Financial Stuff

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"Reality is merely an illusion, albeit a very persistent one."
– Albert Einstein

Inside This Issue

Ford & GM Retirees!!!

Lump Sum or Defined Benefit? A Big Decision! Ford and GM are offering lump sums to retirees equal to the present value of their lifetime monthly income from the General Retirement Plan (GRP). Why? Companies are looking to reduce their long term risks and liabilities in order to improve their competitiveness. Toyota and other competitors do not have these "legacy costs" and they can be as much as $4,000 per vehicle dependent on the assumptions used. Should I take the Lump Sum John? It depends! As a rule, the time to take a lump sum is when interest rates are low and today they are at 65 year lows. What's the catch? Those electing the lump sum assume the risks of managing their own money, possibly outliving their retirement income and losing the "guarantees" offered by a defined benefit plan. The rewards are the opportunity to control your money, possibly earn more over time, possibly leave something behind. The key word is risk. Electing the lump sum transfers the risks to the retiree. We've only seen a few figures so far. In these cases the individual would need to earn 4-6% over time to make the lump sum attractive. 4-6% percent historically is an achievable return for low risk, but not guaranteed. It can also be scary to have your hands on the wheel during a down market. The rumor is Ford will be using a 4.25% interest rate to make the calculations. For example, if you are 70 years old and receiving $3,000 per month, the present value of this income with a life expectancy of 15 years at 4.25% is ~$393,000. However, if Ford assumes a life expectancy of 10 years, then the present value is ~$288,000. The variables are health, taxes, longevity, investment risk, gender, age, estate, management fees, investment options, inflation, lifetime annuities… Most importantly, beware of anyone offering "guaranteed" incomes you can never outlive. Nothing in life is guaranteed. Every option involves risk; including doing nothing. Have fellow retirees faced the same decision? Get a group and come in together! The principles are the same, so we can have fun crunching numbers and discussing the possibilities. The easiest example being do we assume a life expectancy of 85 or 95? What if I do nothing? Both Ford and GM's pensions are underfunded today. Ford's pension is in better shape than GM's. Both plans are "guaranteed" by the Pension Benefit Guaranty Corporation (PBGC) should they fail. We have seen this happen over the years with local steel companies and a couple others. Those receiving less than $3,000 per month in most cases continue to receive the same check, but those receiving more often experience a reduction. As you receive your offers, get us a copy and we'll crunch the numbers!!! Please encourage friends and family in these situations to contact us. There is no cost or obligation and it is a critical time to get professional

(continued on page 2)

help. In this instance, not only should the advisor specialize in retirement and estate planning, but also have 10+ years experience in retirement income planning. Less than 3% of advisors in America today are experienced in this area. We distribute nearly $500,000 per month to our retired clients today.

Investment mistakes

What we see, read and/or hear each day is not necessarily reality. Most importantly, start with the source. Two guys talking about Facebook at Burger King is probably not reliable. Asking questions is always good. Avoid things you don't understand. Does it sound too good to be true? One of our instincts is a danger alarm. If it's going off, then pay attention! Solomon said, *"A wise man has many counselors."* Having others around who know more than we do is a good thing. Recently I was flipping channels and saw a pastor selling prayer clothes he had wiped his brow with. Remember this one? It serves as a reminder when someone says they have special insight, information and/or powers, then run, don't walk, for the door! Winston Churchill said, *"He who ignores history is doomed to repeat it."* The best investments today will not necessarily be good tomorrow, but cycles are constantly repeating themselves. "Psst! Hey Buddy." Insider information? Breaking News? Risk and reward are the basics for any investment. Solomon said, *"Knowledge is good."* The beauty of the Internet is it makes knowledge a commodity, but we can't assume information can stand on it's own. Do a little digging before concluding something is as good as it appears.

Speaking of taxes – Gasoline prices

Gasoline prices are a tax on economic growth. The more we spend on gasoline, the less we have to spend on other stuff. The average US price for a gallon of unleaded has doubled since the financial crisis low. Middle East crises and economic downturns are often the reasons behind major swings in the price of gasoline. Despite the recent drop , gasoline prices have rarely been higher and will have a negative impact on the economy. We've benefitted from our warm winter weather and low natural gas prices, but it's not enough to offset the increase in gasoline prices.

