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Finding a Balance between Risk and Return

One of the most basic investment principles is that returns reward you for the risks that you take. While investors are often uncomfortable with the concept of risk, it is this uncertainty that makes higher rates of return possible. **Some basic principles related to risk and return include:**

✔ Returns on specific investments are not known in advance. Investors can review historical rates of return, but there is no absolute guarantee that past returns will be indicative of future results. In any investment or insurance in which you may be interested, we help to illustrate previous trends for you, and our firm is generally conservative in nature.

✔ Greater uncertainties can be correlated to greater risk. However, by creating a well-balanced plan that is targeted to your long-term goals for income, safety, and growth, your end results are more likely to be achieved.

✔ Different investments are subject to a variety of risks:

- Cash is primarily subject to *purchasing power risk* — the risk that the purchasing power of cash will decrease due to inflation.
- Bonds are also subject to *purchasing power risk*, to *interest rate risk*, the risk that interest rates will increase, causing the bond's value to decrease — and *default risk*, the risk that the issuer will not repay the principal or interest on the bonds.
- Stocks are primarily subject to *non-market risk*, the risk that events specific to a company or its industry will adversely affect a stock's price, and *market risk*, the risk that a particular stock will be affected by overall stock market movements.

✔ Speaking generally, there are trade-offs for risk and return. Low levels of risk tend to be associated with lower but often consistent return potential. Low levels of risk tend to be

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Adjusting Your Retirement Portfolio

As you approach retirement age, it is often necessary to adjust your portfolio:

Assess your retirement financial needs. To determine what adjustments are needed, you should first assess how much you will need during retirement. Keep in mind any health insurance and medical expenses as you consider your projected budget. You will also want to consider mortgage payments and inheritances you would like to leave heirs. Additionally, determine how much you will receive from retirement income sources.

Determine appropriate portfolio adjustments. You will need to take a look at your portfolio to develop an appropriate strategy for allocating your assets. You should align portfolio changes with your individual level of risk preference and ultimate financial goals.

During retirement, you should review your portfolio regularly so you can make adjustments as needed. Life changes, such as an illness, the death of a spouse, or a relocation can significantly affect the amount of money required to maintain your desired standard of living. ❍❍❍

Finding a Balance

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more desirable as a person moves from the Wealth Accumulation phase of their life to Wealth Preservation/ Income Distribution phase. Higher return potential, on the other hand, exists to encourage investors to invest. These investments should be appropriate for you, in proportion to your risk tolerance, and targeted to meet your long-term needs.

There are strategies that can be used to reduce the total risk in your investment portfolio:

✔ **Diversify your portfolio.** Generally, it is ideal to be diversified among several different investment categories, including cash, bonds, and stocks, and to be further diversified within the types of stock you hold. A properly diversified portfolio could contain a mix of asset types whose values have historically moved in different directions — or alternatively — in the same direction at different magnitudes. Diversification is a tool often used so that within a market downturn, any one investment should not have an imbalanced impact on your total return.

✔ **Stay in the market through different market cycles.** Remaining in the market over the long term helps to reduce the risk of receiving a lower return than expected, especially for more volatile investments such as stocks.

✔ **Use dollar cost averaging to invest.** Rather than accumulating cash so that you have a large sum to invest at one time, it is often advantageous to invest small amounts consistently over time. Dollar Cost Averaging involves investing a certain sum of money in set amounts at regular intervals. This spreads your purchases over a period of time.

Is there someone in your family who is ready to discuss how to balance risk and return in your portfolio? We always encourage leveraging time as an asset in your financial strategies. We're here to help. ❍❍❍

5 Estate-Planning Tips for Dependents

When you have people who are dependent on you, like children or elderly parents, you want to ensure that they will be well taken care of in the event you can no longer care for them. Here are five tips for creating an estate plan that will ensure your dependents are taken care of according to your wishes.

1 Hire an estate planner — An estate planner will make sure that you think of and lay out every aspect of your estate plan. Estate planners stay up to date on tax rules and other laws and regulations, so they can help you ensure that your plan is legally and financially sound, leaving your dependents in the best situation possible.

2 Choose a guardian — Choosing someone to take care of your children in the event that both you and the children's second parent are deceased is a huge decision to make and deserves great care and time. You want to choose a guardian who loves your children and has the capacity to take care of them into their adulthood. That means a guardian who has the financial capacity to care for your dependents, as well as the physical capacity to do so.

