

Radiant Wealth

*Put Your Money
Where Your Heart Is*

Letter from the Editor

Back to Basics

Sometimes it's the simple things in life that are the most important. This month we focus on some basic block-and-tackling personal finance activities. First, in *The Three Little Pigs*, we give you ten action items to consider for your own situation. If you follow these steps, you'll help create financial security and increase your awareness of where you stand with your money. I also give you ideas of how you can make tracking your progress easier using electronic tools.

Second, in *Income-Generating Investments*, I expand on the types of investments you may want to consider to increase your dividend and interest income. Just because these investments generate income does not mean they don't have risk. Especially as we head into a rising interest rate environment, it pays to understand what you are investing in.

Twenty years ago, I counseled a lot of people about early retirement. You don't hear much about that now. The world has changed and far fewer people will receive pensions or company paid retiree health benefits. In *The Death of Early Retirement*, we explore trends in retirement and what you can do to increase your chances of enjoying the rest of your life.

Finally, in *Protect Your Stuff*, you'll learn why you shouldn't procrastinate about doing a home inventory and making sure your homeowner's insurance is up-to-date. Crime is on the rise and we help you learn about home security as well as some of the finer points of insuring your belongings.

So make this month a time when you accomplish small things that will lead to greater financial awareness and satisfaction with how you lead your life.

"Happiness is when what you think, what you say, and what you do are in harmony."
by Mahatma Gandhi

Sue Stevens

President, Stevens Wealth Management

www.stevenswealth.com

info@stevenswealth.com

847-580-4240

This special edition of Radiant Wealth is brought to you by www.financial-happiness.com. Financial Happiness is all about finding joy in your life and creating a sound financial foundation. It's not just how many zeros are in your net worth, it's about how you use that money to create an inspirational life for yourself and others.

*Financial & Investment Guidance
for Members of
Financial-Happiness.Com*

Inside This Issue

*Focused Financial Vision
The Three Little Pigs 2*

*Portfolio Peace of Mind
Income-Generating
Investments 4*

*It's Not Just Retirement
The Death of Early
Retirement 7*

*Financial Feng Shui
Protect Your Stuff 9*



PUT YOUR **MONEY**
WHERE YOUR **HEART** IS

Simple, practical guidance
that can help transform
any financial situation

by Sue Stevens

available at » amazon.com

(tinyurl.com/money-heart)

The Three Little Pigs

By Sue Stevens

“Once upon a time there were three little pigs and the time came for them to leave home and seek their fortunes. Before they left, their mother told them ‘Whatever you do, do it the best that you can because that’s the way to get along in the world.’

The first little pig built his house out of straw because it was the easiest thing to do.

The second little pig built his house out of sticks. This was a little bit stronger than a straw house.

The third little pig built his house out of bricks.”(1)

I want the house make out of bricks. I want security. I want to know I’m prepared. I bet some of you feel this way too. So here’s what I suggest you and I do to build our house of bricks:

- 1) Know what your assets are. I’m using www.mint.com to aggregate my assets online.
- 2) Put aside one year’s expenses in very safe cash-like accounts. That’s a lot more than the three months I used to target for emergency funds. Automatically transfer this money from checking to savings each month if you need to build up the balance.
- 3) Pay off credit cards monthly. Don’t pay interest if at all possible.
- 4) Know what you owe on credit cards at all times (www.mint.com).
- 5) Stick to your budget. I have a budget. It’s on www.mint.com and it electronically lets me know if I’m over or under my targets.
- 6) Know how much you can afford to pay for a house. I’m using 20% of my after-tax income. That needs to cover my mortgage, real estate tax and homeowners insurance. If I want a vacation home, it has to cover that too.
- 7) If you want to buy a new house while prices are lower, save at least 20% for a down-payment. Be sure you can afford this even if your current home doesn’t sell for an extended period of time.
- 8) Grow your assets, but don’t take excessive risk. Personally, I want at least 50% of my assets to be stable and earning interest or dividends. I’m going to limit what I put at risk in the stock market.
- 9) Know how much interest and dividends you’re earning every month. As a premium member of www.morningstar.com, you can get a monthly report showing this amount (as well as lots of other relevant information).
- 10) Set up major savings goals. Consider tracking them on www.smartypig.com. Smartypig is a new online savings tool that pays over 2% interest, is FDIC insured and provides inspiration to help you reach your savings goals.

