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THE FINANCIAL FORMULA

Giving You The Financial Information You Need

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Happy Autumn! This month's articles are top-notch - please let me know if you have any questions...thank you!

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In This Issue

Three Tips for Surviving Market Turbulence

The only certainty about the stock market is this: It will always experience ups and downs.

Most stock market investors are looking for the same result: strong and steady gains of their investments. Dealing with a period of sustained falling stock prices is not easy. All too often, investors react to a sharp drop in prices by panic selling or digging in their heels despite deteriorating fundamentals. But more thoughtful investors see a correction or downturn as an opportunity to review the risks in their portfolios and make adjustments where necessary.

When confronted with any adverse market event -- whether it is a one-day blip, a more lengthy market correction (a decline of between 10% to 20%), or a prolonged bear market (a decline of more than 20%) -- take time to review your portfolio. Dealing with volatility can be difficult. Here are some suggestions to help you and your portfolio survive market turbulence.

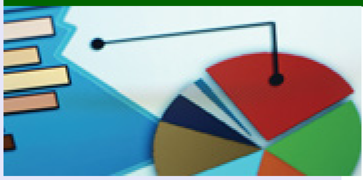
Tip 1: Keep a long-term perspective. The only certainty about the stock market is this: It will always experience ups and downs. That's why it's important to keep emotions in check and stay focused on your financial goals. A buy-and-hold strategy -- making an investment and then holding on to it despite short-term market moves -- can help. The opposite of buy-and-hold investing is market timing -- buying and selling investments based on what you think the market will do next. Market timing, as most investment professionals will tell you, is risky. If your predictions are wrong, you could invest when the market is on its way down or sell when it's on its way up. In other words, you risk locking in a loss or missing the market's best days.

Tip 2: Maintain your balance. Over time, your asset allocation is likely to shift as your assets appreciate and depreciate.[1] Rebalance regularly to help ensure your assets are properly allocated. Also periodically reexamine your risk tolerance. Has anything changed in your life that has made you more or less risk averse?

Tip 3: Talk with a professional. A financial professional can help you separate emotionally driven decisions from those based on your goals, time horizon, and risk tolerance. Researchers in the field of behavioral finance have found that emotions often lead investors to read too much into recent events even though those events may not reflect long-term realities. With the aid of a financial professional, you can sort through these distinctions, and you'll likely find that if your investment strategy made sense before the crisis, it will still make sense afterward.

It's important to remember that periods of falling prices are a natural part of investing in the stock market. While some investors will use a variety of trading tools, including individual stock and stock index options, to hedge their portfolios against a sudden drop in the market, perhaps the best move you can make is reevaluating and limiting your overall risk position.

[1] *Asset allocation does not ensure a profit or protect against a loss.*



Retirement Planning Strategies for Couples

It's important for you and your partner to evaluate all of your portfolios at the same time to see whether the overall investment mix is well diversified.

Communication is one of the foundations of a successful relationship. It also can help you and your partner structure a solid retirement planning strategy.

Planning for two can be more complex than planning for one. It's not unusual for two individuals to have very different plans and financial resources -- for example, one may have more money set aside or may be eligible to collect retirement benefits significantly earlier than the other.

If you're part of a dual-income couple, be sure to review the following considerations.

Talk About the Future

You and your partner may need to negotiate priorities regarding how you'll spend time and money during retirement. It's important to start talking about the future now. Among the considerations:

- Make sure your planned retirement dates are realistic.
- Discuss what you want to do when you retire.
- Estimate the assets you're expecting to have accumulated come retirement, as well as your retirement income needs.
- Try to contribute as much as possible to your employer-sponsored retirement plan and/or IRA while you still can.
- Assess your insurance needs, including life insurance and long-term care insurance.
- Start drafting an estate plan if you are in your 30s or 40s. Update your estate plan if you are 50 and older.

Are You Properly Diversified?

Within a single portfolio, diversification involves spreading your money among different types of investment options so that any losses in one area may be offset by potential gains elsewhere.[1] With two or more retirement accounts, the same theory applies. It's important for you and your partner to evaluate all of your portfolios at the same time to see whether the overall investment mix is well diversified. For example, if you and your spouse have similar investment portfolios, your overall level of risk could be higher than you realize, since a decline in one portfolio would likely be accompanied by a similar decline in the other. If that's the case, you might want to rebalance your asset allocation by shifting money that's already in your accounts to different asset classes (stock funds, bond funds, or cash investments) or by directing future contributions to the under-represented asset classes.[1]

Get on the Same Page

When laying the groundwork for a financial future that includes your significant other, ask yourselves the following questions:

- Do you understand each other's "financial personality"? It's never too late to have an honest discussion about financial habits and objectives. Try to look past your differences and focus on shared goals.
- Have you calculated how much money you are likely to need to fund a financially secure retirement? Do both of you think this amount is realistic? It's tough to work together toward a shared goal if the two of you have different ideas about what exactly that goal is.
- Have you consulted a financial professional? Making a date to discuss your entire range of goals may put you in a stronger position financially to survive unforeseen circumstances.

Regardless of your particular situation, a little advance planning can make the transition to retirement much more pleasant for both you and your better half.

[1]*Diversification and asset allocation do not ensure a profit or protect against a loss in a declining market.*

Three Steps to Help Save for Short-Term Goals

Safety and liquidity will be priorities if you need the money within a few years.

