

FINANCIAL PERSPECTIVE



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CREATING CLARITY & CONFIDENCE IN A COMPLEX WORLD

Seven For '11

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The foundation for a happy new year starts before this year ends. One of our most popular articles was one we wrote in 2006 entitled “Seven for '07.” Since seven rhymes with eleven, and after all that we have been through the past two years, this modified version is more appropriate than ever. Here are seven things to help you put your financial house (and maybe your life?) in order in 2011. For best results, start thinking about them now.

1. Ask yourself two questions: “What would make 2011 a really great year?” and “Where do I want to be five or ten years from now?”

The first question is probably easier because it is more incremental, and within reach. More time with your spouse and family? Less debt? More money in education and retirement accounts? A specific vacation? Earn more money?

The second question is much harder. **Thinking beyond five years forces you out of the incremental mode and to think out of the box.** Do you see yourself in the same job or with the same business partners/colleagues? Do you see yourself living in the same home? Do you see your children in college without big debt loads? What about the quality of relationships with your spouse and children? Do you see yourself retired or working part time? And if so, what will you do with that extra time?

Write these down, then—most importantly—prioritize them. Some of your goals may be contradictory, such as more money vs. time with your family. Rethink your one-year goals in view of the longer-term ones. What do you need to do in 2011 to get started on your five or 10-year goals?

2. What can you do to achieve these goals?

It's one thing to write them down. It's quite another to develop a plan of action to meet them. Not everything takes money, such as a date night with your spouse, a game night with your family, or a commitment to be home by a definite time every evening. But for those financial items, just how much money will it take to reach

them? How much do you need to set aside every month to make these important goals a reality? That leads to the next one:

3. Know your “number.”

How much do you need to safely “retire” or to be financially independent? This is one of the most important questions you can ask. Without this specific knowledge, at least five things may happen:

- You keep working out of fear that you won't have enough, never realizing that maybe you already do.
- You spend too much, thinking that you'll have plenty of money later on.
- You are unwilling to spend money and enjoy the fruits of your labor.
- You take unnecessary risks with your money or invest too conservatively because you don't know how much you need.
- You are reluctant to make important charitable gifts or make life insurance and estate planning decisions for your family because you don't know if you can afford to commit any assets to them.

Retirement starts with a vision, followed by careful planning and consistent investing. It's also a confidence game. You really won't be able to fully enjoy retirement if you lack the confidence that you have done all that you needed to do. That's where a good financial plan can help.

4. Manage your risk.

Wealth management is about protecting what you already have, and then building upon it. All too often we tend to think about risk only in terms of some murder on the evening news, investment risk, or auto insurance. But you also face risks of loss of health, disability, natural disasters, identity theft, competition, injury, stress, and much more. We can't eliminate all risk from our lives, although we can avoid a few of them such as skydiving. The rest must be either managed or transferred to a third party via insurance.

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A Different Perspective on Unemployment

Our persistent high unemployment rate continues to dominate the news and our perceptions about the economy. At the same time, corporations are reporting good earnings and in some cases record profits. Why is this? We would like to offer a different perspective on the employment situation.

A few weeks ago, the CBS program “60 Minutes” interviewed a large group of unemployed in the San Jose, CA area. Many have been unemployed for nearly two years. Many were well educated and had previously made comfortable livings. What stood out was that few, if any, of them had worked in construction or in home-building. So we can’t attribute their unemployment woes completely to the home-building and real estate markets. And not many were in manufacturing. But interestingly, nearly all of them had worked in the service sector.

Many jobs will never come back. We can blame this on taxes, government action/inaction, foreign competitors, outsourcing, lack of demand, or simply a bad economy. While there may be an element of truth to each of those, we should look to technology as a major underlying factor. It is revolutionizing everything both here and abroad. It is making corporations more profitable, but at a cost of high unemployment and underemployment.

Technology has played an important role in the decrease in manufacturing jobs. Economists at Alliance Capital Management took a look at employment trends in twenty large economies and found that between 1995 and 2002--before the asset bubble and subsequent bust--22 million manufacturing jobs disappeared. The United States wasn’t even the biggest loser. We lost about 11% of our manufacturing jobs in that period, but the Japanese lost 16% of theirs. Even developing nations lost factory jobs: Brazil suffered a 20% decline, and China had a 15% drop.

And now the job losses are hitting the service sector and rippling through the rest of the economy, as you can see by the table. Without much more thought, we’re sure you can think of ways in which technology has made your life better, but at the cost of someone’s job.