“Well, the wolf huffed and puffed but he could not blow down that brick house. The next day the little pig invited his mother over. She said ‘You see it is just as I told you. The way to get along in the world is to do things as well as you can.’ Fortunately for that little pig, he learned that lesson. And he just lived happily ever after!”(1)

The first step to an inspired financial life begins with understanding what’s most important to you, appreciating what you already have, and setting your intention to financially support a life you love.

- (1) Quote taken from <http://www.shol.com/agita/pigs.htm> apparently based on a 1989 promotional audiotape for Burger King.

For more on savings and investment topics, read *Put Your Money Where Your Heart Is*, available at www.amazon.com and now Kindle!



Income-Generating Investments

By Sue Stevens

Income-generating investments can help provide a smoother ride in an otherwise turbulent market environment. By consistently producing returns, the income portion of a portfolio can become the backbone of solid investment results.

When we design portfolios for clients, frequently 2/3 of the portfolio is focused on income generation of one kind or another. This includes a mixture of stocks and bonds. Each has their own set of risks and rewards. It's the combination of these assets that's most important from a diversification standpoint. Let's take a closer look at how these asset classes break down:

Cash and Short-Term Bond Funds

Currently you'd be hard-pressed to say much about income generation in the same breath as "cash." Cash accounts, like money markets or savings accounts, are paying very close to nothing. Why would you choose that? If you want to know that your money is available and "safe." Now we all know nothing is really safe, but this has historically been quite stable. There are rumblings that money markets will "float" going forward—meaning that the value will fluctuate like a bond fund—but for now, a dollar invested is a dollar saved.

I wouldn't advise keeping more than a minimum in strictly cash accounts. You can consider a short-term bond fund like Vanguard Limited Tax-Exempt or PIMCO Low Duration for longer-term liquidity needs. The returns are better: 2.59% tax-exempt and 2.97% taxable respectively. What's the downside? When interest rates increase, the principal in these funds will decline. To get a sense of how much they could decline, you can look at "duration." That's the time-weighted maturity of the fund. For every 1% increase in interest rates, the duration tells you how much the fund could go down. For example, the duration of PIMCO Low Duration is 2.5. So for every 1% increase in interest rates, the fund could decrease 2.5%. This is nowhere near the kind of decrease you can see in the stock market, but you need to understand what could happen.

As interest rates increase, the principal value of bond funds will fluctuate, but over time the yields will increase too. That's because the fund managers will be able to buy bonds with higher interest rates and that will eventually increase the return of the fund. So to some extent, this is a timing issue. But to weather the coming storm, you need to understand the big picture.

You could also invest in Certificate of Deposits (CDs) for liquidity. They will not fluctuate like a bond fund assuming you hold them to maturity. If you choose to put a portion of your money in this type of investment, you may want to "ladder" your holdings. That just means you stagger the maturities of your purchases. For example, you might buy a six-month CD, a 12-month, an 18-month and so forth. As they mature, you invest the money in the longer end of your ladder. I would still keep the ladder relatively short (and I would do this with bond funds too). "Short" is probably five years and under. Make sure your CDs are FDIC-Insured.

Once you know what you want your money to do, you can create a plan to balance risk and reward. And you need at least a basic understanding of economic and financial terminology.

Domestic TIPS

Although inflation is currently under control, there is still quite a lot of speculation about what could happen in the not-too-distant future. TIPS (Treasury Inflation-Protected Securities) are well thought of as an inflation hedge because a portion of their investment return floats with inflation. As inflation goes up, the return goes up. Even without inflation, returns can go up with demand (and vice versa). We use mutual funds like Vanguard Inflation-protected Securities to purchase this asset class. In 2009, the total return was 10%. The current yield is 1.68% and the duration is 4.24.

You can see from the yield that we could produce more income in other types of bonds or stocks. What you are paying for here with the reduced yield is inflation protection. The question is when will we see that enter the economic picture? Even experts disagree on the answer to that question.

