CYPRESS FINANCIAL REVIEW

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Cypress Financial Planning, LLC

Financial Tips for Fiftysomethings

In the previous three editions of the Cypress Financial Review, we examined a number of financial strategies that individuals and families could utilize to effectively balance their present lifestyles and prepare for the future during their early to mid working careers. Regardless of your personal financial success in previous decades, as you find yourself in your fifties, it is imperative that you place a significant emphasis on sound financial planning.

You may be a person who wakes up every morning with a smile, jumping out of bed because you are excited to go to work every day. For you, retirement will be nice when it comes but it is not as pressing at the moment. Consider yourself fortunate. For most Americans in their fifties, over thirty years in the work force has left them growing tired of the rat race and intensely focused on the earliest retirement date possible. The paragraphs below highlight the steps you can take to propel you past the finish line and into the retirement lifestyle you have envisioned.

Take a Current Assessment

With only ten to fifteen years of full-time employment remaining, now is an excellent time to step back and perform a financial physical. First, what is the current situation with your children? They may already be out of the house and starting lives of their own, they may be finishing up their education, or they may have already finished their education and still find themselves under your roof. While this is a strictly personal matter subject to individual opinion, it is still important to consider the impact your children's required support is having on your retirement goals. Now may be the time to have a candid discussion about expectations and set some necessary ground rules for the years to come.

Second, what is the status of your outstanding debt? If you have any non-housing debt, it is imperative that you work diligently at eliminating that as quickly as possible, as it is hampering your ability to save adequately. If you still have a mortgage, are you on track to pay it off by your desired retirement age? If not, you should consider making larger payments toward principal each month or refinancing to a lower interest rate and shorter term.

In this Issue

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Third, how healthy is your budget? Ideally, your fifties are a time where you have significant excess cash flow. If you are no longer paying tuition and you have reached your peak earnings power, you likely have some "budge" in your budget. Resist the temptation to drive down to Atlantic City and instead increase your savings rate! As a matter of fact, the government has granted those in their fifties a special retirement allowance called a "Catch Up Contribution." Within a 401(k), 403(b), or government 457 employer-sponsored retirement plan, you are now able to defer an additional $5,500 per year from your salary over the standard $17,000 limit. Within an IRA or Roth IRA, you can now contribute an additional $1,000 Catch-Up Contribution on top of the standard $5,000 limit, subject to income phaseouts. At minimum, you should check your current elective deferral rate into your employer plan and seek to bump up by a percent or two. You will likely not notice the difference in your checking account, and your future self will thank you.

Finally, you should examine your retirement investment asset allocation. Review the full picture, including all IRA's, old 401(k)'s, and any other assets you are designating for retirement. Instead of counting mutual funds and concluding you are properly diversified, conduct a detailed inventory of where your money is currently invested, separating different asset classes like cash, bonds, US stocks, International stocks, and other assets. Imagine that we have a repeat of 2008 in the coming year and the impact it would have on your accounts. Ensure that your mix of safe and risky assets is appropriate for your risk tolerance and time horizon.

Take a retirement assessment

Your fifties is the perfect time to put some hard numbers to your retirement goals. This is because retirement is probably still far enough away to make necessary adjustments but it is close enough to accurately estimate and quantify. It is common practice to think about retirement finances as reaching a certain percentage of pre-retirement income, such as, "I will need 80% of my current salary to retire!" However, a more detailed and accurate method to understanding the income needed is to think about your expenses. Will you be travelling more, treating the kids and grandkids, joining a country club? Or will you be engaging in less financially intensive activities such as volunteering or pursuing a small hobby? There are also some other important factors that will affect your retirement income needs. If you are seeking to retire before age 65, you will likely face the cost of purchasing individual health insurance. Will you still be carrying a mortgage on your primary residence or any other outstanding debt? Or will you be looking to downsize your home? Will you be anticipating any inheritance from a parent or other family member?

Once you have an accurate assessment of the various factors affecting your retirement expenses, you will want to estimate what sources of income will be at your disposal. While not guaranteed, Social Security does appear to be funded well enough in the future to allow for the payment of your full promised benefits. Secondly, you may have been fortunate enough to work for an employer that offered a pension plan. These two income sources represent your core, passive cash flow that will likely cover a decent chunk of your expenses. The next layer in the income pie would be any employment, probably part-time, that you may wish to venture into. If you have a passion or if there was always a particular job you thought interesting but was not enough to pay the bills earlier in life, retirement might be the time. If you do not want to work at all in retirement unless absolutely necessary, leave this item out initially and see how your savings hold up.