NEW TECHNOLOGIES AND THEIR EFFECTS

NEW TECHNOLOGY	EFFECTS
Netflix	No need for retail video stores
Automated retail check-out stations	Fewer cashiers
Amazon.com, Kindle readers, & iPads	The demise of local and “big box” book stores
iTunes	Music stores
Email & texting	Post office, stationery
On-line airline tickets	Travel agencies, airline staff
Automated flight check-in	Fewer airline gate agents
Online retailers	Fewer local retail outlets & employees
ATM machines, on-line bill pay	Fewer tellers & accounts receivable employees
QuickBooks; Quicken	Fewer bookkeepers
Voice recognition transcription software	Fewer secretaries and transcriptionists
Video conferencing & “Go-to-Meeting” software	Less travel, hotel bookings, food service
Voice mail	Fewer receptionists
Cell phones; smart phones	Fewer land lines & traditional phones
News websites & Craig’s List	Fewer newspapers, classifieds, & news staff
Computers everywhere	More computer technicians
Software for portfolio administration & reporting, financial planning, & investment analysis	We would need several more employees than we have now

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Meet Larry Hanslits



As we announced in a letter to our clients last month, Larry Hanslits, one of the original three ‘H’s’ in The H Group, Inc., is moving his office from Portland and merging his practice with ours, effective January 1. This will enable the three of us to provide our clients with a “deeper bench” of team expertise and service.

Ron and Larry have been close associates and friends since 1985, when they were part of a different firm. Mary has known Larry since 1995 when she joined Ron’s practice. They have collaborated on several client cases over the years, so some of you may already know him. Ron has always told his wife Kathy that if anything happened to him to call Larry and Mary. Larry has always told his wife Laurie the same about us.

Larry, age 48, is a Certified Financial Planner Licensee since 1990. He holds a BS in Finance from Oregon State. In addition to providing the same services we provide to clients, Larry also serves as

an Adjunct Professor for the Academy of Multidisciplinary Practice through Michigan State University, is a Fellow and an Instructor in the Wealth Strategies Institute and the Esperti Peterson Institute, and is a Senior Instructor for The Heritage Institute. He is also a teacher and a judge for the financial planning scholarship competition at Oregon State. Beside all of this, he is just a downright nice guy with a delightful sense of humor.

On a more personal note, Larry and wife Laurie are new empty nesters. She is busy marketing their 90-acre horse ranch in Florence and is starting the search for a smaller home in Salem with less maintenance. Both Larry and Laurie are looking forward to ending Larry’s weekly commute to and from Florence to Portland. Their son, Eric, is a junior at Oregon State majoring in finance. Daughter Jenna is a freshman at Oregon State, hoping to complete a double major in finance and international business. Larry is a voracious reader, a rock hound, a big sports fan (especially of the Beavers), and makes a pretty good home brew. The next time you’re driving by, please stop in and introduce yourself.

Think of your risks as part of the big picture and your goals. In other words, what can derail you from your goals? Then focus upon what you can control. You may not be able to control whether or not you have an aneurism or cancer, but you can control how fast you drive, how much you exercise, how sensibly you eat, and what precautions you take to protect your identity. You cannot control the stock market or a company's quarterly earnings, but you can have a carefully constructed portfolio that better protects you through diversification.

5. Tune up your estate plan.

As we write this in November, the estate tax laws are uncertain. But your wishes and intentions should be deliberate regardless of pending legislation. If you think it is difficult to deal with your own mortality now, just imagine how more difficult it will be for your loved ones if you aren't around to give them guidance. Estate planning is all about giving what you have to who you want, when you want, under your terms, with the least tax consequences and delay possible. **At a minimum, check the beneficiary designations on your retirement plan accounts and life insurance.** Update (or get!) an advanced directive. And for your loved ones, make a list of your assets and important contacts.

6. Cut back on financial noise.

We are all bombarded with distracting media noise on many subjects. This noise fills our spare time and distracts us from our goals. In the financial realm, all of this overload and confusion out there can be divided into a spectrum:

DATA → INFORMATION → KNOWLEDGE → WISDOM

So much of what is out there really falls into the data and information categories, kind of like the news. They may be timely, but they are not timeless. (Do you remember exactly what the Dow Jones index and the headlines were six months ago today?)

Data and information are noise. They crowd out knowledge. And knowledge without a sense of perspective and experience cannot become wisdom. So, before you read that next financial magazine, surf the Web, or tune into that TV financial news show, spare yourself the overload and save some time and peace of mind. (To make this task easier, you may want to refer to the handy *Financial Noise Filter* we developed for the March 2005 issue of the *Kelemen-Way Financial Perspectives*, located in the News tab of www.PlanningVisionProcess.com.)

7. Downshift

Downshifting is not downsizing, although it could be. **In this fast paced world and the hectic lives we live, downshifting is all about taking the time to enjoy the life you have now.** And it's great practice for retirement. Lee Eisenberg, in his excellent book called *The Number*, lays it out for us. The first one—know how to give something back to others—is something that nearly all of our clients know how to do. But try to focus in 2011 on the other two:

- Appreciate the importance of fun, kicking back and laughter.
- Know the value of friendship, camaraderie and support and hang around with people who give you these.

Don't just passively have a happy new year--make it one!

Thank You!

As the year draws to a close we wish to thank all of you for your loyalty, referrals, kind words, business, and patience.

We are so grateful! It truly has been an outstanding year for us, and we look forward to serving you even better in the year ahead, especially with our long-time friend and associate, Larry. Best wishes for the holidays!