So even though grandparents may be able to love and care for your children just as you did, they may not be in good enough health to care for a child or children. On the other hand, your sister may be able to love your dependents just as much as you did and be in perfect health, but is unable to hold a steady job or stay in a committed relationship. The goal of choosing a guardian is to make sure your children are loved and taken care of adequately, they receive a good education, their lives remain as stable as possible, and they receive emotional support to cope with your loss. It's crucial to communicate with your chosen guardian. Ask early (and often) if they are comfortable being the guardian of your child or children.

3 Develop a trust — A trust is often used when people have minor children or dependents that are incapable of taking care of themselves. You, the trustor, puts a trustee in charge of the beneficiary's property and/or assets until the beneficiary meets certain requirements, such as reaching a certain age or milestone. Usually the named guardian is also the trustee, however each situation is different. Make sure you take time in choosing a trustee and pick someone who is trustworthy and capable.

4 Start as soon as possible — As soon as you have a child or otherwise become responsible for a dependent, it is important to get an estate plan in place to protect them in case of emergency.

5 Reevaluate often — As time goes on, your situation may change quite a bit from your original plan. For example, anytime you acquire a new asset or debt, it should be included in your estate plan. Also, you may realize that the guardian you originally chose for your dependent is no longer the right choice — they may get sick, die, or move far away. You may have more children or unexpectedly start caring for an elderly family member. Anytime major changes happen in your life that impact what you would leave behind and to whom you'd want to leave it, you should revisit your estate plan.

We all want the people we leave behind to be cared for after our deaths as we cared for them during our lives. You may have no control over when or how you will die, but you do have control over what happens to your dependents. ❍❍❍

How Much Life Insurance Do You Need?

Generally, there are Rules of Thumb to determine how much life insurance that a person should buy. However, an accurate assessment of how much life insurance YOU need can only be answered through a thorough and thoughtful analysis, which means there is no cookie-cutter answer that works for everyone. Another important issue is that over time, your life insurance needs evolve.

Let's start with the primary purpose of life insurance: It transfers financial risk from you to your insurer. Secondly, it is supposed to provide support for the people who depend on your income, like a spouse and/or children. If you do not have a spouse or children, it's important to meet with your financial professional to help ensure that your estate can support your intended estate beneficiary, whether that is a person or a charity.

Replacing Your Income

Another way of describing the basic purpose of life insurance is income replacement. Simply put, it means leaving your beneficiaries a lump sum of money that can generate an income equal to the amount of money you were making.

Let's say you earn $100,000 a year. And let's assume that the decision-maker you leave behind could invest a lump sum that would generate income of 4% a year. To determine how much that lump sum needs to be is simple math: divide $100,000 by 4%. The answer is $2.5 million, which is 25 times your annual income.

Easy? Sure, you if ignore inflation — which is a very serious challenge — and the fact that these days it's not easy to find safe investments that can be counted upon to generate 4% income every year.

As for inflation, the problem is that every year a dollar buys less. So if you want your heirs to keep up with inflation — to maintain the same level of real income each year — then the investment return on the proceeds of your insurance policy has to equal the total of the rate at which your heirs withdraw from them *plus* an amount equal to the rate of inflation.

Alternatively, your beneficiaries could withdraw whatever they need to keep up with inflation. So, when inflation proceeds at a steady rate of 3% per year, they withdraw $100,000 in the first year, $103,000 in the second year, $106,090 in the third, and so on to keep the same level of real income each year. But this means they're drawing down principal, and that means it will eventually disappear.

In the example above, with the invested life insurance proceeds earning 4% a year and the heirs withdrawing $100,000 in the first year and more in each subsequent year to cover 3% inflation, the entire principal would be gone after 29 years. Now, that may be fine if your surviving spouse is 60 years old when you die, since it would cover him/her for most if not all of his/her lifetime; but it wouldn't be so good if your spouse was considerably younger when policy benefits are paid, or if you're hoping to support children or grandchildren.

In addition, the simple income replacement method overlooks other kinds of contingencies, like providing a college education for your children.

