

CREATIVE

Wealth Maximization Strategies



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December, 2003

FINANCIAL TANTRUMS FROM THE BABY BOOMERS:

What if the whining won't change things?

Can you remember the emotions of childhood?

Remember when you were a kid, say about five years old, and one of your friends got something new, something cool, something advertised on TV – something you wanted? Remember being inconsolable about not having it? Remember crying, whining, begging, stomping your feet, having a tantrum?

Remember your delight at finally getting what you wanted? Remember then seeing your friend get something else, and immediately losing all satisfaction in what you had because it wasn't what you *really* wanted? Remember being inconsolable about not having it? Remember crying, whining, begging, stomping your feet, having a tantrum – **again?**

This was the perpetual discontent of childhood; the agony that welled up over any indication that someone, somewhere, had something better than you did. It was the irrational envy that made you want something today that only yesterday you had given up because you didn't want it anymore.

But that was childhood. Remember growing up? Remember getting over it? Most of us have.

A few haven't grow up, at least when it comes to handling dissatisfaction. In fact, one might say this perpetual discontent characterizes quite a segment of the Baby Boomers. While the items of discontent have changed, their emotions and responses are still childish: the grass is always greener somewhere else.

After the frustration of three years of mostly negative financial news, some of the "children" that write financial commentary have regressed to verbal tantrums. "It's not fair," they yell. "We got what we wanted, but it never should have been given to us. What we had before that was better."

The 401(k) Tantrum

"I'm beginning to think that the 401(k) may go down in history as the worst financial scheme ever devised. Forget Ponzi. Forget Enron. Forget illegal mutual fund trading.

This 401(k) thing has been good for corporate America, which needed to shed the costs and

liabilities associated with defined-benefit pensions. And it's been good for investment firms, which have collected million upon millions of dollars in fees since 401(k) plans were first introduced 25 years ago.

"But I'm not so sure average Baby Boomers have benefited from being asked to bear the burden of building their own nest egg."

– Robert Powell, *CBS MarketWatch.com*, November 12, 2003.

Whoa. The 401(k) as "*the worst financial scheme ever devised?*"



Powell must not remember that two decades ago a major complaint raised by financial commentators was that defined-benefit pensions short-changed the recipients. The argument then was that the value of a guaranteed monthly pension income paled in comparison to the gains that could have been achieved if the individual had been able to put the money in the stock market. In theory, the 401(k) allowed the individual to exceed the guarantees offered by a defined-benefit pension.

The 401(k) was what the Boomers wanted. It gave them the opportunity to be

just like the corporations that made "big money" in their pension plans.

But now that approximately 60% of working Americans have access to 401(k) plans (according to the Employee Benefits Research Institute), Powell has second thoughts about Baby Boomers getting what they wanted. Given the choice, only 48% of American workers ages 21 to 64 participate in employee-sponsored retirement plans. And since the average balance is only \$57,668, most workers are nowhere near being able to retire. Whether current expenses make them unable to deduct for 401(k) contributions, or the lure of current luxuries is stronger than a desire to plan for retirement, the Boomers are "opting out" of retirement saving.

Considering this inclination, Powell is "*not so sure average Baby Boomers have benefited from being asked to bear the burden of building their own nest egg.*" In other words, maybe it would be better if someone else took care of their retirement, and provided a pension. The complaint of 20 years ago is now the solution.

The Social Security Tantrum

Over the past decade, dissatisfaction with the Social Security system has been widespread, and there's a lot to dislike. Some criticize the funding method that has current workers paying for current retirees. As the ratio of working Americans to recipients decreases, the tax burden on those still working grows larger. To maintain the system, taxes must either continue to increase or benefits decrease. At current rates, based on statements from the Social Security Administration, the Social Security Trust Fund will be exhausted by 2042. When contributions (taxes) are evaluated in light of the anticipated benefits, some analysts put the rate of return at less than 2%. This poor investment performance has led many commentators to support various plans that either phase out Social Security, or allow individuals to establish personal accounts with investment options (sort of like a 401(k)!). In general, Social Security is seen as an ineffective government pension program that gives participants a low return for their money.

But...

“Eighty-five percent of Baby Boomers don't expect to receive an inheritance, according to a recent AARP report. ‘People are going to be dependent on sources of income like Social Security and pensions, if they're lucky enough to have them, for their retirement security,’ said John Gist, associate director of AARP's Public Policy Institute.”

Andrea Coombes, *CBSMarketWatch.com*, November 17, 2003.

Which means...

“These stunning figures point up once again the central role that Social Security – guaranteed, lifelong and inflation-protected – will continue to play in the lives of most older Americans.”

Christine Donohoo, AARP Associate Executive Director.