Retirement planning

According to the U.S. Census Bureau: Approximately 10,000 baby boomers a day will turn 65 over the next 20 years and 7,000 Americans are retiring every day. This situation will have a major impact on America and the world. New retirees face a more uncertain world than their parents. The market drops in 2002 and 2008 have left most investors afraid, discouraged, poorer and risk averse. The good news is there are ways to survive and prosper despite increasing life expectancies, inflation and uncertain returns on investments. Remember the fundamentals!

Taxmaggeddon

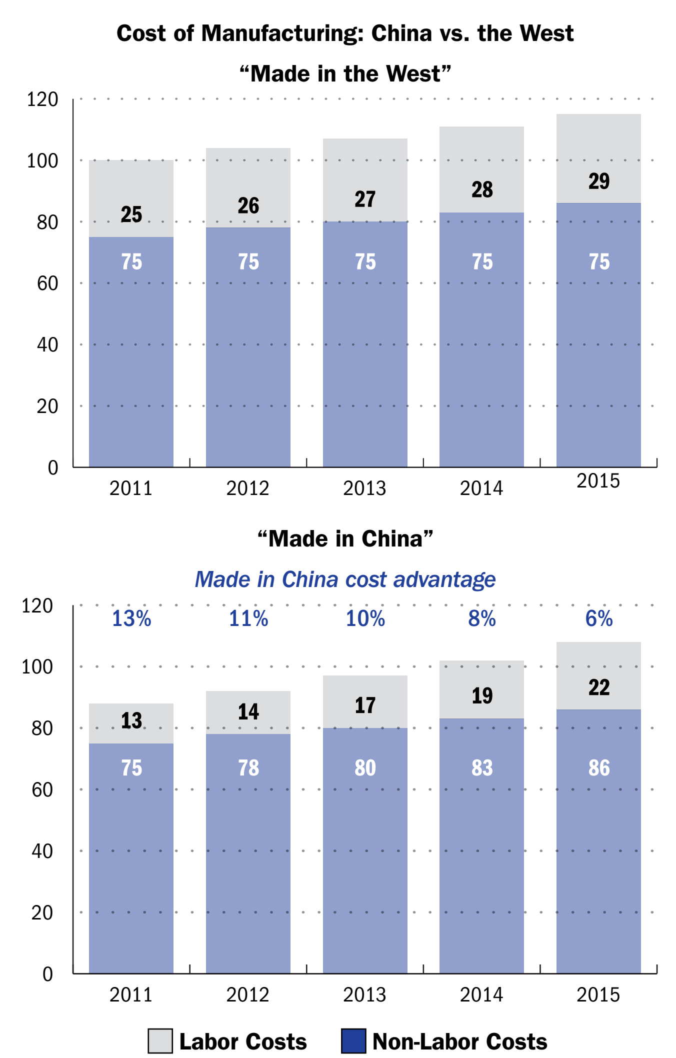
Catchy phrase, but there is truth to it. If our "representatives" do not act, beginning in January our nation will experience the largest tax increase in history; an average of 25% more per person and ~$550 billion more on it's way to Washington. ***This huge amount taken from our wallets may not only put our economy into recession, but it's still not enough to balance the budget!*** The good news is there are ways to keep your taxes low. Grab your tax return and come see us for a review to ensure you don't pay more than you have to.

