Financial Stuff

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"I think we have more machinery of government than is necessary, too many parasites living on the labor of the industrious."
– Thomas Jefferson

Tails, whales and chum

While every year is uncertain, what's in play this year is larger than normal. We have political uncertainty. We have economic uncertainty. The investment industry calls these situations "fat tails," where the extremes of the outcome are difficult to quantify. As a result, businesses and/or anyone with extra money is "hoarding cash." Without knowing what the rules will be tomorrow, the prudent strategy is to lay low and wait. With interest rates basically at zero, negative after taxes and inflation, investing is very difficult today. Not only must there be a global approach, but we must be prepared for fat tails, whales coming up on shore unexpected and avoid having too much "chum" in the water; pieces of dead fish on the surface whose only function is to try and attract bigger fish before it's all consumed by the sea gulls and scavengers. Low interest rates help those borrowing money, but are destroying people who depend on interest from CDs, Savings Bonds, etc. to get by. Some are swimming in the chum in search of better interest rates, often unaware of the larger creatures lurking below. The end result is a continuation of the uncertainty we have been living with for 3+ years. As Will Rogers said, "I am not so much concerned with the return on capital as the return of capital." We will remain defensive until the sunrise on the horizon is less blocked by the clouds.

Don't just listen, look!

What has happened over the past 3 years is a once in a generation financial emergency. *And we are still in it.* Prior to 2008, planning was based on the economic conditions that had persisted for the past 50 years. History teaches we will come out of this valley, but until we do remember the principle of "Divide Your Portions;" including our time. Our investments are an important part of the plan, but so is lifestyle. To use a business term, we need "margin" in every aspect of our lives.

Life will continue to swing back and forth from fear to greed. During extreme times it feels as if life is "changing," but the fundamentals remain the same. Do the best with what you have and leave the rest to God. The Bible warns against "entanglements" and the real estate market is one we can all relate to. While history teaches owning a home is a good investment over time, we lost sight of the definition of time.

Getting Back to Basics

The times remain challenging as we enter the 4th year of bad markets and uncertainty. Like being behind in a football game, we need to focus on one snap at a time. We can't change the outcome in one play. It's a time to focus on the fundamentals one play at a time.

Inside This Issue

Saving Money

It can be done! In addition to emergency funds, live with positive cash flow from month to month. There are a few situations/emergencies when this is not possible, but never as a lifestyle where we presume upon the future. *Spend less than you earn, Be or Become Debt Free ans "Divide Your Portions" should always be fundamental practices.*

"If men were angels, no government would be necessary. If angels were to govern men, neither external nor internal controls on government would be necessary. In framing a government which is to be administered by men over men, the great difficulty lies in this: you must first enable the government to control the governed; and in the next place, oblige it to control itself."
— James Madison, Federalist No. 51, 1788

Is Your Wealth Secure?

Below is a quiz from the Wall Street Journal to help. Add up your points to see if you are in great shape (7-10 points), very good (11-15), questionable (15-19) or heading for disappointment (20+). The results aren't completely reliable, but the principles are consistent with spend<earn, be/become debt free and "divide your portions."

1) *Debt to Net Worth – Less than 10% (1 point), 10–20% (2 points), 20%+ (3 points)*
2) *Annual Spending to Net Worth – Less than 3% (1 point), 3-5% (2 points), 5%+ (3 points)*
3) *What percentage of your net worth is your most valuable asset? Less than 10% (1 point), 10-20% (2 points), 20%+ (3 points)*
4) *How much of your net worth cannot be quickly converted to cash (e.g., house, business, collectibles)? Less than 10% (1 point), 10-20% (2 points), 20%+ (3 points)*
5) *How often do you gamble (including the lottery!)? Never or almost never (1 point), Once a month (2 points), More than once a month (3 points)*
6) *Do you believe you are the smartest person in the room? Never (1 point), Sometimes (2 points), Most of the time or always (3 points)*
7) *What will your lifestyle be like in 5 years? Worse (1 point), Same or not sure (2 points), Better (3 points)*