So...the Boomers didn't want to participate in Social Security because it was a bad deal, and something that might go broke before they were eligible to collect. But as they have gotten older, and retirement sources like 401(k)s and inheritances aren't delivering their anticipated financial windfalls, the Boomers now want to be sure they can rely on Social Security. In Powell's words (from an article on *CBS MarketWatch.com*, November 19, 2003):

“Social Security has become more than a safety net for most Americans; it's become the top of America's Big Tent.”

Imagine that. A broke-down program that can't be sustained is now a key retirement resource that must be preserved for future generations.

Responding To Tantrums

It's worth remembering a good parent's response to tantrums was usually some sort of discipline. Having a tantrum to get what one wanted was emotional blackmail, and giving in would only encourage a child to continue having tantrums.

Unfortunately, politicians aren't parents. Giving constituents what they want is a time-honored way of securing votes and staying in office. And as working Baby Boomers become retired Baby Boomers, their retirement issues have the potential to

influence government policy. In other words, the tantrums might work.

But even tantrums are subject to economic reality. For the government to give money to one group means taking it from another. There's a limit to how much you can tax someone, and if the population trends continue, there's a limit to how many retirees one worker can support.

Likewise, a company unable to afford its pension obligations may close, file for bankruptcy, or in some other manner break its contractual commitment to pay a monthly retirement check. In theory, the Pension Benefit Guaranty Corporation will step in to insure the continuation of payments. But benefit levels are capped, and since the PBGC is supported by employer premiums, widespread defaults could jeopardize the safety net.

Growing Up

Watching someone else have a tantrum can be interesting, amusing, distracting, and perhaps irritating. But even if you are sympathetic to the cause, it's not wise to count on a tantrum to deliver results. The tantrums about 401(k)s and Social Security are the responses of people who believe that everything would be fine if only they could get something different. A pension instead of a 401(k), or vice versa. Guaranteed Social Security, or a privatized personal account -- it's perpetual discontent.

Growing up means facing financial reality. Contrary to the implications of Mr. Powell's comments, Baby Boomers, like everyone else, do bear the burden of building their own nest eggs. Financial success does not result from special government plans, employer pensions, or family inheritances. Rather, it is the result of successful application of proven financial actions. These actions are always a mixture of work, saving and ownership. People who work diligently, save consistently and control assets judiciously have the greatest chance of achieving financial success.

The difference between winning and whining financially is not found in developing plans that attempt to force people to do what is “best for them.” Winning occurs when one who is grown up enough to establish one's own plans – and execute them.

?? Are you counting on “bail-outs” from pensions, Social Security and inheritances to carry you through?

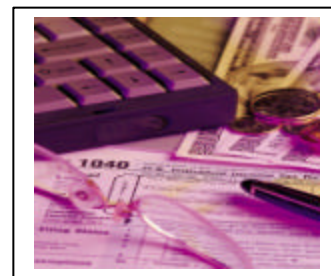
?? Or...are your financial plans based on solid strategies that you can execute?

In other words...

DO YOU HAVE A “GROWN-UP” FINANCIAL PLAN?

TAXES: THEY'RE EVERYWHERE!

For most Americans, it's reflexive behavior to assail taxes. Without hesitation, we “know” we pay too much, we “know” the IRS wears a black hat, and we “know” that the only certainties in life are death and taxes. But while most of the hostility is directed at personal income taxes, a strong argument could be made that it is all the other taxes that really pack a financial wallop. Gary DeMar,



president of American Vision, offers the following illustration of the pervasiveness of taxation in daily life.

“It’s not just federal income taxes that are out of hand. Consider the taxes you pay when you take a trip. You paid sales tax on the car you drive to the airport. The house you live in and the garage where you park your car are taxed. In Georgia, car owners must pay an ad valorem tax every year based on the car’s value. The more expensive the car, the more you pay.

Don’t forget the gas you’ll need to power your car to get you to the airport where more taxes await the eager traveler. In Hawaii you’ll pay 35.1 cents per gallon. Georgia has one of the lowest rates at 12.2 cents per gallon. The state average is 23.6 cents. When federal taxes are included, the average rises to 42 cents per gallon. So when gasoline prices go up, who gets blamed? The oil companies. There was a time when gasoline pumps posted a sticker that would tell consumers how much they were paying in taxes. When’s the last time you saw one?

Then you’ll need to purchase an airline ticket. Fourteen percent of the cost is in tax that you see. But it’s what you don’t see that adds additional expenses to the price of every ticket. Taxes the airlines have to pay are passed on to fliers. Taxes paid along the way by companies servicing the airport are tacked on to every item you and I purchase going in and out of the airport.

You’ll need a rental car. Don’t pay attention to the price you were quoted. By the time you sign the form, you’ve added another ten to fifteen dollars per day in taxes and fees to the cost. Checking in at the office or home via cell phone will cost you in taxes. Take a look at your next phone bill if you don’t believe me. Your trip is not complete until you find a motel or hotel. The fees vary by state, but the taxes will add another ten to fifteen percent to the price.

