holistic and thorough approach to *real* financial planning addresses six major areas: cash flow and tax planning, risk management (insurance of all kinds), estate planning, educational funding planning, retirement planning, and investment allocation. Without identifying one's financial goals and integrating them with a time horizon, risk tolerance, assets and liabilities, future earnings, cost of educating children or grandchildren, cost of health care or supporting a parent or other relative, and having an appropriate estate plan, it is difficult to be an effective investor.

Here is an example of why financial planning is so critical. Let's say a 66-year-old person receives $1 million from an inheritance and has no other assets; he or she is thinking they are set for life, as their monthly Social Security benefit is $1,800 and they are now a millionaire! However, their current household pre-tax expenses are $157,000 in 2011 dollars. Let's assume that the inherited funds were not in a retirement plan and there were no capital gains imbedded in the inherited assets. Let's also assume that Social Security benefits will increase at 2%, the investment portfolio will earn 6.5% pre-tax from a diversified portfolio, and no expenses are tax deductible. With the above assumptions and applying a 3% rate of inflation to this individual's household pre-tax expenses of $157,000 in 2011 dollars, this person will run out of money in nine years, at their age of 75. If an analysis like this isn't done, it is likely the heirs will think they are financially set for their lifetimes. They may also think that a high risk portfolio is acceptable-after all, they <u>are</u> millionaires.

A financial plan would illuminate these rather dismal results and indicate that there are only a few options available to this person: working longer to generate more earned income, reducing expenses by at least $45,000 annually for the rest of their lives, increasing the level of risk in their portfolio to provide greater total return (this could result in a major setback to a portfolio if markets experience declines similar to those in 2008 and 2009), selling their home (however, they have to live somewhere), taking out a reverse mortgage, or relying on family and friends for additional support.

Financial planning is the process by which you can meet your life goals through proper management of your finances and assets. The financial planning process consists of specific steps that help you to take a big-picture look at where you are financially. Using these steps, you can work out where you are now, what you may need in the future, and what you must do to reach your goals. Real financial planning isn't just about investing; rather, it is the actual written financial plan that directs how the funds should be invested and what rate of return will be required to reach financial independence or other financial objectives. Thus, "financial planning" doesn't mean just "investing"!

# Financial Planning is Not for Wimps

## *by CCMI Guest Columnist, Katie Smothers*

When one has experienced CERTIFIED FINANCIAL PLANNER™ professionals in one's life, a divorce, at forty-seven, is not so scary, nor is it the end of the world. With my divorce finalized, in 1984 I moved back home to California with a precious $10,000. Finding a job was my top priority. Once that was secured, the next priority was investing the cash and making some plans for my own financial independence. My goal was to plan for my future and make sure I made the right financial decisions. I knew I had to make the right moves, but didn't know exactly how. Good friends gave me the name of their CERTIFIED FINANCIAL PLANNER™, and I immediately

## Financial Planning is Not for Wimps (continued)

called for an appointment with Bob and Peg Eddy. Following their plan, advice, and counsel, in 3 years I purchased a condo; in 3 more years I purchased a brand new car. Staying on the plan, I controlled my spending and was able to see some growth in my personal portfolio.

Of course, after that first meeting I didn't leave with a complete personalized plan. That came in increments. The first year we met at least 3 times. Those meetings were to give me encouragement, review what I had done in the past 3 months, and ensure I stayed on target. Knowing someone cared and was going to hold me accountable gave me the incentive to reinforce the discipline I needed. After that first year, we met annually at my request. (I kept my plan implementation schedule posted on the back of my bedroom door so I could see it daily.)

"Financial Planners" are more than the name implies. In my case, the CFPs who worked with me proved to also be my mentors; I had people I respected and in whom I could confide, particularly about family issues. I knew they were looking out for me and not just making conversation. Often times, their counsel was daunting and I had difficulty building my courage to carry out the task. (It's so easy to say "yes" to family funding requests even when it's not always in our best interest.) During the intervening years, I continued to build my wealth and review my planning. Through their guidance, I put the maximum amount allowed into my 401(k). Without their encouragement and calculations showing what I needed to eventually retire, it wouldn't have happened.

After nine years of employment, I decided I would like to become self-employed as a business consultant. I discussed this with my planners and we developed a new plan. I eventually launched a new career, having done the planning this change required. The thought of no longer having a steady income as an entrepreneur created significant anxiety. Once again they came to my rescue. I was given a "green light" to charge my credit card for start up business expense with the stipulation that I would pay off the entire balance at the end of each month. This is a practice I honor to this day. The payoff: I pay no interest and I accrue air miles. Equally important business advice was, "Don't make decisions for your clients". In other words, don't presume clients will or won't behave in a certain way.

Eleven years later, at sixty-five, I retired from a very successful management consulting business and the Eddys updated my final retirement plan. As I had diligently planned and saved, I was given an ample budget and, by living within my means, I'll still have assets from my initial investment for travel. I'll be happy until I'm ninety-four. After that, I guess I'll be back for a new plan.