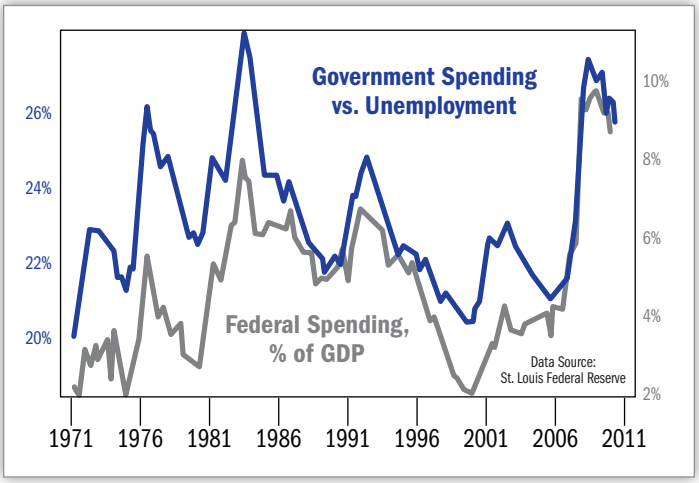
Speaking of Calendars

The Clock is Ticking on Social Security. We weren't supposed to experience negative cash flow until 2020, but guess what? Social Security (SSI) spent ~$50 billion more in 2010 than it took in and was in the red again for 2011. At this rate, the program's much-touted "Trust Fund" is expected to be depleted as soon as 2025. Without it, the benefits would need to drop by ~25% to match the contributions. Eerily close to the 30% reset we've been encouraging people to consider as a worst case scenario. What started as 2% of the first $3,000 of income (half paid by you, half by your employer) is now 12.4% of the first $110,100 in 2012. They're also increasing the "full retirement age" from 65 to 67. The primary problem (assuming government managed is not!) is demographics. Americans are living longer and having less children. When the program was started, our life expectancy was less than 65. The American birthrate has fallen from 18.7 live births per 1,000 in population in 1935 to 13.8 today. Ironically, the number of additional workers needed to make the program solvent has been eerily close to the number of abortions performed since the Roe vs. Wade decision. Another issue today is the slow economy has resulted in the civilian labor-force participation rate dropping to 64% today from 67% in 2000. Solvency depends on a large workforce supporting a small number of retirees. When the program started the ratio was 35 to 1. In less than 10 years this ratio will fall to less than 3 to 1. The other problem is SSI no longer provides a surplus for Washington to spend on other programs. Had our "representatives" never spent the surpluses, Social Security would be solvent today. The key questions today are what will change and when? The popular thinking is those currently receiving Social Security will be spared other than seeing the end of the cost of living adjustments or a reduction in the increase. For anyone under 55, it's a toss up. Payroll taxes up? Benefits down? Both? Time will tell, but as we've been telling our younger clients for years, plan on seeing 50% of what you're currently being promised. *(Source: Wall Street Journal, Investors Business Daily and Motley Fool.)*

Judge Learned Hand

"Anyone may arrange his affairs so that his taxes shall be as low as possible; he is not bound to choose that pattern which best pays the treasury. There is not even a patriotic duty to increase one's taxes. Over and over again the Courts have said that there is nothing sinister in so arranging affairs as to keep taxes as low as possible. Everyone does it, rich and poor alike and all do right, for nobody owes any public duty to pay more than the law demands."

Unemployment Rate



As the chart reveals, the larger the government the less opportunity. The pattern is consistent for other countries. Sadly, most of the spending never achieves the "good intentions." Government wastes money; some programs as much as 60-70% of what they take in. For those of us in the Detroit area, we have a live case study unfolding before our eyes. It's been 50 years since the "War on Poverty" began. We've spent trillions of dollars on "compassion" that violates Biblical principles as well as economic theory.

Taxes — Out with the Old and in with the New?