The final source of income for retirees is their investment portfolio which may also consist of savings accounts and CD's. There are financial calculators and software programs available to help determine if your current account size and future savings potential will be sufficient to bridge the gap between your desired retirement expenses and other sources of income. As well, a qualified financial planner can guide an individual or family through this process. At the end of this exercise, you should have a solid understanding of:

- Your income and expense level through different stages of retirement
- What retirement age may be feasible given your current circumstances
- If employment during retirement is necessary
- The level of savings required to reach this goal

Update your Estate Plan

It has likely been over five years, perhaps much longer, since you reviewed your will and other estate planning documents. Now is an ideal time to meet with your attorney and ensure that your documents are updated to reflect your current intentions, family situation and current laws. There have been some sweeping changes to the estate tax world over the past two years, rendering many old documents obsolete or inadequate. At the very least, you should review the beneficiary designations of assets that will not follow a will, such as retirement plans and life insurance policies.

Evaluate your Insurance Needs

For many, your fifties represent a time where a significant amount of responsibility is finally lifted—specifically, college tuition and mortgage payments. If you had previously taken out a life insurance policy to help cover these costs should you pass away before their completion, you may find yourself over-insured during a time period where premiums may have escalated. Reducing your coverage may be appropriate and end up saving you significant cash flow. Remember to capture this savings into a retirement account!

It is Never too Late!

Whether you have been financially prudent all along or have recently received a wake-up call, now is the time to use laser-like focus on retirement planning. The steps above are crucial to getting your financial house in order and preventing you from working into your 80s. A fee-only financial advisor can serve as a trusted partner, guiding you in the complex process towards making the most optimal decisions and achieving the balance of making the most of 2012 while also retiring comfortably and confidently.

First Quarter Economic Review

2012 has started white hot for investors globally, as widespread fear and panic from the late summer of 2011 is all but quickly forgotten. Bailout programs implemented in Europe seem to be taking hold and economic data coming out of the US has been surprisingly positive. Meanwhile our Federal Reserve is doing everything in its power to encourage growth and risk-taking, also buoying the stock market.

Stock Market Performance

In a historic quarter, the Dow Jones Industrial Average logged the largest point gain to start a year, rising a massive 994 points. Wall Street also celebrated on February 28th as the Dow closed above 13,000 for the first time since May 2008, before the depths of the financial crisis. On a percentage basis, the Dow rose 8.1% and the S&P 500 jumped 12%. The latter index benefited from the ascent of Apple which soared 48% in the quarter and now comprises 4% of the total weight of the index. The rally was not limited to the US as markets from Japan to Germany all posted their strongest quarterly gains in several years. In a classic case of "risk on", investors dove into assets such as small-capitalization stocks and junk bonds while moving out of safer assets such as US Treasuries.

US Economy

The economy has been consistently healing from the bursting of the housing bubble and ensuing "Great Recession," and the first quarter was no exception. Most notably, the unemployment rate dropped significantly during this time period. The latest reading of 8.3% in February is a vast improvement from the 9.1% figure as recently as last August. While some of this drop can be attributed to many Americans leaving the work force, a large portion is truly due to the economic engine churning out new positions at private companies who had been slashing payrolls until recently. Our economy added 227,000 jobs in February and a total of 1.2 million jobs in the past six months, the fastest pace of growth since 2006.

The housing market, which has been nothing but a huge drag on our economy since peaking in late 2006, is finally showing signs of a bottom. Prices dropped 0.8% in the three month period that ended in January, according to the Standard & Poor's / Case-Shiller index, which now stands at a level not seen since 2002. This rate of decrease is a slower level than the prior months, indicating that 2012 will hopefully be the year that the bleeding stops. Adding to this evidence, inventories of homes for sale are down sharply and sales of new and existing homes have posted sizable increases compared with one year ago.

Consumers have been feeling some pain at the pump, with the national average price for a gallon of gas topping $3.90/gallon in late March. Gas prices have been rising on the back of soaring oil prices, which shot up earlier this year amid fears that tensions with Iran could escalate into military intervention and, ultimately, disruptions in oil supplies. The government has been weighing options to offer assistance, including fast-tracking the approval process for a crucial new pipeline from Canada, as well as releasing oil from its strategic reserves. Meanwhile, if you vote for Newt Gingrich in the upcoming election, he has promised $2.50/gallon prices!