Needs Analysis

While the income replacement calculation beats the old rules of thumb, it still represents only a very basic level of planning that can leave many important considerations unexamined. As an alternative, the needs analysis calculation looks at all of your survivors' relevant lifestyle needs to determine the appropriate amount of life insurance. This approach relies on many of the same considerations that a full-fledged financial plan addresses, such as:

✔ **Will your surviving spouse work?** The extent to which your spouse can earn income from employment will reduce the amount of insurance you need. If a paycheck is a possibility, though, to what extent will it be reduced by childcare expenses?

✔ **Should your spouse pay off debt?** If your spouse's income possibilities are limited, it might make sense to use some life insurance benefits to pay off a mortgage or other debts.

✔ **Funding a college education.** If you were planning on using a portion of your income to fund your children's educations, is the life insurance policy enough?

✔ **Financing your spouse's retirement.** If your contributions to an IRA or workplace retirement account are essential to meeting your retirement goals, you need to factor that into the calculation of your life insurance amount.

The approach that will likely be the most successful is to work from a comprehensive plan that takes all aspects of your financial life into account. We are here to help you audit existing policies, offer additional options, and help you with income replacement strategies. What kind of questions do you have? Have you had an important life event? We're here to help. ❍❍❍

Fried Green Tomatoes

It's tomato season! In honor of the abundant crop that you, your friends, or your family may have been blessed with, here is a very simple way to cook through what you've grown. These are great to prep several hours ahead of when you plan to cook them. These are delicious by themselves, in a salad with bacon and goat cheese, or in a BLT sandwich.

2 green tomatoes, sliced ¼ inch thick

½ teaspoon salt (*optional, use to taste*)

Freshly ground pepper, to taste

1 tablespoon ground mustard

1 tablespoon paprika

½ cup + ¼ cup unbleached all purpose flour

1 cup cornmeal

1 cup buttermilk

½ cup canola oil

This quick meal is all about organizing your cooking space. Lay out your sliced tomatoes and season each side with salt.

Combine the ¼ cup of flour, cornmeal, ground mustard, black pepper, and paprika.

Set up your breading station with three shallow containers: 1) ½ cup of the plain flour 2) buttermilk 3) cornmeal/flour mixture. To bread the tomato, coat each tomato in flour, tap off the excess, dunk the tomato in the buttermilk so that it is thoroughly covered, and then cover both sides with the cornmeal mixture.

Once they are all breaded, refrigerate them for a minimum of an hour. They are simple to cook. Heat up the canola oil in a skillet over medium high heat. Be careful to cook them through until each side is golden brown. Try to only flip them once. It's best to set them on a plate with paper towel to absorb the excess oil when they are done cooking. Serve immediately.

This recipe is adapted from *The Whole Foods Market Cookbook*.

Investment Answers News

We have had a very busy few months! Since April, we have had a variety of small events in different areas throughout Kentuckiana. Each event offered our clients, their family, and their friends a great night out and a chance to enjoy some fellowship with their Investment Answers team. You can always find out about our events at **www.InvestmentAnswers.net** on our website Calendar.

One of the questions Travis receives most often is, "I am interested in learning more as an investor. Where is Travis speaking next?" Travis has created a two-day course called *Financial Survival for Retirement*. If that sounds like a class that you or someone you know would be interested in attending, let us know. We can try to select a local venue for your Community.

Women & Investing was one of our most highly anticipated events in early 2014. If that is an event you would like to attend, please let us know. We are planning events for late Summer and Fall, and this presentation is full of valuable information for women at all adult life stages.

Please call the office at 502-690-3434 if you would like us to mail you a Client Event Reply Card. We use your replies on these cards to create the types of events that will be fun and informative for you. We look forward to seeing you soon!

Take Action to Gain Financial Security

- Get a fix on your financial picture by organizing all your tax records, wills, trusts, insurance policies, mortgage documents, and other important documents to determine the full scope of your assets and liabilities.
- Establish short- and long-term goals, such as reducing your debt, increasing contributions to a retirement fund, increasing investments or savings, reevaluating insurance coverage, or planning for your children's college educations.
- Prepare a strategy to meet these goals by setting priorities, allocating assets, and making the trade-offs necessary to make your goals a reality. Write everything down and establish a timetable that can be realistically met.
- Implement your strategy and stick with it. Don't allow yourself to become sidetracked. Stay aware of your financial situation.

Arming yourself with information and surrounding yourself with a team of qualified professionals can help ensure the long-term success of your plans. Need a professional referral? We'd be happy to make an introduction.