



PARTNERS

WEALTH MANAGEMENT

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Fixed Annuities Can Provide Stability, But You Pay A Price For It

Many retirees, worried that they'll outlive their savings, are turning to fixed and variable immediate annuities, which can guarantee a lifetime of income. But beware of their fees and inflation susceptibility.

With a fixed annuity, you trade a lump sum of cash to an insurance company. In return, the insurer promises you regular income payments for a defined period or for life. Your income payments are mostly determined by your life expectancy and how much the insurance company believes it can earn on your money. Because the insurer fixes payments based on the longevity of its entire pool of annuity customers, some of whom will die early, your monthly payments tend to be larger than you could earn on your own from similar interest-bearing vehicles.

An immediate annuity's fixed income stream means no more worries about securities markets or interest rates—seemingly just what the doctor ordered to get you sleeping at night. But in today's interest rate environment, the fixed nature of payments is also a potential drawback to an immediate fixed annuity. You're locking in a relatively low interest rate for years to come, and a future brush with inflation could put you right back pacing the floor. This is what happened to retirees who retired on

fixed-income pension plans in the early 1970s. Inflation of the late-1970s and early 1980s dramatically eroded the value of their income.

A variable immediate annuity is an alternative. The insurer invests part of your money in an equity-based portfolio and fixed-income securities that promise to pay a fixed amount.

Your income payment can go up or down based on the portfolio's performance. One catch: early payments from a variable annuity are generally lower than those of a fixed annuity, and fees are higher. Typical total costs may range from 1.5% to 2% annually, with some variable annuities charging as much as 2.5% annually.

Choosing between fixed and variable? "I'd give strong consideration to the variable," says David M. Cordell, professor of finance at The American College in Bryn Mawr, Pennsylvania. "Even if the stock market performs only moderately well, variable immediates will outperform fixed immediates by a large measure over the long haul."

But you must be aware of the stock market risk of a variable annuity and weigh the possible returns and risk against the fixed annuity's ironclad guarantee and lower costs. The fixed annuity helped new retirees avoid the bear market losses that fractured so

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What Could You Accomplish in Ninety Days?

I was thinking about the number ninety and how important it is in our society. It generally takes ninety days to make a new hire. Ninety days is usually the period in which new executives and CEOs are judged on their ability to make a measurable difference in their organizations. (President Obama gets a hundred and those are up this quarter, so let's see what marks he gets.)

All this brings me to ask: How is the year unfolding for you? Let's look at the first ninety days of 2009 to gauge how we're doing in terms of our wealth management, and how we can do better.

Here are some questions that may be of help to you:

1. Have you reviewed your portfolio with us recently?
2. Is your tolerance for risk the same or different after living with this economy?
3. Have your goals or circumstances changed?
4. Have you talked to us about opportunities for investment, tax savings, and other money-saving ideas? (They do exist even in this economy.)
5. Can you economize on or defer large purchases until your balance sheet gets back to a more profitable position? (We can help you with that as well.)

Let's resolve to make the next three quarters of 2009 as profitable as possible. We are here to help.

Creating A Comfortable Financial Independence Plan

Everyone needs a financial blueprint for life after work. Operating without one is a little like closing your eyes as you barrel down the freeway. It's essential to know where you're going and how you expect to get there. But a financial independence plan will help you achieve your goals only if you incorporate it into your financial life, and that won't happen unless the plan feels comfortable. And that comes from understanding its component parts and how they're connected. Consider these elements:

Cash flow analysis. Your plan needs to project where your money will come from and where it will go during the rest of your life (and your spouse's life, too, if you're married). What will come in during retirement, from Social Security, a company pension, annuities, and from drawing down your savings? And how will that match the needs of the lifestyle you want? Several unpredictable variables complicate these calculations. Inflation affects how far your money goes, and investment returns, based in turn on economic and market cycles and your choices, determine how much you have to spend. Taxes will also play a role.

Investment choices. Three factors affect what should be in your investment portfolio. Your goals: What kind of return do you need, both while you're working and during retirement, to support your lifestyle? Your risk tolerance: How much volatility in portfolio returns are you willing to accept to meet your goals? Taking greater risks may provide higher potential long-term returns, but not if you panic and sell when the market takes a turn for the worse. And your time horizon: How long do you have to save for retirement, what is your tax bracket, and how many years do you need your savings to last?

Contingency plans. Job losses, expensive illnesses, or the unexpected death of you or your spouse could put your plan off track. There could also be unforeseen expenses involving your children or parents, and the need for nursing home care during retirement could quickly drain your savings.

Having a cash cushion along with life, disability, and long-term care insurance can prepare you to handle potential setbacks. Not planning for lifestyle changes is a major mistake and will put your financial future in jeopardy.

Estate planning. This is crucial even if estate taxes aren't likely to be an issue. You need a will, periodically updated, and a letter of instruction that tells heirs where to find information about financial accounts, life insurance, safe deposit boxes,

and the like. It's also important to designate beneficiaries for 401(k)s, IRAs, and other financial accounts that reflect your wishes and take into account potential tax liability.