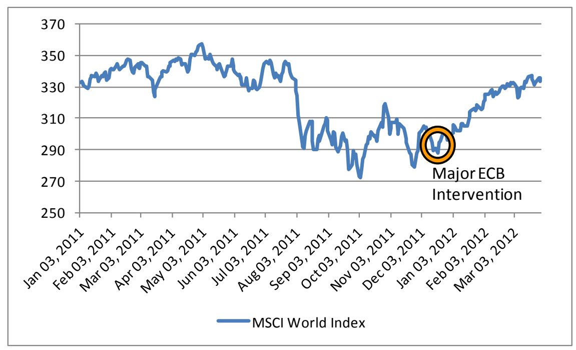
National Debt Situation

Generally accepted economic theory asserts that in recessionary periods, it is beneficial for the government to take action to spur demand and restore growth. Dramatic steps taken by President Obama and Federal Reserve Chairman Ben Bernanke have contributed to our nation now sitting on a massive amount of debt and gaping holes in our fiscal budgets that will be plugged by more debt. The US government is projected to hit its new $16.394 trillion debt ceiling later this year, with last August's congressional fiasco still fresh on investors' minds. Proponents of current policies argue that there is still significant demand for US Treasuries as evidenced by record-low yields. Former Federal Reserve Board Vice Chairman Alan Blinder said, "If you look at the markets, they're practically falling over themselves to lend money to the federal government." However, it was actually the Federal Reserve themselves that purchased 61% of the total Treasury issuance, a stunning figure that compares with virtually negligible amounts in years prior to the financial crisis. More traditional buyers of US debt securities, the US private sector (including banks and households, think savings bonds) as well as foreign entities have been scaling back their purchases recently, likely due to the low return on their investment. These low rates also mask the true impact that the cost of servicing the debt has on our national budget, lessening the urgency to reduce our deficit.

European Sovereign Debt Crisis

Making world headlines since the spring of 2010, the governments in many European countries have been struggling to refinance their debt without the assistance of bailout mechanisms. A €750bn European Financial Stability Facility, unveiled in May 2010, was initially cheered by investors but ultimately proved inadequate. Weaker countries like Greece and Portugal have been mired in a deep recession with high unemployment, exacerbating the need for assistance.

Thanks to unprecedented actions taken by the collective Euro-zone nations as well as the European Central Bank, the fear of a large-scale default by a globally significant country such as Spain or Italy appears to have eased at present. On December 22, the ECB started the biggest infusion of credit into the European banking system in the history of the euro. Dubbed the Long Term Refinancing Operation (LTRO), loans totaling €489bn were provided to European banks for three years at a rate of 1%, much lower than market rates at the time. The goal was to provide enough liquidity for these institutions to prevent a large scale financial collapse, which was viewed as a reasonable outcome prior to the intervention. ECB statutes prevent the entity from lending to countries directly, so this mechanism served as a work-around, due to many of the recipient banks turning around and purchasing government bonds. Consequently, the borrowing rates of the troubled nations have dropped and a level of confidence unseen since early 2011 was ultimately restored. While there were other factors contributing to the torrid market rally recently, the chart to the right shows how the announcement of the LTRO program transformed a very volatile and decidedly negative market into a very stable and rising one.



The key player in this crisis, Greece, was the subject of intense focus again in the first quarter. With a looming March deadline of maturing bonds for which the country did have the cash available, the European powers-that-be authorized a second bailout package worth €130bn, conditional on the implementation of harsh austerity measures to the dismay of Greek citizens. The bailout also included a debt restructure (kinder version of default) agreement whereby private holders of Greek bonds would voluntarily accept a 53.5% write-down along with lower interest rates and longer maturities.

Iranian Nuclear Threat

Growing tensions between the West and Iran over the latter's nuclear program have driven crude oil prices higher, threatening the global economy. Iran claims its nuclear program is for peaceful purposes, but the US and its allies believe they are attempting to develop weapons. A series of punishing sanctions imposed by the Western nations have been successful in damaging Iran's local economy and also serves to persuade Israel that there is currently no need to attack Iranian nuclear facilities. In response to the sanctions, Iran is threatening to block the Strait of Hormuz and disrupt all oil deliveries from the region to the West. It is fair to assume that any military action or confirmation of nuclear weapons development by Iran would be devastating to the global stock market and warrants close monitoring.