GNMAs

GNMA stands for Government National Mortgage Association. Now why would we want to invest in anything having to do with mortgages after all the problems we've seen in that area? Because this is the highest credit quality portion of this type of investment and the returns are reasonably good. The yield is 3.7% and the duration is 2.25. While Fannie and Freddie (other mortgage-backed bonds) continue to struggle, so far GNMAs have managed to stay above most of the chaos. We use Vanguard's GNMA Fund primarily for this exposure. We like the fact that they manage risk conservatively. After all, we want our bonds to be stable. We'll save most of our risk-taking for the stock market.

Muni Bonds

Taxes will be one of the most important aspects of personal finance planning in the years to come. "Muni" bonds, or municipal bonds, are bonds issued by states that are federal, and sometimes state, tax-free. They can play a major role in high income investors' portfolios.

If you have more than \$500,000 to invest in just this asset class, you may want to consider individual muni bonds. As an investment advisor, we can pick and choose which states we want to invest in. We all know that many states are in serious trouble financially these days and I tend to shy away from those muni bonds. If you hold individual bonds until maturity, you can build a bond ladder using both short- and intermediate-term bonds. You will pick up additional yield and, as long as you can ride out the temporary drop in value when interest rates come up, that may prove to be a good strategy.

We like Vanguard Limited-Term Tax-Exempt as a mutual fund in this arena. I already mentioned it in the Cash section above. Because it is so short in maturity, we tend to also use it as a cash-equivalent while keeping in mind that it will fluctuate in value as any bond fund does.

Corporate Bonds

So far, we've been talking about government bonds. Now let's turn our attention to bonds issued by corporations. Typically they have more risk than government bonds. To help decrease interest rate risk, we choose to stay short-term on these bonds. We often use Vanguard Short-Term Investment-Grade Bond Fund. The "investment-grade" part means it stays in the higher quality bonds—not junk bonds. Right now the yield on this fund is

3.78% and the duration is just under 2. That makes it a pretty good mix of return and risk. Last year it returned 14%.

Domestic Dividend-Paying Stocks

So far, I've talked about bonds generating income. And you can see the income is not particularly high. That's because interest rates are at a historic low. Don't go chasing yield. You'll only end up with unnecessary risk.

You can also look for income using stocks. But beware—the risk is much higher and the income isn't much to brag about. But I still like this category because the income stream helps to smooth returns. Remember you have to be very careful about the types of stocks you choose for this purpose.

I often use Vanguard Dividend Growth Fund for this exposure. You may have noticed I choose Vanguard Funds frequently. That's because I like their low cost structure and I often choose passive, or index, funds. This is not an index fund, but the expense ratio is low. The yield is 2.28% and last year it returned 21%. You don't have "duration" with stocks.

Foreign Dividend-Paying Stocks

Once again, I look to foreign investments to help counter what could be a weaker time ahead for U.S. stocks (and bonds). State Street has an ETF called SPDR S&P International Dividend that focuses on international stocks paying dividends. The yield is 3.6% and last year it returned 62%. Don't think you can just jump in and see those types of returns going forward. The stock market is always a wild ride and you can count on some negative returns along the way. This ETF is down about 6% in 2010. Limit the portion you invest in this asset class.

Utilities

My grandparents invested in utilities and I bet many of yours' did too. Utilities can be inflation-sensitive, so we'll have to be careful going forward, but they can provide strong income generation. You could choose individual utility stocks, but we tend to like investing in baskets of stocks. State Street has an ETF called Utilities Select that we use. (Note: we don't limit our ETFs to State Street. It just happens to be a coincidence that the ones I'm mentioning today are from there.) The yield is 4.3% and the return last year was 11.69%. To give you an idea of the types of companies held, here are the top five holdings: Exelon, Southern, Dominion Resources, FPL and Duke.

Summary

Income-generating investments are playing a greater role in many investors' portfolios. By understanding what your investment alternatives are in this arena, you can find a portfolio that lets you sleep at night.

For more discussion of income-producing assets, go to www.financial-happiness.com and subscribe to *Radiant Wealth*.

The Death of Early Retirement

By Sue Stevens

I'm afraid the days of retiring in your mid-50s with a fat pension and health care for life may be over for most of us. The Great Recession proved to be anywhere from a mild- to a major-setback for most retirement accounts. And a weak economy and leaner corporate earnings have all but eliminated traditional pensions and many retiree health care programs.

