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LINNARD FINANCIAL MANAGEMENT & PLANNING, INC.

Registered Investment Advisor, Wealth Management & Financial Planning

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Outlook & Trends

Once again there has been a lot of up and down movement in the financial markets, but it resulted in little change since the last quarter. We went from a condition where there was plenty of money available, which persuaded people to take more risk, to a condition where the credit machine almost ground to a halt due to mortgage-based sand in the gears. To stay on the course to your financial goals, it is helpful to maintain an accurate perspective of where we are in the continuous flow of economic events, as well as having a sound investment strategy and a financial plan as a guide. Hopefully this letter will help you with the perspective. Hopefully you have an advisor helping you with your strategy and financial plan.

Economy

Today's economy still has strength, in spite of the drag from the housing and lending industries. The origins of the housing problem go all the way back to the financial market problems in the early 2000's. At that time, the Fed reduced short-term interest rates to fight the economic downturn. The artificially low rates made mortgages more affordable, so demand drove house prices to an artificially high level. Many of the mortgages sold were Adjustable Rate Mortgages (ARMs) that charged those artificially low rates for the first 5 years. Easy money and the demand from homeowners during the subsequent refinancing boom motivated the banks and mortgage companies to loan as much as possible. Taking advantage of the opportunity, the lending industry lowered their standards and wrote some mortgages that were not properly secured. Now, 5 years later, the ARMs are increasing their interest rates and payments. Higher interest rates are bringing house prices back to earth. Insufficient homeowner equity levels and the rising rates have increased the number of delinquencies and foreclosures in the higher risk part of the market. In addition to prices dropping back to true value, the higher financing costs have depressed prices by causing more houses to come on the market, either voluntarily or though foreclosure. The National Association of Realtors reports that inventory of homes for sale continues to grow, even while homebuilders cut their production of new houses.

While this dynamic is expected to exist for some time, as the ARMs continue to reset, the good news is that the Federal Reserve has pledged to assure that there will be enough money in the economic system to keep the economic gears oiled. The Fed just reduced short-term interest rates, reversing a higher rate policy. The higher rates had the effect of slowing down the economy earlier in the year. The most recent readings put the nation's growth rate back to a reasonable 3.8%. Employment continues to grow and the unemployment rate is near its most recent low at 4.6%. Corporate profits shrank to an annualized increase of only 4%, down from the blistering 28% pace of several years ago. Analysts, however, are estimating that earnings will increase by 12.1% next year. Increasing earnings, lower interest and an available supply of money are the factors that push stock prices up.

Financial Markets

The stock market followed a roller coaster ride during the quarter, and just like a roller coaster, ended up just about where it started. The main feature was a 12% price correction, during July and August, which was enough to bring a greater degree of risk sensitivity back into the market's collective attitude. The other major occurrence was the decline in the value of the dollar, which in turn created rising prices for gold, oil, and other commodities. The term "correction" describes the process of correcting investor attitudes that have become too ebullient and prices that have outdistanced fundamentals. It seems counterintuitive, but corrections put financial markets on a firmer footing and are a necessary process to keep trends moving upward in a healthy manner.

Those who are familiar with us know that we feel that it is counterproductive to try to make market predictions. We prefer to carefully watch and take appropriate action based on what we see. We see a pattern of price movements that suggests that the correction likely ended a month ago. We see an economy that is not rolling over yet. We see stock valuations that remain inexpensive vs. bonds. And, as we look at the calendar, we see a coming period that is historically the strongest part of the year in the strongest year of the four-year presidential cycle. All this may or may not amount to anything. We'll see.

Retirement Realities and Preparation

When today's retirees were young, the idyllic retirement picture featured loyal workers staying for long careers with their employers who provided pensions and a comfortable, relaxing, but short retirement. Times have changed. Today there are 1/3 the number of pension plans as there were in 1985, having been replaced by the ubiquitous 401(k) and 403(b) plans. In addition to reducing the retirement benefits paid, this change has left employees with the responsibility for managing and saving for their own retirement. Additionally, because of the recent nature of these changes, people have not been well educated to deal with this new challenge, leaving many unprepared.

We would like to share a few "gee-whiz" statistics from some recent studies, which we discovered while researching retirement preparation.

- Only 38% of retirees had planned their retirement in advance. Those that had, enjoyed retirement more.
- Of those who were extremely or very satisfied with retirement, 64% were financially comfortable, 2% were not.
- 82% expected living expenses to be the same or less in retirement. 39% experienced increases.
- 50% expected to work until age 65 or more. Between 13% and 21% actually do.
- 35% plan to meet shortfalls by selling their house. 67% plan on receiving support from children or relatives.
- 40% do not know what withdrawal rate will make their savings last. Of the people who thought they knew, 84% overestimated. 29% thought withdrawing 10% or more annually was OK

These days, retirement may be upwards to 1/3 of a person's life, particularly women's. It makes sense to make this much of one's life as enjoyable as possible. Preparation for this long a period requires a lifetime of work. While it is not possible to fully educate everyone in the space of a few paragraphs, we can offer some suggestions:

- For young workers, make retirement savings a priority now.
- For older workers, make sure you know where you stand and take any required action while you have time to make mid-course corrections
- For retirees, make sure you are managing your resources effectively. If you are not certain that they will last for your lifetime, make sure.

By the way, a 30-year, inflation-adjusted, sustainable savings withdrawal rate from a balanced portfolio of stocks and bonds is about 4% per year. For bank CDs, it is less. Now you are one of the one in ten people who know.

If you would like to see the rest of the retirement statistics that we collected, we would be happy to e-mail them to you. Just send a note to retirement@linnardfinancial.com. To learn more about *LFM&P* financial planning and investment management services, our client goal-centered and risk-managed financial philosophy, and to better understand the value we can bring to your financial life, we encourage you to contact us or look at our website, www.linnardfinancial.com.