NORTHWEST ASSET MANAGEMENT

Chuck Jones & Associates, Inc.

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"Nobody ever wrote down a plan to be broke, fat, lazy or stupid. Those things are what happen when you **don't** have a plan."
Larry Winget, professional motivational speaker

So, You're Ready for Retirement…Or Are You?

In This Issue:

In the past, retirement planning used to involve two planning stages: the accumulation of assets, and the distribution of assets. Nowadays, there may be three periods to consider: accumulation, transition, and distribution. "Transition" can be defined as the period between full employment and full retirement when a person is working on a reduced or part-time basis.

What are some reasons to consider working a little longer? Working gives many people a purpose and a sense of self-worth—two benefits that can be more valuable than money in some cases. Working just a few extra years also prolongs the start of the distribution period and enables you to accumulate more savings. This becomes especially important when you consider that life expectancies are rising and you may need to fund a longer retirement than your grandparents, or even parents, did. Continuing to work in the transition years can also provide one additional advantage—it might enable you to receive medical benefits of higher quality than what you would receive as a retiree from your job or from Medicare. This strategy can go a long way in reducing the impact on your portfolio of unforeseen medical bills in early or mid retirement.

Caveat: While we have explored the positives of continuing to work in the transition years, you also need to consider the negatives. One negative is the impact on Social Security benefits. If you decide to start receiving Social Security benefits at age 62, you will be penalized with a reduction in those benefits for any income you receive from working until you reach full retirement age. In addition, Social Security benefits are taxed if you make more than a certain amount each year from earned and investment sources. It may be best to plan this out with your financial advisor to make sure you maximize your benefits.

* SOCIAL SECURITY MAXIMAZATION is not an easy calculation. For example, if an individual is eligible for benefits based on their earnings and for survivor benefits they may end up better off by claiming a survivor benefit first and then switching to their own benefit at their age 70. Therefore, we have acquired special software to help you make those difficult decisions. We will be happy to do this SOCIAL SECURITY MAXIMAZATION calculation for you just call our office for a no-cost no-obligation appointment.

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Benefits of Staying Invested Through Market Volatility

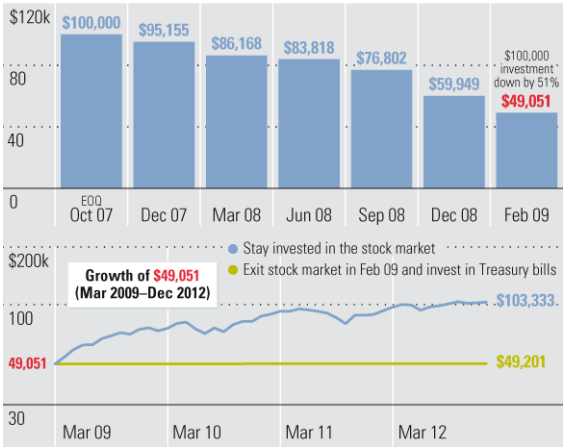
The recent market volatility has investors questioning, "Are stocks still a good investment?" It's a good question, and one way to address this issue is to look at the recent 2007–2009 market crash. Investors who bailed out of the stock market following the significant decline and moved their money to the safety of cash would be quite disappointed to learn that the stock market, in fact, recovered significantly.

The top image illustrates the value of a $100,000 investment in the stock market at the end of October 2007 (when the downturn began). Over the next several quarters, this $100,000 investment declined significantly, and by February 2009 (the trough date) was down to $49,051, a 51% decline. If an investor panicked and exited the stock market to invest the remainder ($49,051) in Treasury bills (proxy for cash), here's what would have happened. The bottom graph illustrates the growth of the $49,051 investment in both the stock market and Treasury bills since March 2009. The difference in the ending wealth values of the two investments is considerable. If an investor remained invested in the stock market, the ending value of the investment would be $103,333. If the same investor exited the market at the bottom to invest in Treasury bills, the ending value of the investment would be only $49,201. While exiting the market during a downward spiral may mean avoiding down days, it also means missing days when the market bounces back. While all recoveries may not yield the same results, investors may be well advised to stick with a long-term approach to investing.

The beginning investment time period of October 2007 was chosen to illustrate two concepts: (1) investing right before a significant market downturn and (2) the contrast between exiting the stock market and staying invested during a recovery. The exact timeline of the downturn-recovery is as follows: October 2007 (peak before the downturn), February 2009 (trough), March 2012 (recovery).

Past performance is no guarantee of future results. Returns and principal invested in stocks are not guaranteed. Treasury bills are guaranteed by the full faith and credit of the United States government as to the timely payment of principal and interest. Stocks are not guaranteed and 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.