There’s more. There are tariffs (taxes) on foreign automobiles to level price competition; tires carry a hefty excise tax; if you travel to Arkansas and want to refresh yourself with a soft drink, you’ll be contributing to the state’s economy through a \$2.00 per gallon tax on syrup.”

Reviewing this example, it’s interesting to note that most of these taxes are unavoidable; if you “use it” (the car, plane, hotel room, etc.) you pay taxes for the “privilege.” Period. There are no loopholes or special deductions in taxes on gasoline – it’s a flat per gallon assessment. Same with hotel taxes and rental car fees – the numbers are non-negotiable.

This observation leads to another ironic thought: for all the venom and angst directed toward income taxes, these are the only taxes subject to flexible interpretation. The law requires income taxpayers to self-assess their tax liability, and allows them the right to rearrange their financial affairs to pay the least amount of tax. In essence, the individual has a choice in determining the amount of tax he/she will pay.

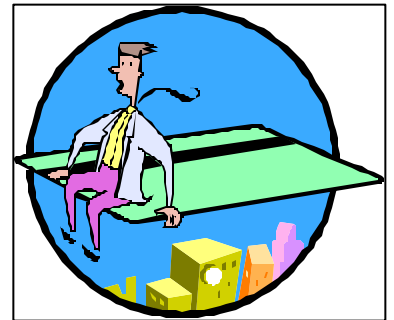
This is not to imply that income taxes are less costly than assorted other taxes. On average, the Tax Foundation estimates that federal income taxes and Social Security payments take a 20% slice from the earnings of most Americans. That’s a

significant whack. But state and local taxes, compliance costs, and other regulatory fees (all taxes, some under assumed names) can consume just as much. In fact, many studies show that, especially for lower- and middle-income families, it is the “other taxes” that take the biggest bite.

THINGS THAT MAKE YOU GO “HMMM...” IS YOUR CREDIT REPORT ACCURATE?

“Serious errors plague one out of three credit files in America. Or maybe it’s one out of 500.”

That’s the opening line from a July 2003 article by *Hartford Courant* writer Matthew Kaufman. In addressing the question, “How accurate are the nation’s credit reports?”, how can the answer be so skewed? It depends on whom you talk to.



In 1997, the U.S. Public Interest Research Group asked staff members around the country to order their credit reports and look for mistakes. The group reviewed 133 files and said 29% contained serious errors, such as delinquencies or credit accounts that didn’t belong to the consumer.

Years earlier, a survey of 161 reports by the Consumers Union found serious mistakes in 19% of credit reports and at least a minor error in a whopping 48% of files.

Since credit scores are a crucial component in evaluating one’s trustworthiness as a borrower, incorrect information could conceivably result in negative financial consequences. Loan requests might be denied, or issued at higher rates of interest. For such a critical piece of personal data, error rates of 40% are unsettling.

Unless the error rates are wrong.

The credit reporting industry contends that the data from the surveys is not representative, and the results absurd. Instead, defenders of the system point to a 1991 study of more than 15,000 loans that showed only .02% of credit files contained serious errors. According to Norm Magnuson, vice president of public affairs for the Credit Data Industry Association, the survey, performed by Arthur Andersen, is “the only scientifically based, empirical study out there.”

So what’s the real story?

It’s hard to say, at least from available surveys. One credit reporting bureau, TransUnion, acknowledged in a 2001 deposition that the company receives 4,000 written disputes each business day in its East Coast office, and thousands more phone calls. But while keeping track of the complaints, it had no data on how many of the complaints actually resulted in changes or corrections.

Hmmm... Do you really care about the accuracy of any credit report other than your own?

For most consumers, the question isn’t whether the industry is reliable, it’s whether their personal information is right. And the answer is found by checking your credit report at least once a year.

News Digest

(Snippets from stuff we've read, including differing points of view, not all of which we agree with. Want to know more? Give us a call and we can provide you with the complete article.)

SOCIAL SECURITY: IN ONE POCKET, OUT THE OTHER

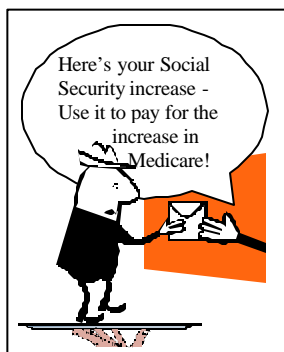
"Last month, the Social Security Administration announced that beneficiaries will get a 2.1% cost-of-living increase next year, providing an extra \$19 a month for the typical retiree. For 2002, the increase was 1.4 percent.

The latest adjustment will raise the average monthly benefit for a single retiree to \$922 from the current \$903. For couples, checks will increase (to) an average of \$1,523 a month from \$1,492.

