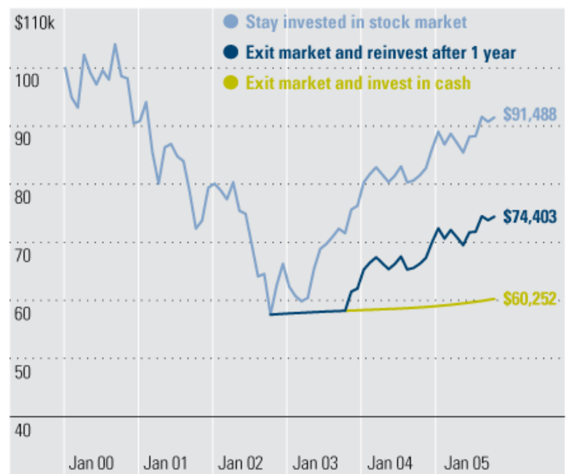
Our Two Cents

May 2012 | Vol. 7 | Investment Updates

The Importance of Staying Invested

Investors who attempt to time the market run the risk of missing periods of positive returns. The image illustrates the value of a $100,000 investment in the stock market during 2000–2006, which included the bear market of 2001 and the recovery that followed. The value of the investment dropped to $57,537 by September 2002 (trough date). If an investor remained invested in the market over the next three years, however, the ending value would be $91,488. If an investor exited the market at the bottom to invest in cash for a year and then re-entered, the ending value would be $74,403. An all-cash investment would have yielded only $60,252. Even though the continuous stock-market investment did not recover its initial value after three years, it still provided a higher ending value than the other two strategies. Investors are well advised to stick with a long-term approach to investing.

Ending Wealth Values After a Market Decline



Source: The market is represented by the Standard & Poor's 500®, which is an unmanaged group of securities and considered to be representative of the stock market in general. Cash is represented by the 30-day U.S. Treasury bill. An investment cannot be made directly in an index. The data assumes reinvestment of income and does not account for taxes or transaction costs. Returns and principal invested in stocks are not guaranteed. Stocks have been more volatile than bonds or cash. Holding a portfolio of securities for the long term does not ensure a profitable outcome and investing in securities always involves risk of loss.

Advisor Corner

RFM Financial Solutions, LLC
Registered Investment Adviser

Michael Harter
CPA/PFS, CFP®

mharter@robertfmurray.com
989-772-1209
www.rfmfinancialsolutions.com

You will see an article in our newsletter that extends our hand to help a friend or family member assistance in their financial plans. The majority of our new business comes from client referrals. We are accepting new clients and would be honored to help.

People like helping other people and if you can help a friend or family member by referring them to us, we will take good care of them.

Thank you in advance!

Five Key Questions About Long-Term Care Insurance

In addition to typical medical expenses in retirement, you should also consider the cost of long-term care arrangements should you need professional care in your later years, either in-home or in an assisted living facility. There's a good chance you'll need assistance, and it won't be cheap.

According to the 2011 MetLife Market Survey of Nursing Home, Assisted Living, Adult Day Services, and Home Care Costs, the average annual cost for a private room at a nursing home in 2011 was $87,235. The national average for a semi-private room was $78,110. The national average for an individual living in an assisted living community was $41,724.

In most cases, long-term care health insurance coverage provides benefits for nursing homes, assisted living facilities, and home care. If you can afford the premiums, you may want to consider purchasing long-term care insurance. Here are some of the key questions to keep in mind.

How Likely Are You to Need It? This depends on your general health, family history, and expected longevity. For example, if your family has a history of serious medical conditions, dementia, or Alzheimer's disease, you may have a stronger reason to consider this type of insurance.

What's Your Asset Level? Those who come into retirement with less than $250,000 in assets will probably have better uses for their money than paying premiums for long-term care insurance; they may also be eligible for Medicaid if they should need long-term care. Those with more than $2 million in assets may be able to pay for this type of care out of pocket. If your portfolio falls in the middle of this range, however, you may be a good candidate for this type of coverage.

What Kind of Coverage Do You Need/Want? The key differentiator in the pricing of long-term care insurance policies is the amount of daily benefit you're buying; you'll obviously pay more for a policy that pays $150 of your long-term care costs per day versus one that pays just $100. You'll also be able to specify whether you'd like your daily benefit to step up with inflation; even though such a feature will cost you, it's highly advisable given that health-care inflation rates have been far outstripping inflation as a whole during the past few decades.

Another factor to evaluate is the total lifetime benefit. For example, a policy may cover $250,000 in lifetime long-term care benefits, or the lifetime benefit may be unlimited. Some policies are comprehensive, meaning the patient can obtain care in a variety of settings, from a traditional nursing home to care at home. Cheaper policies, however, will only pay for care in a traditional setting, usually a nursing home. Policy costs can also vary based on the length of your elimination period, which is similar in concept to an insurance deductible. If your policy has an elimination period of 30 days, for example, that means you'll have to pay for any long-term care costs you incur in the first 30 days of your illness; after that period has elapsed, your insurer will pick up all or part of the tab, up to your daily benefit amount.