Black Swans are relative

The Black Swan in 2008 is something we will never forget. While some lost more than others, over a lifetime even a black swan does not have to be a life altering event. We need to adjust until it passes and let it serve as a reminder to not live close to the edge financially. A sound plan is ready to deal with the unexpected. For those of us who have weathered the storm, the basic adjustment was cutting expenses to continue following the principle of ***"spend less than you earn."*** For those deeply in debt with little to no savings, 2008 was devastating. The good news is even the worst case scenarios can be survived. J.C. Penney went completely broke three times before dying rich. As we look down the road, the key is to have a plan in place for adversity. Many "experts" are now obsessed with the next "black swan" and/or "fat tail" event; worrying about things we have no control over. Picture an engineer building a bridge with a 2% chance of collapsing. Adjustments must be made during construction to reduce the 2% probability to as close to 0% as possible. The financial planning profession loves to use Monte Carlo simulations that project how much money someone can spend during retirement and the probability of success for different amounts. If someone's retirement plan has a 98% probability of success, then those are very good odds to start with. However, there is still a 2% chance adjustments will be needed. Those who retired in the past 15 years can appreciate the reality of making adjustments. Successful retirement planning is less about statistical probabilities than it is about making adjustments. Just like life in general!

America has a cost advantage over China?

Years ago we mentioned that the "seeds of destruction" were already being planted in China and the chart below reveals this is coming true. Similar to sports, the best team doesn't dominate forever. The players get older, hurt, retire, etc. and the competition improves. The chart reveals that at some point it will become cheaper to build things in America than China.



Source: http://richardblundell.net

Federal budget

A good budget would force Congress to make tough decisions on how much to spend. The current one on the table doesn't deal with the future. Who in their right mind spends 40% more than they earn forever? Nobody! It can't be done. The assumptions are also unrealistic; economic growth and ever increasing tax dollars flowing to Washington? Not! There is one straight line in history and that is how much Washington collects. Once they try to collect more than 20% we Americans find a way to not send it to them. We are running out of time and easy solutions. Again, it's no different than a family with an income of $50,000 that's spending $70,000. At some point the credit limit is reached and the money stops flowing.

> *"During times of universal deceit, telling the truth becomes a revolutionary act."*
>
> *— George Orwell*

Business humor

This is the standard disclaimer that Contango Oil & Gas Company (MCF) includes with their quarterly earnings reports – *"The future is unknowable. We have good intentions, but all of our projections and estimates will be wrong, and could be materially wrong. Wildcat exploration is expensive, speculative and potentially dangerous. An offshore spill or explosion would be enormously expensive. We have insurance but it may not be enough. You could lose your entire investment. Don't be lazy – read our 10-Q's, 10-K's and press releases, and if you lose money – please no tears. Don't forget about risk-free T-bills in your portfolio… After inflation and taxes you'll likely only lose 5-10% of your investment."*

— Contango V.P. Investor Relations

Baby boomer stuff

The oldest baby boomers will turn 66 this year; the age you can claim full Social Security (SSA) benefits. Social Security replaces one-third of income for the average retiree and an important source of income for seniors who reach age 80 and beyond; especially women. Medicare plays a critical role meeting the escalating cost of health care during retirement.

Working & collecting SSA

The labor force is getting older and you can earn as much as you want after your normal retirement age (NRA). Earlier filers are hit with a penalty on earned income over $14,640 between age 62 and 66. If earnings exceed the limit, $1 will be deducted for every $2 earned above the limit. The good news is the penalty is put back into your SSA bucket and recaptured over time.

Social Security

50% of Americans file for Social Security at age 62 (Source: U.S. Social Security Administration). This can be a mistake, but as we've revealed before one won't know until age 78 where all the income streams flowing from Social Security cross. The longer you live past age 78, the more you benefit from waiting to collect. Many seniors worry about not living past 78, which makes delaying filing for Social Security a mistake. Social Security's mathematics, unlike the funding for it, is very sound. The primary rule being the Normal Retirement Age (NRA), which ensures Social Security pays out fairly to all beneficiaries. Monthly benefits for early filers are reduced to avoid paying them higher lifetime benefits; 8 percent for most of the years you start early. For a 62 year-old filing this year, the net effect will be a 25% reduction. On the other hand, the SSA increases payments by 8% for every year you delay filing beyond the NRA until age 70, after which waiting is no longer rewarded.