It can be complicated to weave together all of these elements. But we have the tools, experience, and experience to help you create a financial plan that feels comfortable. ●



Is It Time To Buy Municipal Bonds?

Municipal bonds don't normally make news. But the past year's credit crisis dragged even the most staid investments through the mud, and munis were no exception. The good news is that the rap on these bonds' reputation has led to some of the best muni buying opportunities in a long, long time.

The problem wasn't the municipal bonds themselves, which are used to finance public projects such as bridges and roads, but the bond insurance that many bond issuers purchase. Provided by companies such as Ambac and MBIA,

this insurance gives any muni bond, regardless of underlying credit quality, an AAA rating. Investors like insurance because it adds another layer of protection against default; issuers like it because using it reduces borrowing costs. (Higher-rated bonds can offer lower interest rates.) At one point, about half of the municipal market was insured.

If bond insurers had insured only munis, there would have been no problems, because municipal bonds have miniscule default rates—just 0.1% from 1970 through 2006, according to a Moody's Investors Service study. (Corporate bonds, in

contrast, have a 9.7% default rate.) But it turned out bond insurers had gone beyond the municipal bond market to insure collateralized debt obligations built around dubious subprime mortgages, and subsequent losses put the companies on unstable financial footing. Municipal bond prices plummeted and their yields rose after Ambac was downgraded by one rating service and put on notice by two others.

At one point, AAA-rated munis yielded about 0.5 percentage points more than comparable Treasury bonds. Ordinarily, munis' yields are lower than Treasuries', because

A Time To Recall Financial Planning Basics

Just a few years ago, almost everyone knew at least one person who had made a fortune in the stock market. Today, many of us have lost a fortune. For those who are wondering what went wrong, here's a refresher course in financial planning basics.

Diversification.* In the late 1990's, many investors thought diversification meant buying three computer stocks and two Internet stocks. Others assumed they were being prudent because they owned a dozen mutual funds. But true diversification means buying a range of investments in markets that do not move in lockstep with each other. Through most of the 1990s, growth stocks were the spectacular performers; in recent years value stocks have been successful. A balanced portfolio will have both. It will also include bonds. But just starting out with the right mix isn't enough; you also need to rebalance your portfolio regularly, trimming positions that have done well and adding to others that may be poised to rebound.

Planning. Establishing clear life goals and a long-term strategy is the essence of sound financial planning. A solid plan lays out the amount you must save annually, assuming an expected average rate of return, to reach your financial targets. It prepares you for future expenses, such as a child's college education, and unexpected setbacks, such as premature death or disability.

municipal bond interest is exempt from federal income taxes. "It was clearly an anomaly for munis to yield more," says Thomas Doe, chief executive officer of Municipal Market Advisors, a municipal bond strategy firm.

While the muni crisis may have passed—and that screaming buying opportunity with it—municipal bonds still are attractive to many investors, particularly those in high tax brackets.

When muni yields approach those of Treasuries, muni investors come out ahead, keeping more income after taxes. The advantage can be even greater on bonds that are also exempt from state and local taxes. The higher an investor's tax bracket, the higher

Saving. Money doesn't grow on trees, but it does grow provided you invest it. The more you put aside and the longer you allow it to compound, the better off you'll be. The rule of 72 is the easiest way to see how this works**. Simply divide 72 by your rate of return to get the number of years it will take for your money to double. For example, with an 8% return, your investment will double in nine years and quadruple in 18. A steady, automatic withdrawal from your paycheck is probably the most effective way to save. That way, you don't miss the money, because you never see it, and you're able to load up on assets when they're doing poorly and reap the benefits when they go up.

Retirement contributions. The government rewards savers by offering tax benefits to retirement accounts such as 401(k)s, 403(b)s, and IRAs. In most cases, you contribute pre-tax dollars and the money grows tax-deferred, meaning you don't owe taxes on gains until you withdraw the money. With Roth IRAs, you contribute money that has already been taxed but your withdrawals are tax-free. Either way, the boost from Uncle Sam is so generous that it's worth stuffing as much as possible into retirement accounts before allocating to regular savings and taxable accounts.

Tax planning. Hidden within hundreds of pages of tax laws are a broad range of special breaks for taxpayers.

the value of the bonds' yields. "Munis are still attractive on a relative basis," says Doe. "They give you more yield than should be available for a particular level of risk." If the government raises income tax rates in the future, tax-free municipal bonds will become even more attractive.

Contact our office if you would like to discuss whether this might be an opportune time to add municipal bonds to your portfolio. ●

The information provided is not specific financial advice or a recommendation to buy or sell. We must review your profile, needs, and accounts specifically to determine what is right for you.

Shifting income from one year to another, selling assets that have lost money to balance out gains from top performers, and making contributions to educational savings accounts are just three possibilities. Review your tax situation with a financial professional at the beginning of the year and again in December.