Not just yet, but changes are already happening in 2012 and will continue throughout the year if/when our "representatives" decide to work a few days instead of campaigning and/or pointing fingers at each other. Several provisions lapsed at the end of 2011. No idea why we're not hearing about the changes, since they involve increases for most of us, in one way or the other. One piece of good news is the estate tax exemption for 2012 has increased to $5,120,000 along with special exemptions for real estate and installment payments on large properties. The Social Security wage base is rising to $110,100. Social Security benefits have been increased by 3.6% for 2012; the first increase in 3 years. Medicare premiums were also increased by 3.1% and higher income seniors will pay more. There are plenty more changes, but safe to say we will be paying more in one way or the other on all fronts. There aren't as many ways to reduce our taxes as there used to be, but some good ones still exist. If we're not preparing your return, then it's important to review your taxes with us every few years to make sure you are not paying any more than you have to.

"A morsel of genuine history is a thing so rare as to be always valuable."
— Thomas Jefferson, letter to John Adams, 1817

Retire Now or Later?

It's a scary time. The economy is shaky. Investments are shaky. We had a couple earthquakes in Michigan. There is no crystal ball to predict when things will settle down, but history teaches the sun will rise again. In the meantime, life goes on and we must plan accordingly. Below are a few factors to help.

Health — The primary factors are lifestyle and bloodline. If both are pointing to a long life, then you may want to work longer if you don't have enough money for a long retirement. If you're struggling with health today, then it may make sense to retire sooner and reduce your expenses. Retiring early can improve your happiness and possibly improve your health. Many of our clients started feeling better just knowing they were going to retire!

How Much Do I Need? There are many formulas, but as a rule every $100,000 is worth $4-500 per month for the rest of your life or $1,000 per month for 15-20 years. When making a plan, for both financial and emotional reasons, it is best to protect your principal until at least age 70. While there are no guarantees, at 70 we normally have a better idea how long we are going to live.

What About Social Security? No matter what the politicians say, Social Security needs significant reform. There's nothing we can do today other than keep insisting they address the matter. In the meantime, we can prepare for the likely changes. When we do projections, we assume anyone under 55 will see 50-75% of their projected benefit and they will not be able to start collecting until 65 or 67. For anyone between 55 and 62, we assume at some point in your lifetime the benefit will be 20% less than the projected amount. Anyone over 65 will probably not see a reduction in their lifetime. However, it is very likely there will be means tested adjustments similar to what they are already doing with Medicare.

What If I Don't Have Enough? Review your expenses and see where you can cut back. Like our government, virtually any of us could cut our living expenses by 30% and barely notice. It just takes the will power to do so. And don't forget part time work. Employers love mature and dependable people who are flexible.

What About Me? Despite the turmoil, virtually all of our retired clients wish they had retired sooner. Money is a critical factor in retirement, but it is not the only consideration. Quality of life is more important than quantity. Working a few more years, downsizing, working part time… There are plenty of possibilities to make your dreams come true even when the numbers don't add up.

Even More Regulations?

The government, in an attempt to "protect" you, is getting ready to increased regulations for our industry. The primary terms behind the upcoming changes are "reasonable" and "suitable." While we have the information required for most of you, the mystery is what format they will want it in and how often. It is safe to say the clients using Wealth Vision will sail right through the new compliance requirements. This program is free for our active clients and a tremendous resource, but we appreciate how some either don't want to use it and/or are concerned with privacy. Basically the government wants the financial information we have for you to be current and include all of your assets and liabilities. While this is something we routinely do whenever clients come in for a review, for those who haven't been in for awhile we may be calling to get the updated information in May or June. Hopefully, whatever they require from us will be easy to comply with through our existing systems.

Is It All Over?

The Mayan calendar predicts the world will end on December 21, 2012 (12/21/12). Safe to say 2012 will be very interesting! Emerging market economies will reach 50% of the world's GDP this year. Europe will probably slip into recession. Government debt remains a huge and growing problem yet to be solved. China is not quite as healthy as some report it to be. Politics in Washington is another big "X" factor.

How Much do I Need to Save for Retirement?

Good question. John D. Rockefeller told his kids to give 10% to church, save 10% for tomorrow and do whatever you want with the rest! For our younger clients we recommend saving 10% of their income until age 40 and then jump to 15%. At age 50 the savings goal jumps to 20%. Saving for tomorrow helps us to live within our means today, which is one of the fundamentals to financial success. A recent study in Financial Advisor Magazine (August 2011) revealed how much we save is more important than both the time to retirement and investment strategy. This is especially true if your time to retirement is 20 years or less.

