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What Is One To Do?

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years history yet for those who wanted to get out in the early part of 2009, look what you would have missed: the Dow Jones Industrial average hit a bottom around 6500 and the low point 2 ½ years later was around 10,700 (as I write it is hovering around 12,000). What would you think now if I had not encouraged you to stay the course?

Do not worry, I am not on an ego trip, I am just bringing 49 years of experience to the table to help you achieve your financial goals. I recently read another financial advisors comment to his clients, “We are in the business of protecting your future, not just your portfolio.” I think that represents my approach pretty well.

In closing, I have asked a number of clients if their house would sell for as much now as it would have 3 to 4 years ago, and everyone acknowledged that it would not. I have then asked if they are planning to sell it because it has lost value, and the answer is always NO. Why? The answer is clear – they purchased the house to live in. Yes, they thought it would go up in value over time, but in the meantime, it is providing the place they chose to live in.

I think one’s investment portfolio should be looked at in a similar manner. It is to provide the income or discretionary spending you need the rest of your life, and just because right now it would not sell for as much as it would have 3 to 4 years ago does not lessen the value of what it was intended to do.

I trust this will help you navigate the uncertain times we all are experiencing because it will get better.

Please call or write with questions, comments or if you just need someone to talk to. That is why we are here.

Fall 2011

BATES Briefings

from George's Desk

Recently, I read that approximately 10,000 people in the U.S. will turn 65 years of age every day for the next 9 or 10 years. For some reason, probably until the 1983 revisions in social security, the age at which people could start getting "full" retirement benefits, 65 was the traditional assumed age of retirement.

1946 stands out as the first birth year of the baby boomer generation and on average 10,000 babies were born in the U.S every day until 1955.

So what? You ask. Because many people have been planning to retire when they turn 65 and the ONE common need is retirement income. So what? You ask again, that is pretty obvious. Yes, but what is not so obvious is how much does one need now, 10 years, 20 years, even 30 years from now. Some other questions that follow are: What will inflation do to one's cost of living? How will I provide for that "unknowable" amount? What will health care cost? Will I need to help my children or grandchildren financially? How long will I (we) live? The questions are almost endless.

A few observations from one who has been helping people plan for retirement and live in retirement for almost 50 years are: Most retirees will at some time feel it absolutely necessary to help a child or grandchild financially. The cost of basic living needs (e.g. food, real estate taxes, utilities, health care, insurance and the cost of home maintenance to name a few), all keep going up.

So what is the point, George? Almost everybody understands the above, but how one invests their retirement money to provide a needed retirement income that is "safe", but will also increase as the cost of living goes up, is a very, very big question. Safe is the key word. Many people think money is safe if it is in savings accounts, certificates of deposit, money markets and U.S. Savings bonds. Well maybe it is not so safe if one thinks about what their money in those accounts would have purchased 10, 20 or 30 years ago. I need not remind you that the interest rate on most of those vehicles has dropped to 1% or less. Money lost to inflation cannot be regained. Income lost to lower interest rates is not recoverable and yet many believe these types of investments are safe.

I have been doing some research on the reliability of income and safety of principle on stock mutual funds looking back over 75 years in 10 and 15 year periods, and I have been pleasantly surprised at how reliable both the income and growth of principle has been most of the time. Yes, but, I can hear someone say, how about the last 10 years? Good question.

My experience is that my clients had an income (if they needed it) from their investments, at or above what interest they could have earned on the "safe" investments, and have seen their principle grow as well, if they did two things. 1. They did not panic and take a substantial amount of money out when the market was down, and 2. they had some money in cash or cash equivalent to draw an income from when the stock prices were down. By some, I mean a year or two worth of income.

One more thought. To me investing for the future is a lot like running a race. Some races are short-distance and some are long-distance, but rarely is the same racer good at completing both types of races. Money needed in the near future (1-3) years should be invested differently than money that has to last the rest of your life.

I hope these thoughts help, and as always, I would love to discuss them further if you would like. Please do not hesitate to ask.