Pursuing short-term financial goals -- those that you'd like to achieve within one to five years, such as a down payment on a home or car -- can require a different strategy than pursuing long-term goals. Here are some steps to help you save and invest when you're going to need your money sooner rather than later.

- **Step 1: Be specific about your goal.** Setting a specific short-term goal will help you to evaluate your progress toward meeting it. For instance, the vague objective "I want to save money to buy a house" becomes "I want to save $20,000 over the next three years to put toward the down payment of a house in (town/city)."
- **Step 2: Take steps to free up extra cash.** How will you save the money that you need? Eating out less often, canceling a gym membership that you don't use, or downgrading your cable from a premium to a basic plan could easily free up $100 per month or more toward your goal. There are probably many areas where you can save a few bucks. Make a detailed list of what you spend in an average month and see where you could afford to trim.
- **Step 3: Match your investments or savings vehicles with your goal.** Safety and liquidity will be priorities if you need the money within a few years. Stocks can experience extreme fluctuations over short-term periods. You don't want to be forced to sell your assets when the value of your investment has dropped. More appropriate choices for short-term needs may be conservative instruments that offer a more stable return, such as short-term bond funds and money market funds. Federally insured savings vehicles, such as certificates of deposit, could also play a role.

Understanding Short-Term Investments

Here are some options for short-term savings with their pros and cons.

- **Standard savings accounts:** Deposits in these accounts are FDIC-insured, and you can easily transfer or withdraw your money from savings accounts. However, interest rates are generally lower than high-interest accounts.
- **High-interest checking accounts:** Many banks offer checking with higher interest rates than you get with a standard savings account. These accounts are FDIC-insured and easily accessed. However, high-interest accounts may impose certain requirements, including maintaining a high minimum balance or setting a minimum number of transactions per month.
- **Money market accounts:**[1] These accounts may offer higher interest rates than a checking or savings account, and are generally FDIC-insured. However, banks may impose minimum balances or may limit the number of transactions that can be made within a time period.
- **Certificates of deposit (CDs):**[2] These certificates are offered on deposits that you keep with the bank for a set period. Generally, you'll receive a higher interest rate if you buy a larger or longer-term CD. But there is sometimes a fee for early withdrawal of your money, so make sure you won't need the money before the term is up or choose a CD that offers early withdrawal without a penalty.
- **Short-term bond funds:**[3] Short-term bond funds primarily invest in U.S. government or corporate debt with maturities that range from one to three years. They usually will generate higher yields, but come with higher risks.

Finally, remember that short-term financial objectives should not take away from investing for long-term goals.

[1]*An investment in money market funds is neither insured nor guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although money market funds seek to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in these funds.*

[2]Certificates of deposit offer a guaranteed rate of return, guaranteed principal and interest, and are generally insured by the FDIC. Early withdrawal of certificates of deposit may be subject to penalty.

[3]Investing in mutual funds involves risk, including loss of principal.

When Should You Collect Social Security?

A growing number of Americans have been forced to delay their planned retirement date due to job and savings losses suffered during the most recent recession. According to a survey, nearly one-quarter of workers said they have resolved to retire later due to concerns about outliving their savings and fears of rising health care costs.[1]

The longer you wait to start collecting, the higher your monthly payment will be.

Postponing retirement not only means working longer, but also delaying when you start collecting Social Security. Currently, workers can begin collecting Social Security as early as age 62 and as late as age 70. The longer you wait to start collecting, the higher your monthly payment will be. Your Social Security monthly payment is based on your earnings history and the age at which you begin collecting compared with your "*normal retirement age."* This *normal retirement age* depends on the year you were born.

Normal Retirement Age

Year Born	Age
1937 or earlier	65
1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months
1941	65 and 8 months
1942	65 and 10 months
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 or later	67

Those choosing to collect before their *normal retirement age* face a reduction in monthly payments by as much as 30%. What's more, there is a stiff penalty for anyone who collects early and earns wages in excess of an annual earnings limit ($15,120 in 2013).

For those opting to delay collecting until after their normal retirement age, monthly payments increase by an amount that varies based on the year you were born. For each month you delay retirement past your normal retirement age, your monthly benefit will increase between 0.29% per month for someone born in 1925, to 0.67% for someone born after 1942.

Which is right for you will depend upon your financial situation as well as your anticipated life expectancy. Consider postponing taking your Social Security benefits if:

- You are in good health and can continue working. Taking Social Security later results in fewer checks during your lifetime, but the credit for waiting means each check will be larger.
- You make enough to impact the taxability of your benefits. If you take Social Security before your normal retirement age, earning a wage (or even self-employment income) could reduce your benefit.
- You earn more than your spouse and want to ensure that spouse receives the highest possible benefit in the event that you die before he or she does. The amount of survivor benefits for a spouse who hasn't earned much during his or her working years could depend on the deceased, higher-earning spouse's benefit -- the bigger the higher-earning spouse's benefit, the better for the surviving spouse.

Consider taking your benefits earlier if:

- You are in poor health.
- You are no longer working and need the benefit to help make ends meet.
- You earn less than your spouse and your spouse has decided to continue working to help earn a better benefit.

Whenever you decide to begin taking your benefit, keep in mind that Social Security represents only 36% of the average retiree's income.[2] So you'll need to save and plan ahead -- regardless of whether you collect sooner or later.

[1]*Source: Employee Benefit Resource Institute, 2013 Retirement Confidence Survey, March 2013.*

[2]Source: Social Security Administration, "Fast Facts & Figures About Social Security, 2013."