THE H GROUP INC.
INDEPENDENT WEALTH MANAGEMENT SOLUTIONS™

THE KELEMEN, WAY & SHEPPARD
financial PERSPECTIVE

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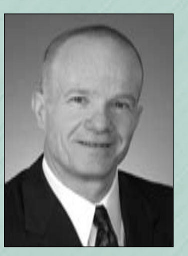

Ron Kelemen, CFP®

Mary Way, CPA, CFP®

Alex Sheppard, MBA

Creators of The Planning Vision Process®

Twenty and Five Years Later—Can the Party Continue?

We just passed the 20th anniversary of the October 19, 1987 stock market crash. Those were scary times because the shock came from out of the blue. But life went on, and with a few ups and downs we enjoyed unprecedented market gains and prosperity. The Dow has risen 711% since October 19, 1987. In fact, we just passed another milestone anniversary on October 10—the 5th anniversary of our current bull market.

So here we are again. Doom and gloom in the news, this time driven by the mortgage and housing bubble situation and an early dose of political rhetoric. Let's stop for a minute and take a deep breath. Much has been made of the similarities between today's market and 1987's. The differences are far more important.

Most experts agree that the crash was essentially an inter-market event driven by an imbalance between futures markets and the cash market for shares. Prior to Black Monday, interest rates had risen sharply to 10%. This made stocks worth less, even though they were in a huge speculative rally, with the Dow up 43% for the year.

Probably the biggest difference between then and now is that today's financial markets are so much deeper and more liquid. The markets trade around the clock, around the globe with better built-in controls and more proactive central banks.

The end of our current bull market?

Every bull market has its own traits. Unlike the one preceding 1987, this one has been more gradual and sustained. The market had greatly over-corrected by late 2002 and it had to rally like crazy just to catch up with fair value. At the same time corporate earnings were increasing nicely. They have since slowed down, especially in the formerly hot small and mid-cap markets. Third, interest rates are still relatively benign. And finally, investor sentiment is currently much more muted, especially now. (Most bull markets peak when investors reach a frenzy.) Right now, if there is a frenzy, it is in Asian markets like India and China.

All of this could change, but probably not overnight. The economy could seriously weaken and take earnings with it. The housing/mortgage lending situation has the potential to do this, and the decline in banking stocks is not a healthy indicator. But we are more of a service economy with non-housing sectors doing fairly well. Interest rates could increase and thus make future earnings worth a lot less than today. And an increase in populist trade protectionism here and abroad could put the skids on markets worldwide.

As we have argued over the past several election cycles, the elections are the one thing that won't have much of an effect on the markets. No president or member of congress has the ability to wave a magic wand and control the economy and financial markets. Our massive economy is based upon billions of individual decisions every single day. Our consumption patterns, vacation plans, lifestyle, groceries, health care expenditures, etc. and corporate equipment, hiring, and marketing decisions are not going to change just because some candidate does or does not win an election.

A lot has changed the past five and twenty years and nobody knows the future. Your best option is a well-constructed portfolio with components that can respond well to different environments. It was tempting to retreat or stay comfortably in cash in 1987 and 2002, but comfort often doesn't lead you to where you need to be.

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(503) 371-3333
960 Liberty Street SE
Suite 210
Salem, OR 97302
www.planningvisionprocess.com

Overcoming Procrastination and Its Guilt

Most people spend more time planning their holiday dinners than they do their future. As the Thanksgiving and Christmas holidays approach, this is the time to start thinking about next year and beyond. But for many of us, procrastination—and its guilt—is the 800 pound gorilla in the room. Understanding why we do it and how to get around it is the first step to getting things done.

Sometimes procrastination is a valid strategy when other factors are not in place. It can make sense on really complex things that require a lot of thought or when there is too much ambiguity. If so, admit it instead of letting it hang over your head, giving you guilt and sapping you of energy. Sleep on it, but set a date when you will deal with it.

WHY WE PROCRASTINATE AND HOW TO DEAL WITH IT

OBSTACLE	STRATEGY
1. We haven't sold ourselves on the task or project	Sell yourself on the project. Ask yourself, "What would it take to sell myself? How will I feel if I get this done? How will this benefit my family and me?"
2. We don't truly understand the positive consequences of doing the project or the fear and negative results if we don't.	Ask yourself, "What is the best possible outcome if I do this? What is the most likely outcome? What will happen if I don't do it?"
3. The project seems so overwhelming that we don't know where to start.	Apply the "One and 80 Rule." Ask yourself, "What is the one step I need to take to at least get started?" (Sometimes it is as easy as picking up the phone and making an appointment.) "What additional steps are needed to get me to 80% of completion?" This 80% is often enough momentum to carry you through to the end, or sometimes it's just "good enough."
4. There is no measurement of success. How will we know if we've done it right?	Define your goals and objectives. This is the essence of financial planning and investment management, and something we routinely help our clients do. This loops back into obstacle and strategy #1.