After Declines, Recoveries Have Followed

Since the early 1930’s, Standard and Poor’s 500 Composite Index has had at least one major decline of about 15% or more (excluding dividends and/or distributions) every decade. While the markets fluctuated after the declines, the declines were often followed by menaingful recoveries. Although there is no guarantee this will be repeated, after the market declines shown below (excluding the most recent decline):

- The average annual total return for the five-year periods after each decline was positive 100% of the time.
- A hypothetical $10,000 investment in the S&P 500 would have at least doubled 12 out of 16 times.

Significant market declines and subsequent five-year periods

Periods of decline	Percent decline	12-month returns* (Positive periods (68) / Negative periods (14))					Average annual total return for the 5-year period	Growth of a hypothetical $10,000 investment during the 5-year period	Number of downturns during the 5-year period**
		1st year after low	2nd year	3rd year	4th year	5th year			
9/7/29 - 6/1/32	-86.22%	137.60%	0.52%	6.42%	56.68%	16.52%	35.93%	$46,401	16
9/7/32 - 2/27/33	-40.60	105.43	-14.77	74.12	29.05	-32.50	21.57	26,554	11
7/18/33 - 3/14/35	-33.93	88.37	30.91	-37.51	25.94	-0.65	14.03	19,280	7
3/6/37 - 4/28/42	-60.01	64.26	8.96	31.08	32.19	-19.89	19.96	24,841	2
5/29/46 - 6/13/49	-29.61	52.74	20.95	20.33	3.38	27.04	23.90	29,195	2
1/5/53 - 9/14/ 53	-14.82	45.46	50.22	9.19	-1.41	12.76	21.54	26,525	5
8/2/56 -10/22/57	-21.63	36.30	13.23	-1.44	32.52	-17.10	10.82	16,713	2
12/12/61 - 6/26/62	-27.97	37.42	21.12	5.10	7.56	9.57	15.57	20,617	3
2/9/66 - 10/7/66	-22.18	37.34	10.04	-7.37	-3.08	18.89	10.04	16,132	5
11/29/68 - 5/26/70	-36.06	48.96	14.56	0.37	-15.06	7.28	9.31	15,608	4
1/11/73 -10/3/74	-48.20	44.43	25.99	-2.86	11.79	12.82	17.39	22,293	4
9/21/76 - 3/6/78	-19.41	18.76	17.20	25.80	-11.19	48.59	18.24	23,108	7
11/28/80 - 8/12/82	-27.11	66.11	6.80	18.52	34.65	40.98	31.90	39,917	1
8/25/87 - 12/4/87	-33.51	25.92	33.76	-3.74	20.31	17.12	17.97	22,845	2
7/16/90 - 10/11/90	-19.92	33.55	8.82	17.71	3.93	27.75	17.83	22,714	0
3/24/00 - 10/9/02	-49.15	36.15	9.91	8.51	15.09	18.05	17.14	22,060	1
10/9/07 - 3/9/09	-56.78	72.28	18.08	N/A	N/A	N/A	N/A	N/A	N/A
	Average	55.95	16.25	10.26	15.15	11.7	18.95		

We are proud to announce that Erica Amenda has returned to Bates Financial Group! She has also obtained the CERTIFIED FINANCIAL PLANNER™ designation. Please feel free to call her anytime for assistance. Welcome Back!

It is not too late to make a qualified charitable distribution from your IRA as part of your required minimum distribution for 2011. If you do make a QCD, you will need to advise your tax preparer so it is recorded correctly on your 2011 tax return.

WHAT IS ONE TO DO?

As I am writing this, the first week of November, we have just witnessed two weeks of almost unprecedented volatility. What is one to do? First, there is an agreement in Europe about Greece’s debt and a plan to bolster the financial backing of other European countries facing debt issues. The result: an approximately 5% uptick in the major indices.

Next, the Prime Minister of Greece states they are going to have a national referendum on the “deal”. Result: a 5% decline in the major indices. Then, the Prime Minster announces that they will not have a vote, resulting in a 4% rise in the indices. To end the week the G-20 countries meeting in Cannes, France, becomes irrelevant because of all the uncertainty.