Retirement risks

Living too long, Inflation, Investment Strategy, Lifestyle, Health Care. Many retirees underestimate their lifespan and outliving their money. Some studies reveal as many as 50% of Americans outlive their "average" life expectancy. Successful retirement plans assume you will live into your 90s. Longer retirements make it critically important to have investments that will outpace inflation over time. Having a too conservative (100% CDs) plan increases the risk of outliving your money as inflation and taxes outpace the interest earned. Having a too aggressive (100% stocks) plan increases the risk of substantial losses and running out of money. The key is balance; a.k.a. "divide your portions." Having a conservative withdrawal rate dramatically reduces the odds of outliving your money. While we prefer to go quickly in our sleep or like my mom in church on Thanksgiving Sunday, most of us will go slowly and spend a lot of money on health care. A Fidelity study revealed the average married couple will spend $250,000 on health care during retirement; an expense that needs to be included in any successful retirement plan.

Keeping you up to date & in the know at JFR Financial

by Diane Irvine

FINRA/COMPLIANCE regulations will keep us busy this summer!

What/Who is FINRA?

FINRA stands for the Financial Industry Regulatory Authority. It was formed in July 2007 when the NASD (National Association of Securities Dealers) merged with the member regulation, enforcement and arbitration functions of the New York Stock Exchange. FINRA's charter is to work towards protecting investors and upholding the financial industry market through regulation and compliance. FINRA is a self-regulatory body that handles individual's disputes with stock brokers and financial planners. They are also responsible for administering and licensing registered representatives. In other words – FINRA is the governing body that oversees the Financial Planning industry and they exist to "protect" investors.

FINRA Rules 2090 — "Know your customer" and 2111 —Suitability

2090 — Know Your Customer:

This rule is based on the ethical standard contained in NYSE Rule 405(1) requiring broker-dealers (agents) to know their clients when opening and maintaining each and every account. We must use "reasonable diligence" to know and maintain this personal information for every customer AND for all of those with the authority to act on behalf of a client. FINRA defines "essential facts" as info required to

1. *Effectively service the customer's account,*
2. *Act in accordance with any special handling instructions for the account,*
3. *Understand the authority of each person acting on behalf of the client and*
4. *Comply with applicable laws, rules and regulations.*

What does that mean to you? JFR Financial Services needs to KNOW you. We ask personal information so that we can KNOW you. We also need to KNOW your spouse, kids and/or others who may be beneficiaries, partners or managers of your accounts. This is what we've always done. The only difference is the government now wants this information tracked in a format other than John's scratch pad!

2111 — Suitability:

This rule requires that a broker-dealer (agent/ licensed representative) or associated person has a "reasonable basis to believe that a recommended transaction or investment strategy involving a security or securities is suitable for the customer…" Prior NASD rules required this for purchases, sales and/or exchanges of ANY security. FINRA expanded this rule to make sure "investment strategies" are suitable for clients. There are three main suitability obligations:

1. *Reasonable basis suitability (where the recommendation meets a threshold suitability for at least some investors);*
2. *Customer specific suitability (where the recommendation is suitable for a particular customer based on that customer's unique investment profile); and*
3. *Quantitative suitability (which is relevant in churning cases and exists where a member or associated person with de facto control over a customer account believes that a series of recommended transactions are not excessive and unsuitable when taken together).*

Types of Information To Be Obtained

Rule 2111 requires that the suitability assessment be "based on the information obtained through the reasonable diligence of the member or associated person to ascertain the customer's investment profile," such as "the customer's age, other investments, financial situation and needs, tax status, investment objectives, investment experience, investment time horizon, liquidity needs, risk tolerance, and any other information the customer may disclose to the member or associated person in connection with such recommendation." [Emphasis added]

This requires all advisors to look at the TOTAL picture to make sure that not just the product, but the strategy is in line with your unique financial profile. Again, this is nothing new other than how the information is organized in your files.

Most of this information is obtained when you meet with us during "normal" conversation. As we develop your financial profile, we get to know you. When you open an account most of this information is part of the application process. We are now required to complete more forms and update the for each client. That is why we mail "Client Profile Questionnaires" and have posted the same questionnaire to the website.

What happens if you do not provide this information?

FINRA did not specify that we may no longer work with somebody refusing to provide this information. They do however specify that should we choose to continue the relationship we must document our efforts to obtain the "essential facts" and we must explain why you have refused to provide the relevant information.

