



While past performance cannot guarantee future results, one of the most powerful lessons to be learned about market volatility is that those who stay calm and remain focused on the long term have the potential to recover their losses over time and avoid the risks of market timing. Work with me to help keep your long-term financial goals on track.

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# THE Financial Standard

SUMMER 2010

## Planning for Higher Interest Rates

**When the Federal Reserve raised the discount rate – the rate it charges banks to borrow from its reserves – earlier this year, most agreed that it signaled the beginning of a credit-tightening cycle that would continue with an increase in the federal funds rate – the key interest rate that affects many aspects of the economy and the financial markets. The burning question is: When will the Fed take action?**

Although Fed officials have said they plan to keep interest rates low for “an extended period,” many believe there is a good chance that rates will begin to rise later this year. While raising interest rates reflects a renewed confidence in the banking system and the broader economy, it could also dampen the fragile, but tangible, economic recovery that is underway.

A rising rate environment will affect investors in a number of ways, too. And, because markets typically move in advance of economic events, now is a good time to review your portfolio with an eye toward managing the risks associated with rising interest rates.

### Fixed-Income Fixes?

Interest rate risk is a fact of life for bond investors no matter what type of bond is selected.<sup>1</sup> That is due to the simple but universal correlation between bond prices and interest rates: When interest rates rise, bond prices fall; conversely, when rates decline, bond prices rise. And the longer the time to the bond’s maturity, the greater its interest rate risk.

One way to manage interest rate risk is through proper diversification. Owning a broad mix of bonds (e.g., government, corporate, municipal) of varying maturities (short-, intermediate and long-term) may help to mitigate the effect of losses in any one sector.

Bond laddering is one diversification strategy that helps investors to neutralize the uncertainty surrounding the direction of interest rates while also locking in a steady stream of income. To create a bond ladder, you need to invest equal sums of money in a series of bonds with gradually increasing “laddered” maturity dates. Each time a bond matures, the proceeds are reinvested in the longest-term bond at the top of the ladder — and so the cycle continues.

(Continued on back)

### Sector Showdown

Sector returns 12 months after the first rate hike since 1946

S&P Sector	Average Change	Frequency of Beating S&P 500
Information Technology	20%	69%
Health Care	13%	54%
Telecommunications Services	10%	67%
Energy	10%	46%
Consumer Staples	7%	46%
Industrials	7%	23%
Consumer Discretionary	7%	38%
Financials	4%	38%
Materials	3%	31%

Source: Standard & Poor’s Equity Research Services. For the period January 1, 1946, through December 31, 2009. Stocks are represented by the S&P 500, an unmanaged index generally considered to be representative of the large-cap U.S. stock market. Investing in stocks involves risks, including loss of principal. Investments in specialized industry sectors have additional risks, which are outlined in the prospectus. Past performance is no guarantee of future results.



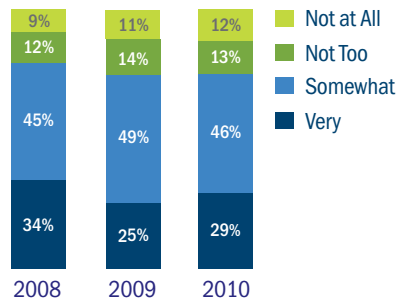
# The State of Retirement Saving in America

**Americans' confidence in their ability to retire is stabilizing as the economy continues to recover, but worker preparations for retirement are still lacking. These are just two of the many observations gleaned from the Employee Benefit Research Institute's 2010 Retirement Confidence Survey.**

Following are some of the more important takeaways from this year's study.

**Chart A**

Confident Can Pay for Basic Living Expenses in Retirement<sup>1</sup>



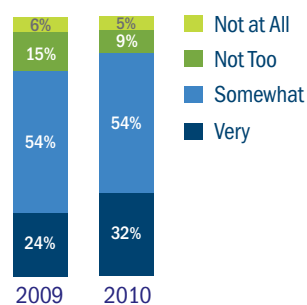
## Retirement Confidence Is Rebounding Gradually ...

Worker confidence about paying for retirement increased this year over last, with 29% claiming to be “very confident” in their ability to pay for basic living expenses in retirement. That percentage is up from 25% in 2009, but still below the 34% reported in 2008 (see Chart A).