Things To Remember

- 8879 forms must be signed before the IRS considers your return complete
- Engagement Letters must be signed before JFR Financial can complete your tax returns
- The federal government gave all financial institutions a 30 day extension to mail 1099-DIV statements.
- LPL currently plans to mail 1099-DIV statements on February 22, 2012
- We will be holding the returns that require these statements.

Would you like to receive the JFR Financial Stuff newsletter via email?

If you are interested in receiving our publications through your email account rather than through the mail, please let us know. Email Diane at dianeirvine@jfrfinancial.com and put in the subject matter line ***"email please."***

Employee Highlight: *Athan Decker*

Athan Decker, Analyst

Remember when our "staff" consisted of John, Josh and Diane in a small office on Grosse Ile? The business, our staff and office space have all grown. To that end, we've decided to include an employee profile in each newsletter. In this edition we are pleased to introduce Athan Decker and provide more information about him.

Athan joined us full time in February 2010 after spending two summers working for us as a student intern. He received his bachelor's degree in Finance from Rochester Institute of Technology in December 2009. Athan enjoys digging into the heart of the matter and is a phenomenal researcher. He uses his skills and education every day as he helps John with portfolio research and development, tracking/reporting individual accounts and preparing client investment reviews and customer service. He also works with John to develop and monitor "watch lists" and portfolio strategies. Athan is legally deaf and relies on interpreters to translate his phone conversations. When he calls you, the interpreter will explain that they are on the line, and will be confidentially translating for Athan.

Athan took the income tax preparer's class and is a contributing member of the tax team. He is currently studying for his Series 7 exam.

JFR Financial Services, Inc. — Code of Ethics

JFR Financial Services has a position of public trust and it is our goal to maintain that trust; provide excellent service; good investment performance; and advice that is suitable. JFR Financial Services takes the issue of regulatory compliance seriously and is committed to stay in compliance with state and applicable federal securities laws. JFR Financial Services places great value on ethical conduct. Therefore, the ultimate goal of our policies is to challenge our staff to live up not only to the letter of the law, but also to the ideals set forth by the Adviser.

JFR Financial Services acts in a fiduciary capacity to each and every client. Investment Advisers owe their clients several specific duties as fiduciaries. According to the United States Securities Commission ("SEC") and state securities regulators, an Investment Adviser's fiduciary duties include:

- Advice that is suitable
- Full disclosure of material facts and potential conflicts of interest (such that the client has complete and honest disclosure in order to make an informed decision about services of the Adviser and about investment recommendations)
- Utmost and exclusive loyalty and good faith
- Best execution of transactions
- The Adviser's reasonable care to avoid ever misleading clients
- Only acting in the best interests of clients

It is JFR Financial Services' policy to protect the interests of each of the Adviser's clients and to place the clients' interests first and foremost in each and every situation.

JFR Financial Services will abide by honest and ethical business practices to include, but is not limited to:

- The Adviser will not induce trading in a client's account that is excessive in size or frequency in view of the financial resources and character of the account.
- The Adviser will make investment decisions with reasonable grounds to believe that the decisions are suitable for the client on the basis of information furnished by the customer and we will document suitability.
- The Adviser and its Advisory Representatives will not borrow money from clients.
- We will not recommend the purchase of a security without the reasonable belief that the security is registered, or the security or transaction is exempt from registration in states where we provide investment advice and based upon information the Adviser receives.
- We will not recommend that the client place an order to purchase or sell a security through a broker/dealer or agent, or engage the services of a broker/dealer that is not licensed, based upon information available to the Adviser.
- The staff of the Adviser will report all personal securities trading to John F. Robbins, the President and Chief Compliance Officer and as required by the SEC, to which state regulators defer.

JFR Financial Services requires that all supervised persons immediately report any known or suspected violations of the Adviser's Code of Ethics or securities rules and regulations, to John F. Robbins. Failure to report material information will result in loss of authority or termination and possible additional action by a regulator.