Ending Wealth Values After a Market Decline and Recovery



CHUCK'S COMMENTS:

WITH STOCK MARKET VOLITALITY SHOULD I CONSIDER INVESTING IN GOLD? Malcolm Berko, a long time financial columnist says in his July 26, 2013 column published in Portland's Daily Journal of Commerce – "Buying gold as investment is fool's errand". "Truth be told, the only thing that makes a 440 ounce gold bar a wonder to look at is the realization of how much some silly idiot is willing to pay for it." "The most accepted theory explaining the increase in the price of gold is called the greater fool theory."

This greater fool theory was never better shown than in the book Extraordinary Popular Delusions and the Madness of Crowds which describes among others the tulipomania in Holland in the Seventeenth century when people went into debt collecting tulip bulbs – until a sudden depreciation in the bulbs' value rendered them worthless (except as flowers).

OK, WHAT ABOUT DIAMONDS AS A HEDGE? Have you ever wondered why a jeweler can advertise a diamond ring or earrings at a 50% discount? The reason is the mark up is so large the jeweler still will make 100% or more. Diamond prices are controlled WORLD WIDE by the DeBeers cartel which runs the diamond mines in South Africa, Namibia and Botswana and produce 80% of the world's diamonds.

TIPS AND INFO:

24% of American adults use an accountant or certified financial planner to manage their money (Gallup)

5% of engaged couples say that discussing money with their fiancé would cause them to call off the wedding (National Foundation for Credit Counseling)

GIFT CARDS: Ever receive gift cards you are unlikely to use? You might be able to exchange the cards online for cash: Try these web sites: GiftCardGranny.com, Cardpool.com and PlasticJungle.com.

ARE YOU A FITNESS FREAK? Try **www.MayoClinic.com/heath/fitness/SM00086** to measure and track your progress.

EVENT SCHEDULER: Ever had a problem scheduling several people for an event. Try **http://10MinuteMail.com** for a free online assistant.

GETTING TOO MUCH SPAM? Get a free temporary email address at **http://10minutemail.com** it expires after 10 minutes. Use it for online registrations.

NEW INHERITANCE RULES ARE TRICKY: CHECK YOUR ESTATE PLANNING DOCS NOW. Congress made permanent a high estate tax exemption of $5.25 million for those who die in 2013 with inflation adjustment. So for a couple with properly worded docs that can mean that $10,500,000 can be passed to the next generation without paying Federal Estate Taxes. But, there may be some traps in your old docs. For example do the old docs call for a "bypass trust"? If so you may wish to undo or repurpose existing estate trusts or family partnerships, since assets placed in a bypass trust do not get a step-up in basis upon the death of the second spouse. A bit complicated so we recommend having your estate planning attorney review your old docs now! And, don't forget that your State's Estate Tax may still have a significant impact – In Oregon the exemption is only $1,000,000.

AN APPRECIATED ASSET, NOT RETURNING ANYTHING TO YOU, BUT THE AMOUNT OF CAPITAL GAINS TAXES ARE KEEPING YOU FROM SELLING THE ASSET? CONSIDER A CHARITABLE REMAINDER UNITRUST. THE FOLLOWING HAS BEEN SUPPLIED TO US BY PROVIDENCE FOUNDATIONS – Office of Gift Planning.

WHAT IS A CHARITABLE REMAINDER UNITRUST?

A charitable remainder unitrust ("unitrust") is a gift plan defined by federal tax law that allows you to provide payments to yourself or others for life or a term of years while making a generous gift to charity such as Providence.

As a unitrust donor, you irrevocably transfer assets, usually cash, securities, or real estate, to a trustee of your choice (for example, Providence, a bank trust department, or you can serve as trustee). During the unitrust's term, the trustee invests the unitrust's assets. Each year, the trustee pays a fixed percentage of the unitrust's value, as revalued annually, to one or more beneficiaries named by you. Payments must be at least 5% of the trust's annual value and are made out of trust income, or trust principal if income is not adequate. Payments may be made annually, semiannually, quarterly or monthly.

When the unitrust term ends, the unitrust's principal passes to charity, to be used for the purpose(s) you designate.

EXAMPLE:

You irrevocably transfer $110,000 in long term appreciated property (real estate you have held more than one year) with a cost basis of $0 to a unitrust that pays 5% of its value each year for your lifetime at age 66.

If you have interest in learning more give us a call.

Commentary originally published by Robert Johnson, CFA, Director of Economic Analysis with Morningstar and has been modified for Morningstar Newsletter Builder.

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