Workers who have saved for retirement also have regained some confidence in their ability to invest their savings wisely. Workers claiming to be “very confident” in their investment choices jumped eight percentage points to 32% (up from 24% in 2009), while 54% of those who save are “somewhat confident” about investing (see Chart B).

**Chart B**

Confident Retirement Savings Are Invested Wisely<sup>1</sup>



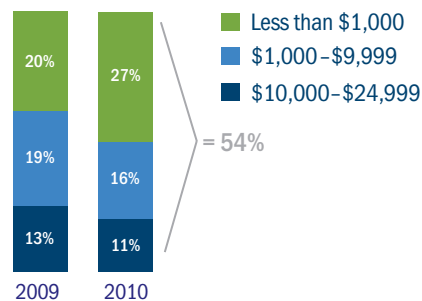
## ... But Fewer Workers Are Saving

While confidence may be up in 2010, denial is still playing a significant role in driving worker action — or inaction — with regard to retirement saving. Fewer workers report saving for retirement (or have a spouse who saves for retirement) this year as compared with last year — 69% down from 75% in 2009. Furthermore, just 46% of workers have even tried to calculate (or have a spouse who has calculated) how much they would need to save to enjoy a comfortable retirement.

What does this mean for their retirement bottom line? For a majority of workers, it means woefully inadequate savings totals. And for some, retirement nest eggs are virtually nonexistent. The percentage of workers who report savings of less than \$1,000 grew to 27% in 2010, up from 20% in 2009 (see Chart C). In addition, more than half of workers have a nest egg valued at less than \$25,000 (excluding the value of a primary residence and any defined benefit plan assets.)

**Chart C**

Total Savings and Investments Reported by Workers<sup>1</sup>



Commenting on the *2010 Retirement Confidence Survey* findings, Jack VanDerhei, EBRI research director and co-author of the survey noted, “Americans’ attitudes toward retirement have clearly tracked the economy the last couple of years, and that seems to be the case in 2010. Unfortunately, while their attitudes are stabilizing, their preparation for retirement is not. A distressing number of people have no savings at all.”

Saving and investing for retirement is one of the biggest financial goals you will face during your lifetime. Take a moment to review the current state of your retirement assets and make time to discuss your next steps with your financial advisor.

<sup>1</sup>Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., *Retirement Confidence Survey*, 1993 to 2010.

# Your Net Worth

## Understanding the Story Behind the Numbers

Perhaps the most significant gauge of an individual's overall financial health is his or her net worth. Put simply, your net worth is the difference between what you own (your assets) and what you owe (your debts) at any given point in time.

Knowing your net worth is crucial to setting long range financial goals. It is also important when applying for a home mortgage or financial aid for your child's college education.

Your net worth is important to the government as well. The Federal Reserve monitors the overall net worth of the nation's households to keep tabs on the financial health of the country. The most recent data (for the period from 2004 to 2007) showed American families had a median net worth of approximately \$120,000 — a notable increase over the period from 2001 to 2004.<sup>1</sup>

Keep in mind that net worth generally follows a pattern throughout one's life: It starts low or even negative as individuals start careers and repay education loans, builds faster in the empty-nester years leading up to retirement and may decline in retirement as people begin to tap the assets they have accumulated.

<sup>1</sup>Source: The Federal Reserve, "Changes in U.S. Family Finances from 2004 to 2007: Evidence from the Survey of Consumer Finances," February 2009.

### Crunching the Numbers

Since your net worth will change frequently as your financial situation changes, it is a good idea to recalculate the figure every year or so. The following worksheet lays out the information you will need to gather. As a "test run," try to complete the worksheet to the best of your ability. The more accurate you can be with your answers, the more useful your results will be in providing a snapshot of your current financial situation.