The 2009 Retirement Confidence Survey

EBRI, the Employee Benefit Research Institute, puts out an annual survey that always makes for interesting reading for people like me who want to know the latest retirement trends. In the 2009 Survey, they found 28% of workers planned to delay when they retired. On average, the median age workers expect to retire is age 65 with 21% of them planning to continue on into their 70s.

Only 13% of workers are confident they will have enough money to retire. The implications of that are staggering. Either more people will want to work longer or the government programs, already under strain, are going to have to fill the gap between savings and living expenses. And chances are, for many people, that will be a lower standard of living than they have been used to while they were working. 72% plan to work part-time after they have retired from their primary job.

So what are people doing in reaction to this downturn of events? 81% are reducing expenses. 43% are changing the way they invest their money. 38% are working more hours or taking a second job. 25% are saving more money. And 25% are seeking the advice of a professional advisor.

Only 44% of surveyed workers know how much money they'll need for retirement. Another 44% are just guessing how much they may need.

Your 401(k) May Not Be Enough

For many people, even if they contributed the maximum to their 401(k) plans from now until retirement, it still wouldn't support the life style they desire in retirement. In 2010, if you are age 50 and older, you can contribute \$22,000. Under age 50, the maximum is \$16,500.

So that may mean that you need to set up additional savings goals in taxable accounts. Since there are no penalties for tapping non-retirement assets before age 59 1/2, this gives you more accessibility and flexibility with these funds. If you are like many people, you may want to set up an automatic savings program that moves money monthly from your checking account to a savings or investment account.

The Shift to a Savings Culture

We may be witnessing a major shift in our culture—from a consumerism mentality to a savings one. Recently The New York Times reported that the personal savings rate is the highest it's been in six years. Whether people are digging out from too much debt or

Whether you are 40 or 80 or some other age, you have the rest of your life ahead of you. Make every day count by knowing how much you should save or spend, how to factor in health care decisions and how to leave a meaningful legacy.

conserving due to job cuts or they are just tired of losing sleep over money concerns, the balance of savings and spending seems to be changing.

So How Much Do You Need to Retire?

Well, that all depends on how much you intend to spend. I know people who have very limited funds, no Social Security, very limited pensions and they have figured out what is really important to them financially and have found happiness in retirement. I also know people who have many millions of dollars and still worry about running out of money on a daily basis.

While it may be depressing for some, you can do a quick retirement calculation using the tools at www.dinkytown.com. Try the Retirement Nestegg Calculator to get an idea of how much you may need to save. This is not a comprehensive tool and my advice is to seek professional help at this critical juncture.

Finding Financial Happiness

If we as a culture are going to be working longer, it is even more important that we find work that we enjoy and that is meaningful to us. That may mean going back to school to improve our skill set or looking for new ways to apply our unique abilities to the field we're already in. The key is quality of life.



Protect Your Stuff

By Sue Stevens

Probably the greatest area of procrastination I see in clients' personal financial situations (other than estate planning) is insuring their belongings. Most of us have accumulated a lot of "stuff" and yet we don't always take the steps we know we should to protect it.

For most of us, our homeowner's insurance policy covers what we own. For some bigger ticket items, like jewelry or collector's items, you may also have a personal articles policy. Especially for those higher-priced valuables, you need to have an appraisal done at least every five years for insurance purposes.

Sometimes the thought of having appraisals done on your more valuable items is unappealing. Not enough time. Don't want to spend the money. But unless you do, you're taking on more risk by not adequately covering your items.

I know. I was just burglarized. Being the diligent financial advisor that I am, I had completed a thorough home inventory last year. I had documented the higher value items I needed to insure separately. But I still found there were plenty of things I did "wrong." Now I want to share what I learned with you.

Don't Procrastinate. Crime is Up.

The first thing you should realize is that crime is up in most areas as the economy has suffered and so many people are out of work. I live in a relatively "safe" area and two houses were hit the day they broke into my place—in broad day light, on fairly busy streets.

If you don't have an alarm system, you may want to invest in one. I had one, but only used it sporadically. Now I use it religiously. Use this opportunity to do a safety check of your home. Here's a sample checklist of what to review:
<http://www.orwellvillage.org/HomeSecurityChecklist.pdf>.