So here are some things to wrap up for 2007 and to think about for 2008 and beyond. We can help you cut through the procrastination obstacles. All you need to do is decide to do them.

2007 Year-End Checklist

- ❑ Make an annual $12,000 exclusion gift to family members.
- ❑ Request a Required Minimum Distribution from an IRA (If over age 70 ½)*
- ❑ If you are over 70½, take advantage of your last opportunity to make a direct transfer from your IRA to one or more charities*
- ❑ Maximize your payroll 401-k or other retirement plan deduction
- ❑ Realize some tax losses or gains in your taxable accounts for tax purposes
- ❑ Set up and fund your own family foundation through a donor-advised fund*
- ❑ Donate appreciated stock to charity*
- ❑ Give stock or mutual fund shares to family members*
- ❑ Set up a qualified retirement plan for your business and/or professional practice
- ❑ Convert your IRA to a Roth IRA*
- ❑ **Program in plenty of time to enjoy the holidays**

**Must be started immediately to be completed by the 12-31-2007 deadline*

The Bigger Picture

- ❑ Learn what your (financial independence) "number" is.
- ❑ Simplify your financial life by consolidating accounts
- ❑ Get financially organized and on track to meet your goals
- ❑ Review your beneficiary designations for retirement accounts and annuities
- ❑ Review your comfort level with the risk of your portfolio
- ❑ Roll over a retirement plan from a former employer to an IRA
- ❑ Set up a 529 College Savings Plan for children, grandchildren, and others
- ❑ Review your life, health, home, and auto insurance
- ❑ Develop or review a family disaster preparedness plan
- ❑ Review and update your estate plan
- ❑ Work on the three "Really BIG Questions" we suggested last December or our "Seven for '07"suggestions from our February issue. *(For a copy, give us a call, or view them at the Newsletter section of www.planningvisionprocess.com.)*

Protecting Yourself Under Oregon's New ID Theft Law

The first part of Oregon's new identity Theft Protection Act of 2007 went into effect October 1. It contains provisions that affect every business and professional practice in Oregon. For our out of state clients, we understand that similar legislation is under consideration in several other states.

There are four key provisions. Although we're going to focus on the security freeze provision, the other three: 1) restrict the use and publication of Social Security numbers; 2) require consumer notification in the event of an electronic/computer breach of personal information; and 3) require businesses to implement a plan to protect consumer ID information by January 1, 2008.

Obtaining a Security Freeze

This is a good-news-bad-news provision. The good news is that all Oregonians can now place a security freeze on their credit file maintained by the three national credit reporting agencies: Equifax, Experian, and TransUnion. This prevents lenders and others from gaining access to your credit report. In most cases it will block someone from opening a new account or borrowing money using your personal information. It will not prevent a thief from misusing existing credit cards and credit accounts.

The bad news is that unless you can prove you are a victim of ID theft with a police report or FTC complaint, it will cost you $10 per person per agency. Thus, it will cost a married couple $60. And it will also cost the same to lift the freeze if you are applying for credit—a vehicle, home refinance, appliance, student loan, new credit card, etc. By Oregon law, the three credit reporting agencies must lift the freeze within three business days after receiving the request. So, plan ahead.

Also, the freeze doesn't apply to creditors with whom you already have an account. Law enforcement, government agencies and businesses collecting existing debt, landlords, and insurance companies still will be able to access your credit file.

But if you aren't going to buy things on credit and most of the above don't apply to you, then it probably it is a good idea to go ahead and place a freeze. You can obtain a credit freeze request form at **www.dfcs.oregon.gov/id_theft.html**. (By the way, the ID theft section of the Oregon Division of Finance and Corporate Securities website has a lot of other very useful ID theft information and more details about this new law).

Other states are considering legislation similar to Oregon's new ID theft law. Oregon is ranked 13th per capita in ID theft. While this law is a good step in the right direction, vigilance is the watchword, both as an individual and as a custodian of someone else's information. We have always been watchful guardians of our clients' privacy, and we will continue to take steps to protect their ID.

At this time of year we are ever mindful of our many blessings. We want to express our sincere thanks to our clients, referral sources, strategic partners, venders, and friends. You all helped to make it a banner year.

Best wishes for 2008!

The Team Advantage

Ron Kelemen and Mary Way are independent Certified Financial Planner™ certificants. Together with Alex Sheppard they jointly serve their clients as a team with over 37 years of combined experience. They are all members of The National Association of Financial Advisors (NAPFA), and as such work on a fee only basis and do not accept any third party compensation or finders fees. Their practice focuses on wealth planning and management for professionals, business owners, and retirees. They are advisory associates of The H Group, Inc., one of the largest independent fee-only registered investment advisory firms in the Northwest with 18 professionals and over $500 million under active management.

About Ron Kelemen, CFP®

In practice since 1981, **Ron Kelemen, CFP®** is a contributing author of three financial planning reference books. *Medical Economics* listed him as one of the 150 best financial advisors for doctors. He is President-Elect of Salem Rotary, active in mentoring and in several local charities, and is frequently quoted in the national press and professional journals.