#### ASSETS (add items 1 through 7)

Estimated value

1. **Cash** — savings and checking accounts, money market funds, certificates of deposit (CDs) and savings bonds . . . . . \_\_\_\_\_
  2. **Financial assets** — current market value of stocks, bonds, mutual funds and other securities as well as cash value of insurance policies . . . . . \_\_\_\_\_
  3. **Retirement accounts** — vested share of employer-sponsored plans, such as 401(k)s and 403(b)s, profit sharing plans, pensions and IRAs . . . . . \_\_\_\_\_
  4. **Real estate** — current market value of primary residence  
*Do not subtract mortgage principal* . . . . . \_\_\_\_\_
  5. **Other real estate** — current market value of second home, land and/or your net share of any investment in commercial property  
*Do not subtract mortgage principal* . . . . . \_\_\_\_\_
  6. **Personal assets** — resale value of household goods and furnishings, cars and other vehicles . . . . . \_\_\_\_\_
  7. **Other assets** — include any other assets not included above . . . . . \_\_\_\_\_
- Total Assets** . . . . . \_\_\_\_\_

#### LIABILITIES (add items 8 through 12)

Estimated value

8. **Home mortgage** — current principal balance owed on primary residence . . . . . \_\_\_\_\_
  9. **Other real estate loans** — current balance(s) owed on equity lines of credit or other home loans and/or current principal balance on mortgages/lines of credit on other property . . . . . \_\_\_\_\_
  10. **Other personal loans** — current balance(s) owed on car or education loans . . . . . \_\_\_\_\_
  11. **Credit cards** — sum of balance(s) owed on all bank and retail credit cards . . . . . \_\_\_\_\_
  12. **Other liabilities** — any short-term loans or amounts owed not included above, e.g., unpaid income or property taxes . . . . . \_\_\_\_\_
- Total Liabilities** . . . . . \_\_\_\_\_

#### ESTIMATED NET WORTH . . . . . \_\_\_\_\_

*Subtract total liabilities from total assets.*

# Still Shying Away From the Stock Market?

**Nearly a year and a half after the 2008 economic crisis, more than half of high-net-worth Americans still lack faith in the equity markets, according to a recent survey of CPA financial planners conducted by the American Institute of Certified Public Accountants.**

Of the more than 420 CPAs surveyed, three-quarters said that their clients had an average net worth of between \$500,000 and \$5 million. (See the article on page 3 for more on determining your personal net worth.)

Reflecting on the survey findings, Clark M. Blackman II, chair of the AICPA's Personal Financial Planning Executive Committee commented, "Regardless of net worth, every American has to make it a priority to understand how the prevailing economic climate, whether it is good or bad, affects individual personal finances."

For your part, this may be a good time to contact your financial advisor to discuss how your thoughts and attitudes around investing and financial issues may have changed in the wake of the financial crisis.

CPAs revealed some interesting facts about their affluent clients. For instance:

**87%** reported that their clients are spending less now than in the past.

**74%** said their clients have become more risk-averse investors in the past year.

**62%** said that retirement-age clients are postponing leaving the workforce from one to five years.

**58%** said the prospect of higher future tax rates is the consideration most likely to inspire clients to convert traditional IRAs to Roth IRAs in 2010.



## Planning for Higher Interest Rates (Continued from front)

### Equity Investments

For those investors who have enjoyed the recent run-up in emerging market equities as well as solid returns on developed international market equities, now may be a good time to consider adjusting allocations toward a more domestically focused portfolio. That is not to say investors should abandon international holdings entirely. Yet with the advent of higher interest rates, the dollar will become stronger, making non-dollar earnings from non-U.S. enterprises comparatively less valuable.

As for domestic equities, how might rising interest rates affect their value? No one

knows for sure, but history may provide some insight. Keeping in mind that past performance is no guarantee of future results, according to Standard & Poor's Equity Research, from 1946 to 2009, the S&P 500 rose an average of 8.1% during all 64 years, or approximately 4% in every six-month period. Further, 12 months after the first rate hike, stock returns held up fairly well, averaging a gain of 7.3%. In addition, the S&P 500 declined just 31% of the time — both 6 and 12 months after the onset of rate increases.<sup>2</sup>

Within specific sectors, which industries held up best? During the same 64-year period, S&P found that Information

Technology and Health Care were the top performers in the 12-month periods after the first rate hike, while Financials and Materials were the two most sluggish sectors (see table on front).<sup>2</sup>

Given the Federal Reserve's languid pace, there is no rush to implement any changes in the immediate term. However, now may be a good time to consult with your financial advisor about how a potential rate-hiking cycle may affect you.

<sup>1</sup>Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and are subject to availability and change in price.

<sup>2</sup>Source: Standard & Poor's, "Industry Surveys: Trends & Projections," March 2010. Investing in stocks involves risks, including loss of principal. Investments in specialized industry sectors have additional risks, which are outlined in the prospectus. Past performance is no guarantee of future results.