If you should have any questions about how JFR Financial Services does business or if you have any concerns during the course of our relationship, we want to hear from you.

John F. Robbins

President and Chief Compliance Officer

"Would it not be better to simplify the system of taxation rather than to spread it over such a variety of subjects and pass through so many new hands."

— Thomas Jefferson

JFR Financial Services, Inc. — Customer Privacy Policy

As a registered investment advisor, we are covered under the definition of a "financial institution" under the Gramm-Leach-Bliley Act and subject to the rules of privacy imposed under the Act as well as state rules promulgated under the Act. Privacy rules require every broker/dealer, investment company and investment adviser to adopt policies and procedures reasonably designed to safeguard consumers' non-public personal information.

We understand that the sharing of non-public personal information is an act of trust. We value clients' trust and confidence and carefully handle the non-public personal information we may possess. This information generally will include:

- *Information provided from applications, forms and other information provided to us either verbally or in writing, and include but are not limited to your name, address, phone number, account information, Social Security number, employment, assets, income and debt;*
- *Information about your transactions, accounts, trading activity and parties to transactions, information relating to insurance, beneficiaries and limited medical data (as it pertains to insurance);*
- *Information from other outside sources;*
- *Any other information that is deemed to be non public personal information as defined by the Gramm-Leach-Bliley Act and by state privacy rules.*

All information provided by clients to us (including our investment advisor representatives and administrative personnel), and information and advice furnished by us to you, is treated as confidential and not disclosed to affiliated or unaffiliated third parties, except as permitted by you with written authorization, by application to facilitate the advisory services offered by us or as required by any rule, regulation or law of any regulatory or self–regulatory organization to which we or our investment advisor representatives may be subject. For example: you may ask us to provide information to your other services providers, such as your accountant, and we are pleased to be of assistance when you direct us to share information. Regulatory and self-regulatory bodies generally conduct routine audits of registered investment advisers and registered representatives (respectively) to review books and records, and in the process may review client information. Additionally, LPL Financial Corporation and its compliance personnel may review client data for the same compliance purposes.

Within our advisory firm, access to client records is restricted to only personnel who need to access information to deliver investment advisory and administrative services.

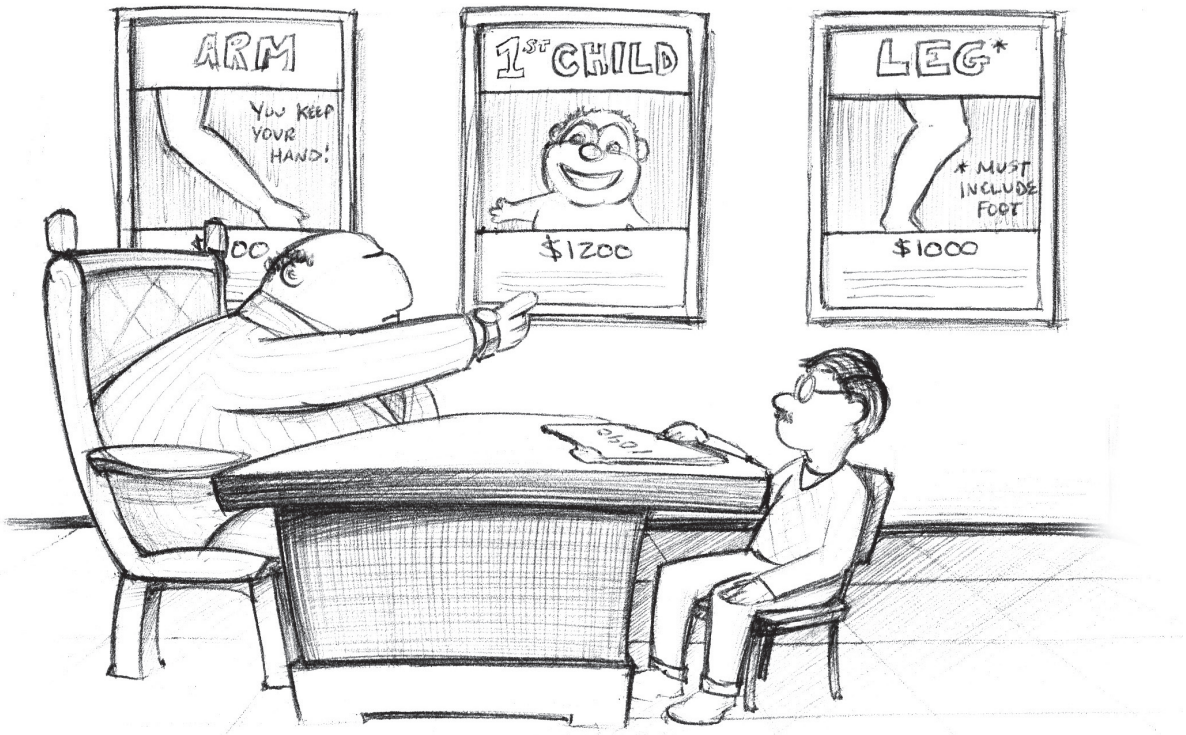
Former clients receive the same privacy protection as current clients. Client records are retained for the time period required by regulators before they are securely destroyed via in-house shredding.