About Mary Way, CPA, CFP®

Mary Way, CPA, CFP® celebrated her 13th anniversary as a member of the practice. She is also a non-practicing CPA with 16 years experience in banking, business, and finance. She sits on the Investment Policy Committee of The H Group, Inc. and is Secretary of the board of the Willamette Valley Estate Planning Council. She is active in Salem Rotary and the Financial Planning Section of the Oregon Society of CPAs.

About Alex Sheppard, MBA

Alex Sheppard, MBA joined the practice in March 2005, and has passed his CFP® comprehensive exam. He has a variety of experience in financial services, including four years as an analyst with a major mutual fund company. He is active in the Salem Area Chamber of Commerce and serves on the board of South Salem Rotary and the Willamette Chapter of The Red Cross.

TEAM UPDATE

Since August, we've been busy with client update meetings, moving accounts from FiServe to Fidelity, conferences, and taking time off.

Lani keeps very busy keeping the rest of us organized and scheduled. She was blessed with her 6th granddaughter in September—10 pounds and 6 ounces! Her eldest daughter's family moved to Wilsonville and her youngest daughter is back in Salem after her husband completed his computer science degree and is seeking employment as an IT technician.

Debbie has been very busy helping our clients make the custodial transition to Fidelity. She surprised us all and herself with a spontaneous trip with husband Bob to Switzerland. They went with Bob's cousins and visited relatives, experienced warm hospitality, and brought home some photos of spectacular scenery.

Alex attended a special two-day workshop in Seattle on Life Planning conducted by the Kinder Institute, followed by the Financial Planning Association's international conference. He has been busy with the Red Cross Board and Leadership Salem and made a quick trip to Austin, Texas for his alma mater's football game.

Mary also attended the FPA conference in Seattle. She was elected Secretary of the Willamette Valley Estate Planning Council. On the personal side, she is finally very comfortably settled into her new home in Silverton and enjoyed a fun-filled week when her sister and niece from Minnesota came to visit.

Ron was quoted in the *Wall Street Journal* four times on a variety of financial planning and investment topics, and in *Horse's Mouth*, a website for financial advisors. He was elected Chair of the Willamette Academy Advisory Board, a program to help disadvantaged youth get into college. His daughter Shanti and three friends joined him for Cycle Oregon, starting and ending in Sisters. He finally got in shape by the end of the 7th day of the ride, 463 miles and 28,781 feet of elevation gain later. Daughter Skyler is spending fall semester in Kenya researching her senior thesis in epidemiology.

Membership Has Its Responsibilities

We are pleased to announce that after a long and careful peer-review process, we have been accepted as members of The National Association of Personal Financial Advisors (NAPFA). Membership in this 1700 member organization is granted only to fee-only financial advisors. As such we subscribe to NAPFA's Fiduciary Oath and do not receive any commissions, referral fees, or income from related entities.

Our continuing education requirements of 60 hours every two years in several core areas now exceed those of any other association of financial advisors. And we are excited about our new access to cutting edge conferences and peer study groups to help make this easier. However, one thing remains constant—we remain fiercely independent and will continue to place our clients' interests first.

THE H GROUP, INC. Independent Wealth Management Solutions

Ron Kelemen, CFP®
Mary Way, CFP®, CPA
Alex Sheppard, MBA

The Kelemen, Way & Sheppard Financial Perspective
960 Liberty Street SE, Suite #210 • Salem, OR 97302

ADDRESS SERVICE REQUESTED

Update—Understanding the World of Financial Advice

We received many favorable "Gee, I didn't know that" comments from our May issue in which we described the differences between brokerage firms, investment advisors, suitability and fiduciary standards, methods of compensation, and a major appeals court decision. As we expected, the major brokerage firms successfully lobbied the Securities and Exchange Commission (SEC) to soften their rules, enabling the big firms to have it both ways.

The SEC adopted a temporary rule on September 19 that allows brokerage firms that are dually registered as investment advisory firms and as brokerage firms to make principal trades in their fee-based advisory accounts. The rule is scheduled to expire at the end of 2009. **This means that if you pay advisory and management fees in a non-discretionary account at a brokerage firm, the firm can still recommend proprietary products and execute trades from their own inventory.** You will need to sign a disclosure form in advance and give oral permission for trades.

So what's the big deal? It is this: How do you know if you're getting objective advice under true fiduciary standards? Will you truly know the hidden conflicts of interest? It's interesting to note that Merrill Lynch just took an $8.4 Billion write off on losses from its mortgage related and collateralized debt obligations (CDOs). Other major underwriting firms have previously taken multi billion dollar write-downs. According to the October 25 *Wall Street Journal*, Merrill earned an average of 1.25% on the CDOs it put together. Although most of these risky CDOs were sold by the big brokerage firms to huge institutional investors and hedge funds, one has to wonder—how much of them trickled into their proprietary funds or somehow found their way into the accounts of retail investors?