Ron Kelemen and Mary Way are independent Certified Financial Planner™ certificants. They jointly serve their clients as a team with over 44 years of combined experience. They are 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* continues to list him as one of the best financial advisors for doctors. He is Past President of the Rotary Club of Salem, chair of the Willamette Academy Advisory Board, and a founder and the past president of the Medical Foundation of Marion and Polk Counties. Ron is frequently quoted in the national press and professional journals.

About Mary Way, CPA, CFP®

Mary Way, CPA, CFP® joined the practice in 1995. 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., is Immediate Past President of the Willamette Valley Estate Planning Council, and a board member of the Salem Rotary Foundation. She is also active in the Financial Planning Section of the Oregon Society of CPAs.

The opinions expressed in this newsletter are those of Ron Kelemen, CFP® and Mary Way, CPA, CFP®. They do not necessarily reflect those of The H Group, Inc. They are general comments that may not be appropriate for every individual. They should not be construed as legal or tax advice. All information is believed to be from reliable sources; however, we make no representation as to its completeness or accuracy. All economic information is historical and not indicative of future results.

TEAM UPDATE

Since our last newsletter, we've been busy positioning the practice for more growth and efficiency. We experimented with our first client webinar on Social Security planning strategies. Thanks to those of you who offered to participate and give us feedback. We hope to use this capability on other topics.

However, the most significant accomplishment was completing the deal on our practice merger with **Larry Hanslits**. This has been in the works for several months, and nothing but amiable and collaborative the whole way. We are very excited about how this gives us more capacity and a much stronger professional team.

Lani has been busy with year-end tasks and helping get us organized for Larry's arrival. She took a week-long road trip to Monterey, CA and arrived 20 minutes after her new granddaughter Becca Lalei was born. In November she got to help in the delivery of another granddaughter, Elizabeth Maria in West Salem.

Debbie has been busy processing Roth IRA conversions, IRA Required Minimum Distributions, and our year-end tax-planning mailing. She and **Bob** regularly attend Oregon Duck games and tailgate parties, and what a season to be a Duck fan! Both Gretchen and Pete came home for Thanksgiving.

Mary spent quite a few hours this quarter preparing new plans and updates for clients, and helping some of them implement a conservative fixed income or equity income investment strategy. She attended lengthy CE seminars on retirement planning and for her CPA ethics requirement. On the fun side, she and **Steve** celebrated their 16th wedding anniversary, went crabbing at Newport, and took a week to show off the Oregon coast and the Willamette Valley to Liz, Mary's Minnesota sister.

Ron was named by *Medical Economics* as one of the Best Financial Advisors Doctors for 2010. He further developed our expertise in Social Security and our venture into webinars. **Kathy** and Ron spent a few days in Washington DC with friends. He was selected by Rotary District 5100 to lead a group young adults, ages 27-32 on a three week vocational and cultural exchange to Bangalore, India in January-February. He has enjoyed the prep work and being surrounded by bright people about half his age.



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Year-End Tax Planning in an Uncertain Year

It seems like we say this every year, but it is more true than ever: If there ever were a year to do year-end tax planning, this is it. This year, however, we need to add an important caveat: **It's hard to plan when you don't know what the rules will be for 2011.** Hopefully before year-end Congress will decide whether or not to extend the so-called Bush-era tax cuts, and to whom. Either way, a decision will make it easier to plan and take action.

Our portfolio administration team has just "harvested" what few losses we could find this year and matched them up with gains. As we write this, Lani and Debbie are preparing to send out our year-end tax planning information to our clients and their tax professionals. The reports include realized gains and losses, interest, and dividends. We also have a short list of anticipated capital gain distributions by mutual fund companies between now and year-end. Please discuss these reports with your tax professional.

One frequent question we receive pertains to the annual gifting limits. You can give \$13,000 to any person and so can your spouse, for a total of a \$26,000 gift from a couple to any individual per calendar year. The recipient and donor pay no taxes on it. Anything above that would be included to your life-time gift-tax exclusion. As a practical matter, we recommend a little less to account for holiday and birthday gifts, etc. There is no limit for charitable gifts, which we certainly hope you will consider.

A Different Perspective on Unemployment...*Continued from page 2*

These trends aren't unique to just the United States. They are global. And these trends aren't new. A century ago over 30% of all adults worked in agriculture. Today, the number is closer to 5%. Meanwhile, agricultural productivity has increased dramatically due to technological innovations.

Remember the days of telephone and elevator operators? Typewriter repairmen? Any job that's even slightly routine or that doesn't reflect commonly used innovations is disappearing from the U.S. But this doesn't mean we are left with fewer jobs. It means only that we have fewer routine and traditional jobs, including traditional manufacturing and many service jobs that can be "digitized."

As in the past, it will take time to readjust to the new equilibrium, for the unemployed to find different jobs, perhaps in categories that never existed before. **A quarter of all Americans now work in jobs that weren't listed in the Census Bureau's occupation codes in 1967. Thirty years ago, who ever heard of a webmaster or a social media consultant? Or a blogger, on-line ad optimizer, PC repair technician, or financial planner?**

Meanwhile, for better or worse, these trends are driving the stock market by driving corporate profits—at least for those companies that are on the right side of the microchip.