Here is my tip for long-term financial success:

Commitment + Discipline + Follow through = SUCCESS

*(Prior to retirement, Katie Smothers was a business management consultant. Her specialty was team building. Bringing groups together, she provided training in core skills such as conflict resolution, facilitation, mediation, and communication. This set the stage for teams working together with a better understanding of one another. She also provided services in labor relations, recruitment, and human resource management. She has been a CCMI client for over 25 years. Katie has been a docent for 6 years at the US Midway and volunteers as a member of the San Diego Police Department, Retired Senior Volunteer Patrol (RSVP) Northern Division.)*

***"Success is a matter of planning, and it is only careless people who find that heaven will not help their mortal designs."***

**- Themistocles**

***"Have a positive outlook. Excitement and enthusiam are contagious, and people want to be around it."***

**- Bob Stoops**

# Out and About

***At the firm…***

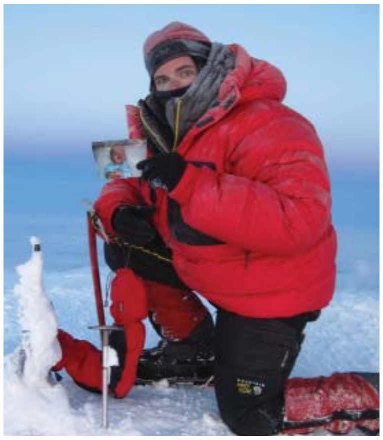
During third quarter, the team was busy finalizing our booklet on retirement planning tips, which is a compilation of advice from CCMI clients who have been retired for at least three years. In August, we hosted a luncheon speaker from the Social Security Administration for clients who are nearing the age at which they need to file for Social Security retirement benefits. Casual Fridays included a Hawaiian theme in June and a red/white/blue theme on July 1st. Matt completed his first full year as a member of the Francis Parker School Alumni Council. Brian continues to serve on the San Diego BYU Management Society Chapter Board and has attended the Downtown Breakfast Rotary club with the intention of joining. Peg's article on ethics appeared in the *San Diego Business Journal* in late July (posted on our website at http://www.myccmi.com/2011/06/ethics-the-missing-ingredient/) and she continues to write a monthly column for the *San Diego Daily Transcript*. Jessica passed her Notary exam at the end of August and we will be offering complimentary notarization services to clients once her official State stamp arrives. By the end of September, the CCMI team will have completed a three-week writing class led by two professors at SDSU on best use of grammar, sentence structure, editing, and email writing. Also in September, Bob, Peg, Matt, and Brian will attend the national Financial Planning Association conference from September 15th to 18th. Sessions will cover topics such as investment strategies, estate tax updates, analysis of insurance, and other financial planning areas. Rounding out a busy summer, the CCMI team will host a client/ family picnic on September 10th at Liberty Station.

***On the home front…***

Matt and his wife, Alex welcomed their first child, Elizabeth Briana, on August 9th. Matt took time off to ease into his new role as a father and has learned that one can operate on far less sleep than might be thought possible.

In June, Emily attended her high school reunion on the Big Island in Hawaii and enjoyed visiting her family for a week. Emily and her fiancé, Kenny, are finalizing plans for their October 1st wedding in San Diego.

## Out and About (continued)



*Ryan Eddy holding his nephew George's photo.*

Jessica and her husband, Mike, hosted their niece for a weekend in August and enjoyed seeing the Safari Park through the eyes of 10-year-old.

Monica and her family flew to Wisconsin in July for a family vacation.

Diane and her husband took their oldest son, Patrick, to Colorado where he has started football training and classes at Colorado State University - Pueblo. Diane's husband, Chris, was promoted to the rank of Captain in the U.S. Navy in August.

Brian, his wife Nikki and some friends enjoyed a challenging hike up most of Mt. Whitney, the tallest point in the lower 48 states, in August. Brian, his wife and two children also enjoyed attending a family reunion with his wife's family in Utah.

Ryan Eddy successfully summited Mt. McKinley, the tallest point in North America, on June 30th. The following week found Ryan and his wife, Jessica, in Boston for a wedding and New York City to visit East Coast friends and family. In late June, Bob and Peg visited Sean, Alison Eddy, and their son, George. They thoroughly enjoyed a family barbecue sponsored by George Mark Children's House at which they were outshined by a wonderful golden lab therapy dog that had their grandson's full attention.

***"Most people aren't appreciated enough, and the bravest things we do in our lives are usually only known to ourselves."***

**- Peggy Noonan**

# Tax Tips and Planning Pointers

### $ *Mileage Rate Increase*

Effective July 1, 2011, the IRS business mileage rate increases from 51 cents to 55.5 cents per mile. The medical or moving expense rate increases from 19 cents to 23.5 cents. The charitable rate remains at 14 cents.

### $ *Personal Tax Planning*

More than half of 2011 is behind us; it is time to double check your personal tax planning to make sure the number of exemptions you are claiming is correct and that your estimated tax payments are sufficient to avoid underpayment of tax penalties. Let your tax preparer know of any major changes to your tax situation thus far for 2011: sizeable gains or losses, a new job, or a change in your marital status.

### $ *Home Mortgage Refinance*

With interest rates at 50 year lows, this is the time to revisit your home mortgage loan. Contact your current lender to determine what options they can offer. Another resource is a knowledgeable loan broker who can explore a variety of lenders for you. Try to keep refinancing costs as low as possible. If you need assistance in determining which mortgage loan option makes the best financial sense for you, please call our office.

### $ *Property Tax Relief*

Under state law, if the current market value of your property falls below the assessed or taxable value as shown on your tax bill, the County Assessor's Office is required to lower your assessment. Property owners who disagree with their property's taxable value have a right to file an appeal, which could result in lower property taxes. Until November 30, 2011, you may file an Application for Changed Assessment. The necessary forms can be obtained from the County Assessor's website, www.sdarcc.com, or by calling (619) 531-5777.

*~ In memory of little George Eddy ~ September 20, 2010 - August 4, 2011 ~*

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