Consumers who provide information for review during initial consultations/meetings receive privacy protection as our clients. Information may be retained on file for a period of up to one year before the data is securely destroyed via in-house shredding, depending upon the likelihood of engagement.

Clients are welcome to discuss any questions or concerns they may have about our privacy policies and procedures by directly contacting John F. Robbins, CFP, our President and Chief Compliance Officer.

"Freedom is a fragile thing, and is never more than one generation away from extinction. It is not ours by inheritance. It must be fought for and defended constantly by each generation, for it comes only once to a people."

— Ronald Reagan



We have many options to deduct your taxes.

ENGAGEMENT LETTERS NEED TO BE SIGNED BEFORE WE COMPLETE YOUR RETURNS.
WE MUST HAVE SIGNED IRS FORM 8879 BEFORE WE E-FILE YOUR RETURN!

February 6th through April 9th. The office will remain open on Thursday evenings: the latest time-block available is 6:00 PM. Saturday appointments are available between 11AM and 1PM on February 18, March 10 & 31. We may file extensions for all returns/information received after April 10th. The cost for the extension is $25.

We will add a $50.00 appointment fee for those who require face-to-face preparation. We will be limiting appointments to 30 minutes. If we cannot complete your return in the allotted time, we will complete the return and call you when it is ready for pick-up. If you normally have a face-to-face prep; consider dropping off your information and making the appointment to review your return at pick-up.

The fees for 2011 returns are as follows:

Base Price: $195.00*

Drop Off Discount is $15.00

This includes:

1040

Schedule A (itemized deductions)

Schedule B (interest & dividends)

Schedule D (Capital Gains)
(If investments are through JFR Financial)*

MI-1040 & Property Tax Credit (1040-CR)

Electronic Filing

$50.00 Appointment Fee

**Fees may increase if there are complications to any of the forms and/or the return.*

Beginning prices for other forms*

Schedule C* (Self Employed) **$75.00***

Schedule D* (Capital Gains) **$50.00***

**No additional charge if investments are through JFR Financial.*

Schedule E* $75.00*

Other State Returns $50.00*

Other Schedules/Forms $25.00*
Child Care Credit, Non-Cash Charitable donations, Education Credit, Estimated Taxes, Earned Income Credit, Retirement Savings, 2106, K-1

1120, 1120S, 1065 . . . . . $300.00*

1041. . . . . $250.00*

Other forms (SBT, 706, 709) . . . . . *Priced by job*

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.

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.

Securities products are not guaranteed, are subject to risk, including the possible loss of principal. All economic and performance information is historical and is not indicative of future results.

Investments in foreign securities involve risks relating to political or economic developments abroad, foreign taxation, currency exchange rate fluctuations, as well as differences in accounting standards.

3133 Van Horn Road
P.O. Box 130
Trenton, Michigan 48183
734/692-1421

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