We understand your hesitance. While our relationship is very personal and private, it seems violated when the government keeps piling on more documentation and requirements. We don't share this information with anybody. Our privacy statement was included in the February 2012 newsletter and is also available at www.jfrfinancial.com. Our computer systems have various "firewalls" and security measures. We shred paper as soon as we're done with it. The good news is the information does help us better serve you and the government does have good intentions. They are trying to help ensure suitability of all investments and strategies discussed with you and to meet the FINRA/ Compliance requirements. If you are more comfortable meeting face to face please call the office to make an appointment to update your file..

"There is no part of the administration of government that requires extensive information and a thorough knowledge of the principles of political economy, so much as the business of taxation. The man who understands those principles best will be least likely to resort to oppressive expedients, or sacrifice any particular class of citizens to the procurement of revenue. It might be demonstrated that the most productive system of finance will always be the least burdensome."

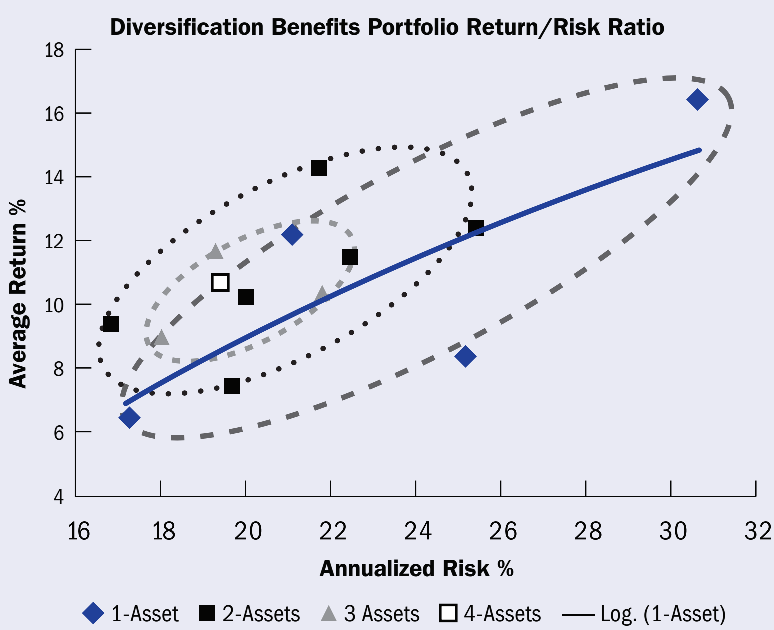
— Alexander Hamilton

Employee Spotlight: *Elizabeth Gear*

Beth spent several of her college breaks and summers working with us as a student intern. In May 2010 she received her BBA from Central Michigan University with a major in Finance and minor in Legal Studies. Beth joined us full time in June 2010. She is a quick study and very thorough. Her primary activities are helping John service clients, preparing client investment reviews and helping perform due diligence/research on new products. She is also helping our newest addition, Tom Landis, with his activities. Going back to her intern days, Beth helps Diane with the JFR Website and WealthVision. Beth and Athan (our youngsters!) enjoy working together and are involved with technology projects and systems to further automate our daily routines. Beth took the income tax preparers course this year and was a welcome addition to the tax team. She is also studying for her Series 7 exam.

Effect of combining risky assets

Combining risky assets into a portfolio may result in lower overall risk than might be expected by looking at each component separately. Assets should be evaluated on their contribution to the overall portfolio, not in isolation.



Source: ING Investment Management, FactSet.