Second, stop saying you'll get around to insuring your valuables or getting updated appraisals. Get it done and then use that information to update your insurance coverage.

A home inventory will help you organize your belongings. You can walk through your home and videotape your items. Or you can photograph them and store them on a DVD that you keep in your safe deposit box. You can buy software or binders to help you organize your inventory process.

When you've completed your inventory, you can total up all your "stuff" and that will help you know how much to insure the contents of your house for on your homeowner's policy. Next you'll need to zero in on specific areas.

Jewelry

If you have individual pieces of jewelry that are worth more than about \$1,500, you'll probably need to insure them separately on a personal articles policy or separate rider. Most homeowner's policies are only going to cover up to \$5,000 of jewelry in total. Additional rules may apply to how much coverage each individual piece would get under this broader \$5,000 of coverage.

Because money is a form of energy, you need to give it enough attention to stay organized, focused and balanced.

If you have a separate personal articles policy, make sure the description of each item is clear. You should also photograph each piece to help in the identification process. In my own situation, while I had some photographs and most of my original receipts, I hadn't updated all of my appraisals. That limits the value that you can recover through insurance.

You're only insured for whatever value is listed on your insurance policy. If gold or silver has appreciated significantly over the years (and it certainly has!), the only way to keep your property adequately insured is with an updated appraisal. I have an inflation rider on my policy, but that inflation rate was far short of what the true appreciation rate has been for precious metals.

You should also know that if you have replacement coverage on your items, you may not get the full value of the item listed on your policy. For example, I had to go to a jeweler that I had to pick from a list provided by my insurance company. None of these were places I would normally go to buy jewelry. The jeweler looked at the description of what I'd lost and then estimated what it would cost to replace that item. In some cases, that was below the estimate I had provided when I insured the item years ago. (So not only was the insured value low because I hadn't had a recent appraisal, but the replacement value was under the insured value because the jeweler felt he could replace it for less.) This meant that if I wanted to receive the cash value for the item and purchase a replacement elsewhere at a jeweler of my choice, I wouldn't get the full insured value.

Bottom line: get appraisals updated every five years at a minimum.

Other Scheduled Items

Jewelry is just one example of the types of property that you may need to insure separately. Other types include sterling silver, computer equipment, cameras, guns, musical instruments, art, antiques, furs and collectibles. Check your homeowner's policy for the dollar limits placed on such items. Your home inventory will help you place a value on each type of property. If you have a home office, check the coverage for those items too.



All's Well That Ends Well

Just so you know, they caught the guy who burglarized my home. He'd done it before and they caught him in the act in a neighboring town. He's now in jail with no bail. No one was hurt in my situation. I'll probably never recover my "stuff." Even though I don't have a lot, I learned a lot.

About Radiant Wealth™

“Radiant Wealth” is a state of mind. When you know you have everything you truly need and you can extend that sense of fulfillment to enrich the lives of others, you will find financial happiness. We invite you to be a part of that process and think beyond the traditional measures of wealth. Join us at www.financial-happiness.com.

Stevens Wealth Management an independent fee-only asset management and strategic planning firm located on Chicago’s North Shore in Deerfield, IL. Our mission is to proactively act in our client’s best interest as a fiduciary. Our goal is to help clients attain peace of mind through a process of visionary, comprehensive investment management and retirement strategies. Contact us at 847-580-4240, www.stevenswealth.com, or info@stevenswealth.com.

Sue Stevens, CFP®, CFA, CPA/PFS, MBA, MS is editor of Radiant Wealth, author of *Put Your Money Where Your Heart Is™*, and owner of Financial Happiness LLC and Stevens Wealth Management LLC. She has twenty years experience working with individual clients on personal finance issues and has been recognized by Forbes/Goldline Research, Bloomberg, Worth and others as a leading wealth manager. Sue was Director of Financial Planning at Morningstar, a senior executive at The Vanguard Group and Arthur Andersen. Sue is also a professional cellist and plays in the Chicago area.

Artwork by Janice Fried. Design by James Eaton Design. Production by Sara Connelly.

Thanks to everyone else who makes this newsletter possible.