Insurance. Planning for the unexpected is the key when determining insurance needs. You should have enough life insurance to meet heirs' long-term needs. Your health insurance should include coverage of catastrophic accidents or illnesses. Disability insurance is relatively inexpensive, but could make a big difference if you need it. And you should seriously consider long-term care insurance if you don't think your retirement income will be sufficient to pay for nursing home care.

Estate planning. Having the right estate plan will help ensure that your wishes are respected. If you have substantial assets, developing a well-thought-out estate plan can help minimize taxes even while you are alive and maximize the amount you are able to leave to loved ones and your favorite charities. Even if you don't have enough in your estate to be liable for federal or state estate taxes, having a valid will can save your heirs a lot of trouble and money.

In the dying days of the 20th century, there was talk about how the old financial rules no longer applied. "It's different this time," everyone said. But it wasn't all that different, and millions of investors lost ground and time on the road to their financial goals. It's never fun to start over, but it does give you one more chance to do everything right. Taking care of these basics should prepare you well, and we are happy to help. ●

***Using diversification as part of your investment strategy neither assures nor guarantees better performance and cannot protect against loss of principal due to changing markets.**

****The Rule of 72 is hypothetical and there can be no assurance that any investment will double within the specified timeframe.**

Trust A Fiduciary To Act In Your Best Interest

You may have heard of the term “fiduciary,” but do you understand what it means for your finances? Is there really a difference between a fiduciary and a non-fiduciary advisor? You betcha. And that difference is you.

A fiduciary has a legal obligation to act in your best interests, above his own and those of his firm. While many industry associations have certain fiduciary recommendations or oaths that they require of their members, all fiduciaries must adhere to these principles of the advisor-client relationship:

1. Be competent and exercise due care
2. Loyalty to the client
3. Full and adequate disclosure

Today, Registered Investment Advisors (RIAs) commit to a fiduciary responsibility and have to state it in writing. Commission-only reps, on the other hand, are merely in the business of making financial transactions—like helping you to buy mutual funds or annuities. They have no obligation to choose the investments that work best for you, and, naturally, may steer you

towards suitable, but not the most ideal, investments that give them greater commissions.

Hybrid advisors—those who work on both commissions and fees—have a different situation. They can charge you rates for providing advice, but then can also receive commissions for selling you certain investments. By receiving commissions, the objectivity of their recommendations can become uncertain.

With a fiduciary advisor, the clients’ needs must come first. If there are any conflicts of interest, they must be fully disclosed. A fiduciary advisor carefully assesses your financial situation and recommends a diversified portfolio that serves your financial goals. The fiduciary advisor will start with what you want to achieve—from paying your children’s college costs or buying a second home to funding your retirement—and considers how long you have to get there. She probes your comfort level with investment risk then

designs a mix of investments most likely to move you toward your objectives. She also analyzes your need for insurance and assesses the impact of taxes.



A 2007 federal court ruling helped clarify the distinction between financial planners and advisors and non-fiduciary fee-based advisors affiliated with broker/dealers. The

court ruling ended an exemption from the Investment Advisors Act of 1940 that had allowed broker/dealer-affiliated advisors to charge fees and call themselves financial planners and investment advisors while not being held to a fiduciary standard of conduct.

When dealing with our firm, you don’t have to worry about conflicts of interest related to selling products. We have a legal obligation and a professional oath to put your interests first, and you can trust that we will strive to go above and beyond that obligation. ●

Annuities Provide Stability

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many nest eggs, throwing many recent retirees into a fiscal crisis.

Beyond their ability to soothe retirees’ fears, annuities can also serve as a way to build a personal pension plan, suggests Geoffrey Bobroff of Bobroff Consulting, a fund industry advisory firm in East Greenwich, Rhode Island. “Most baby boomers, unlike their parents, don’t have a defined-benefit plan to fall back on,” Bobroff says. “If I think I need \$1,000 a month to cover essentials, I could buy an annuity to produce that income. If I have a \$500,000 portfolio, ideally I would invest part of it in guaranteed products like annuities

and part in vehicles carrying more risk to generate growth.”

One drawback to immediate annuities: their performance depends on how long you live. Beat the actuarial tables and live longer than expected, and you’ll make out well. But if you die before your time, the return could be paltry.

While some annuities promise to pay your heirs for unused benefits, your initial monthly payments will be smaller to pay for that promise to be put in a rider.

Finally, while immediate annuities may have a role in some retirement plans, if you have a substantial portfolio you may also want to consider creating your own withdrawal program. It might

deliver more flexibility and greater returns than you’d get with an immediate annuity. ●

A variable product is a contract between you and an insurance company. A variable annuity is part insurance policy and part security investment. A variable insurance policy invests cash values in securities accounts held separately from the assets of the insurance company. The value of variable products will vary depending on the value of the underlying securities.

Guaranteed riders on variable products can be complex and will generally increase the annual costs charged.

Variable products are offered by prospectus. Please consider the charges, risks, expenses, and investment objectives carefully. The prospectus contains this and other information about the annuity and should be read carefully before investing.