So to answer my lead question… DO NOT PANIC, and make an emotionally bad decision. Rather stay the course with some minor changes. For example, for clients that will be taking money out to live on, and/or meet their required minimum distributions from retirement accounts, and have given us written authorization to act, we have moved money to money markets to meet those requirements on the up surges in the markets. For the balance of their investments we have made little or no change.

Yes, I know the news is unsettling, but that does not mean we have to do something. I have said before and will again “during times of uncertainty and people making emotional decisions about their investments, they often do the wrong thing.” However, this does not mean we stick our head in the sand and do not stay engaged. It does mean if we have good long-term investments, and are reasonably well diversified we probably do not need to make any changes.

I recently saw the chart above which shows the historical data on significant market declines and the ensuing performance over the next five years. Please look at it and think about the recent history in case you are inclined, as I am, to believe we live in a different financial world than 20, 30 or more years ago.

I distinctly remember clients coming to see me or calling in 2002. Some were crying, some were just plain scared, some admitted to losing sleep over the declines, some just wanted to know what to do. My advice… DO NOT GET OUT! We will recover. As you will note in the chart, the next 5 years the S&P 500 index averaged a 17.14% annual increase. Though we do not have 5

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THE CHEAPEST WAY TO MAKE A MILLION

Recently I was going through my "oldies but goodies" file, and I came across the following chart. I believe there is an illustration here for almost everyone. The bottom line is this, if you want to accumulate wealth, the younger you start, the better off you will be. PROCRASTINATION can be really expensive. For example, if investor A waited one year to start saving $2000 per year, the value would show a $90,000 difference (look at the values between age 64 and 65).

Share this with your children and grandchildren. Grandparents, if you can afford it, start putting money away for your grandchildren.

Assuming a 10% return, this table shows five ways to accumulate approximately $1,000,000 or more by age 65. Investor A contributes $2,000 at the beginning of each year for forty years (ages 26 – 65); Investor B, $2,000 a year for only seven years (19 – 25); Investor C, $2,000 a year for only five years (age 14 – 18); and investor D, smaller sums still from age 8 through 13. Finally, Investor E shows the growth achieved by making all of these contributions at every age. from 8 to 65.