Annualized Returns and Risks (%)		
Risky Asset	**Return**	**Risk**
U.S. Small Cap	8.4	24.7
International Equities	6.6	17.0
Global REITS	12.2	20.7
Emerging Market Equities	16.5	30.1

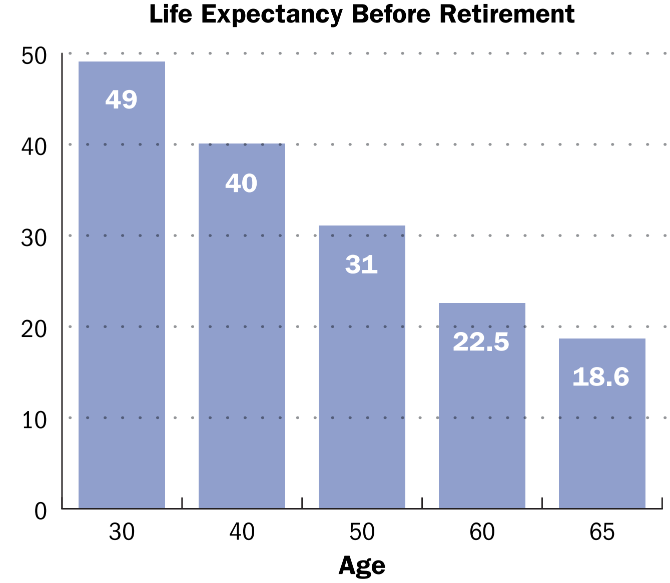
Other asset classes not included in this analysis:		
U.S. Large-Cap	4.5	17.0
U.S. Bonds	6.0	4.0

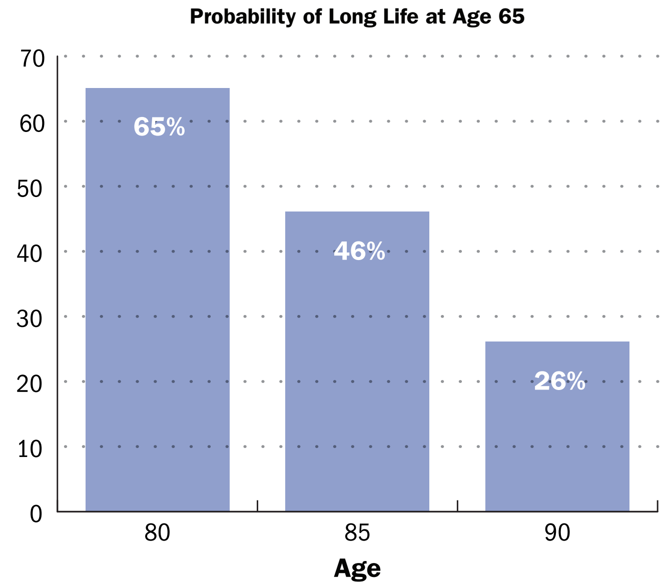
“Society in every state is a blessing, but government, even in its best state, is but a necessary evil; in its worst state an intolerable one; for when we suffer or are exposed to the same miseries by a government, which we might expect in a country without government, our calamity is heightened by reflecting that we furnish the means by which we suffer.”

— Thomas Paine, Common Sense, 1776

Life Expectancy

Improving life expectancy makes the probability of living longer in retirement higher than most people realize.