How Would You Like to Pay for That? Under a traditional long-term care policy, you make regular payments during the life of that policy. But you can also customize your payment program, paying for your policy in a single payment, over 10 or 20 years, or until you hit age 65. Such payment options allow you to front-load your payments and reduce your fixed costs in retirement.

How Likely Is the Company to Pay? It probably is a good idea to check up on the insurer's financial strength. Also ask your agent about the insurer's history of raising client long-term care premiums. Although such maneuvers can improve a firm's financial health, they can also present a financial hardship to the insured, a lesson many long-term care policyholders learned the hard way during the past few years.

Bond Basics

Benefits of investing in bonds: Potential for growth, historically lower risk, diversification and income are some of the benefits of investing in bonds. Generally, bonds have provided investors with growth and historically demonstrated less volatility than stocks. Because economic events that decrease stock prices tend to increase bond prices, and vice versa, adding bonds to a portfolio can provide diversification benefits. Bond investors generally receive income at fixed intervals that can be used to offset cash obligations or increase portfolio liquidity.

Bonds and interest rates: There exists an inverse relationship between bond prices and yields. If interest rates fall, bond prices rise and vice versa. Suppose an investor purchases a 20-year $1,000 bond with a yield of 8% and interest payable annually. One year later, interest rates rise to 10%. Anybody in the market for a bond can now buy one with a yield of 10%. If the investor tried to sell the bond with an 8% yield for the original price of $1,000, nobody would buy it—the same amount of money could purchase a bond yielding 10%. In order to find a buyer, the investor would need to discount the bond price to compensate the buyer for the lower interest or coupon payments (10% – 8% = 2% less per year in interest payments).

Diversification does not ensure a profit or protect against a loss in a declining market. Bonds are subject to credit/default risk, which is the risk associated with the issuer failing to meet its contractual obligations either through a default or credit downgrade. Bonds have varying levels of sensitivity to changes in interest rates. In general, the price of a debt security tends to fall when interest rates rise and rise when interest rates fall. Securities with longer maturities and mortgage securities can be more sensitive to interest rate changes.

Let Us Help Your Family & Friends

A number of clients recently expressed gratitude for our assistance with their investments during these last few years of turmoil in the stock markets. In the coming year, we hope to add new clients who share our philosophy and who have tried to manage their own portfolios or are dissatisfied with the advice that they have received from their current financial adviser.

If you are happy with the job that we have done, may we ask you to consider introducing us to those of your friends who need assistance with their finances? We would like to make this as easy as possible for you and your friend so we suggest:

1. If you have talked to someone whom you feel we should contact, tell us and we will gladly get in touch with them.2. We would be delighted to add people to the mailing list for our newsletter and other investment correspondences. Then they can see the value that RFM Financial Solutions brings to the investment world.

In the meantime, if you have any questions regarding your own investments, as always, do not hesitate to contact us.

How to Choose a Financial Advisor

Choosing a financial advisor is a process that must be conducted with the utmost care and only after meticulous planning. After all, this will be the person managing your life's savings, your retirement portfolio, or your children's college money. While referrals from trusted friends or loved ones are usually one of the safest ways to find a good advisor, that path might not be available to everyone. Those looking for a financial advisor might want to follow the steps below.

First of all, beware of investment gurus who promise that by using their "secret method" you will be able to beat the market by some ludicrous amount. If it sounds too good to be true, it probably is. Look for reliable credentials, such as the Certified Financial Planner (CFP), Chartered Financial Analyst (CFA), or Chartered Financial Consultant (ChFC) designations. These certifications require passing a series of exams and a certain number of years of experience in the financial field. A Registered Investment Advisor (RIA) must file Form ADV with their state or the Securities and Exchange Commission—ask to see it. It will show the planner's professional history and any legal problems their practice has had.

Once you ensure an advisor's legitimacy, you can start the interviewing process. The National Association of Personal Financial Advisors' Web site has an excellent questionnaire called "The Comprehensive Financial Advisor Diagnostic" that you can use to interview potential planners. Ask about track record, past performance and experience, fees, and commissions.

Also, ask the financial professional what type of clients he or she sees most often to determine if the other clients' financial situations are similar to yours. You can ask to speak with some of these clients as well—are they satisfied with the way the advisor handles their finances? Your financial advisor will have to be someone you can trust and whose skills are a good fit for your financial needs.

RFM Financial Solutions, LLC
Registered Investment Adviser

Michael Harter
CPA/PFS, CFP®

RFM Financial Solutions, LLC
805 N Brown St
Mt Pleasant, Michigan 48858

mharter@robertfmurray.com
www.rfmfinancialsolutions.com

Tel:989-772-1209
Fax:989-772-5352