	Investor A		Investor B		Investor C		Investor D		Investor E	
Age	Contribution	Year-End Value	Contribution	Year-End Value	Contribution	Year-End Value	Contribution	Year-End Value	Contribution	Year-End Value
8	0	0	0	0	0	0	500	550	500	550
9	0	0	0	0	0	0	750	1,430	750	1430
10	0	0	0	0	0	0	1,000	2,673	1,000	2,673
11	0	0	0	0	0	0	1,250	4,315	1,250	4,315
12	0	0	0	0	0	0	1,500	6,397	1,500	6,397
13	0	0	0	0	0	0	1,750	8,962	1,750	8,962
14	0	0	0	0	2,000	2,200	0	9,858	2,000	12,058
15	0	0	0	0	2,000	4,620	0	10,843	2,000	15,463
16	0	0	0	0	2,000	7,282	0	11,928	2,000	19,210
17	0	0	0	0	2,000	10,210	0	13,121	2,000	23,331
18	0	0	0	0	2,000	13,431	0	14,433	2,000	27,864
19	0	0	2,000	2,200	0	14,774	0	15,876	2,000	32,850
20	0	0	2,000	4,620	0	16,252	0	17,463	2,000	38,335
21	0	0	2,000	7,282	0	17,877	0	19,210	2,000	44,369
22	0	0	2,000	10,210	0	19,665	0	21,131	2,000	51,006
23	0	0	2,000	13,431	0	21,631	0	23,244	2,000	58,306
24	0	0	2,000	16,974	0	23,794	0	25,568	2,000	66,337
25	0	0	2,000	20,872	0	26,174	0	28,125	2,000	75,170
26	2,000	2,200	0	22,959	0	28,791	0	30,938	2,000	84,888
27	2,000	4,620	0	25,255	0	31,670	0	34,031	2,000	95,576
28	2,000	7,282	0	27,780	0	34,837	0	37,434	2,000	107,334
29	2,000	10,210	0	30,558	0	38,321	0	41,178	2,000	120,267
30	2,000	13,431	0	33,614	0	42,153	0	45,296	2,000	134,494
31	2,000	16,974	0	36,976	0	46,368	0	49,825	2,000	150,143
32	2,000	20,872	0	40,673	0	51,005	0	54,808	2,000	167,358
33	2,000	25,159	0	44,741	0	56,106	0	60,289	2,000	186,294
34	2,000	29,875	0	49,215	0	61,716	0	66,317	2,000	207,123
35	2,000	35,062	0	54,136	0	67,888	0	72,949	2,000	230,035
36	2,000	40,769	0	59,550	0	74,676	0	80,244	2,000	255,239
37	2,000	47,045	0	65,505	0	82,144	0	88,269	2,000	282,963
38	2,000	53,950	0	72,055	0	90,359	0	97,095	2,000	313,459
39	2,000	61,545	0	79,261	0	99,394	0	106,805	2,000	347,005
40	2,000	69,899	0	87,187	0	109,334	0	117,485	2,000	383,905
41	2,000	79,089	0	95,905	0	120,267	0	129,234	2,000	424,496
42	2,000	89,198	0	105,496	0	132,294	0	142,157	2,000	469,145
43	2,000	100,318	0	116,045	0	145,523	0	156,373	2,000	518,260
44	2,000	112,550	0	127,650	0	160,076	0	172,010	2,000	572,286
45	2,000	126,005	0	140,415	0	176,083	0	189,211	2,000	631,714
46	2,000	140,805	0	154,456	0	193,692	0	208,133	2,000	697,086
47	2,000	157,086	0	169,902	0	213,061	0	228,946	2,000	768,995
48	2,000	174,995	0	186,892	0	234,367	0	251,840	2,000	848,094
49	2,000	194,694	0	205,581	0	257,803	0	277,024	2,000	935,103
50	2,000	216,364	0	226,140	0	283,584	0	304,727	2,000	1,030,814
51	2,000	240,200	0	248,754	0	311,942	0	335,200	2,000	1,136,095
52	2,000	266,420	0	273,629	0	343,136	0	368,719	2,000	1,251,905
53	2,000	295,262	0	300,992	0	377,450	0	405,591	2,000	1,379,295
54	2,000	326,988	0	331,091	0	415,195	0	446,151	2,000	1,519,425
55	2,000	361,887	0	364,200	0	456,715	0	490,766	2,000	1,673,567
56	2,000	400,276	0	400,620	0	502,386	0	539,842	2,000	1,843,124
57	2,000	442,503	0	440,682	0	552,625	0	593,826	2,000	2,029,636
58	2,000	488,953	0	484,750	0	607,887	0	653,209	2,000	2,234,800
59	2,000	540,049	0	533,225	0	668,676	0	718,530	2,000	2,460,480
60	2,000	596,254	0	586,548	0	735,543	0	790,383	2,000	2,708,728
61	2,000	658,079	0	645,203	0	809,098	0	869,421	2,000	2,981,800
62	2,000	726,087	0	709,723	0	890,007	0	956,363	2,000	3,282,180
63	2,000	800,896	0	780,695	0	979,008	0	1,052,000	2,000	3,612,598
64	2,000	883,185	0	858,765	0	1,076,909	0	1,157,200	2,000	3,976,058
65	2,000	973,704	0	944,641	0	1,184,600	0	1,272,920	2,000	4,375,864
Less Total Invested:		(80,000)		(14,000)		(10,000)		(6,750)		(110,750)
Equals Net Earnings:		893,704		930,641		1,174,600		1,266,170		4,265,114
Money Grew:		11-fold		66-fold		117-fold		188-fold		38-fold