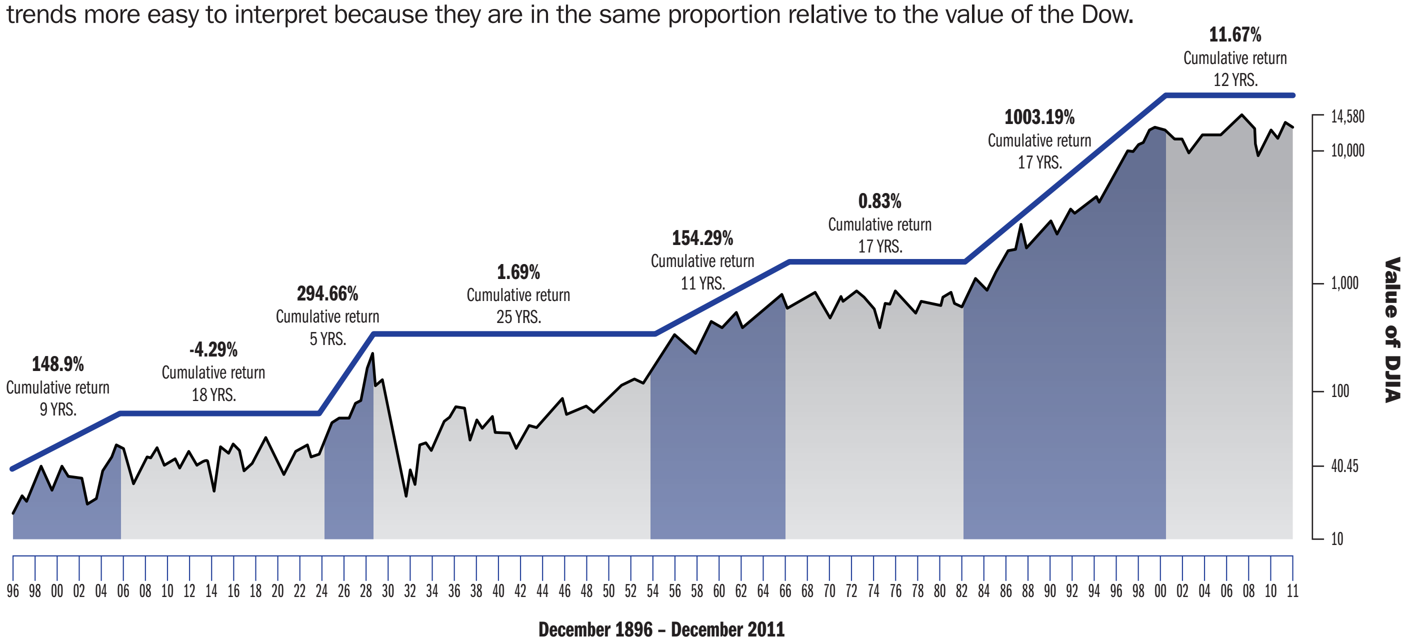


Source: Table B. Expectation of life by age, sex, Hispanic origin and race for non-Hispanic population, United States, 2007, National Vital Statistics Reports, Vol. 59, No 9, September 28, 2011

Historical trends of the Dow®

The stock market moves in cycles. When you look at the historical performance of the Dow Jone Industrial Average (DJIA)SM, for example, you can see the extended periods of bull markets (when the market is rising) as well as flat or bear markets (when the market is moving sideways or falling).

The DJIA is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. The graph below presents the historical performance of the DJIA on a logarithmic scale. A logarithmic scale is a scale of measurement that uses the logarithm of a physical quantity instead of the quantity itself. Presentation data on a logarithmic scale can be helpful when the data covers a large range of values. The logarithm reduces this to a more manageable range, making the data and trends more easy to interpret because they are in the same proportion relative to the value of the Dow.



Source: djaverages.com, Logarithmic graph of Dow Jones Industrial Average from 12/1896 through 12/20/11.

Past performance is no guarantee of future results.

How JFR Financial Services Can Help You.

We are in business to serve you! *More specifically, we are in business to help you work toward your lifelong financial goals. Services available through JFR Financial Services include:*

- Financial Planning & Consulting
- Retirement Planning
- Personal Coaching
- Business Planning & Development
- College Funding Programs
- Management Training Classes & Consulting
- Fee-Only Investment Consulting & Asset Management
- Asset Management
- Annuities, Fixed & Variable*
- Estate Planning
- Public Speaking & Educational Seminars
- Insurance: Life, Health, Disability, Long-Term Care
- Real Estate Investment Trusts*
- Mutual Funds*
- Stocks,* Bonds,* CD's,* Money Markets*
- Employer Sponsored Retirement Savings Plans
- Retirement Plans: IRA, SEP, 401k, Keogh, 403b
- Full Service Brokerage Accounts*

**Securities offered through LPL Financial, member FINRA/SIPC. Investment advice offered through JFR Financial Services, Inc., a Registered Investment Advisor and separate entity from LPL Financial.*

We have the knowledge, tools and experience to help. Call us today at 800/315-2945 or 734/692-1421. *It could make a world of difference.*

The S&P 500 is an unmanaged index, which cannot be invested into directly. Past performance is no guarantee of future results. LPL Financial Representatives offer access to Trust Services through The Private Trust Company NA, an affiliate of LPL Financial.

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