But for many older Americans, part of the gain will be wiped out by a 13.5% hike in Medicare premiums that also takes effect next year. Premiums will rise \$7.90 a month to \$66.60.

"They give with one hand and take with another," complained Abe Goldberg, 72, a retired New York textile salesman who relies on Social Security and disability checks from the Veterans Administration."

Eileen Alt Powell, *Associated Press*, November 3, 2003.



SCANDALS HURT FINANCIAL SERVICE INDUSTRY'S IMAGE

"There was good news at the Securities Industry Association conference. The group expects industry profits will reach an estimated \$22.4 billion this year for companies listed on the New York Stock Exchange -- more than triple last year's \$6.9 billion, and higher than the previous record of \$21 billion in 2000.

But record profits are not translating into a better image, according to a survey released last week at the conference. Less than 50% of respondents said they were very satisfied with their broker or financial adviser -- that's down from the high of 67% in 2000.

And that was the good news. 41% of respondents said the biggest concern facing the industry was honesty. That was the biggest issue for only 8% of respondents back in 2000.

Nearly 70% of survey respondents said a 'big problem' for the industry was that it was 'motivated by greed,' 66% said it was reluctant to punish wrongdoers and 61% said financial advisers or securities firms put their own interests ahead of those of their clients."

CNS MarketWatch.com, November 10, 2003.

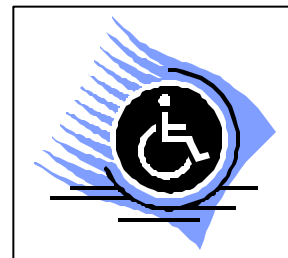


OVER 40% OF U.S. WORKERS AT RISK FOR LOSS OF INCOME, FINANCIAL HARDSHIP

"More than 40% of U.S. workers risk losing their homes and their ability to support their families because they lack income replacement protection if a disability strikes, according to a new survey by The Hartford Financial Services Group, Inc. The Internet-based survey, conducted by an independent research firm on behalf of The Hartford, found that employees largely do not recognize their chances of becoming disabled and losing their income due to time out of work. Although nearly three quarters of the full-time employees surveyed have life insurance to replace their income in case of premature death, fewer than six in ten are covered in the event of either a short-term or long-term disability.

"The reality is that U.S. workers have approximately a one in three chance of becoming disabled for at least 90 days at some time during their working years," said Richard Mucci, senior vice president, Hartford Life and director of its Group Benefits Division. "With the majority of Americans living paycheck to paycheck, living three months or more without pay may mean missing one or more mortgage payments or struggling to keep food on the table. Almost one half of all home foreclosures are the result of a disability, and many employees are completely exposed," he said."

PRNewswire, October 29, 2003.



ARE BABY BOOMERS IN DENIAL?

"The GE Center for Financial Learning today released 'head scratching' results from a national survey. The survey found that, despite what baby boomers see happening to their aging parents, they're still in denial when it comes to their own planning, believing that the difficulties their parents face will never happen to them.

Case in point: the survey found that while almost half (45%) of Americans have had a personal experience caring for an aging or ill relative, nearly the same number (46%) admit that they have not taken steps to develop long term care plans for themselves.

The study found that most Americans have not taken even the most basic planning steps needed for their care during retirement, such as preparing a will or living trust, purchasing long term care insurance, or even discussing the issue with their families. America's lack of preparedness for 'care giving' during retirement is disturbing, given that nearly half of Americans aged 65 or older will enter a nursing home at some point during their lifetime."

Business Wire, November 17, 2003.



DOING THE MATH: HOW DID I DO THIS MONTH?



“Which of these two investors did better?” That’s the question that Humberto Cruz poses in a November, 2003 *Tribune Media Services* article. See if you can arrive at the correct answer. Here are the details:

Mike starts out with \$50,000. He withdraws all the interest and dividend payments but also makes additional contributions from time to time. After one year, he has \$54,000 in his account. Jane also begins with \$50,000, invested in a similar account as Mike, but doesn’t touch the account. One year later, she has \$56,000. Whose investment achieved better performance?

It’s easy to calculate Jane earning 12% for the year – a \$6,000 increase on a beginning balance of \$50,000. But how do

you calculate Mike’s returns? It can’t be done because there isn’t enough information on the amounts withdrawn or deposited during the year, and when they occurred.

This illustration represents the difficulties many individuals may encounter when they attempt to assess the progress of their investments. Mutual funds and publicly traded stocks may report rates of returns for their securities, but most of the time that information, while accurate, isn’t relevant to personal situations. Most people rarely make one-time purchases, especially with mutual funds. Often, the contributions may be ongoing throughout the year, perhaps as part of a payroll deduction into a qualified retirement plan. The fund may be up 15% for the year, but if most of the growth came early, and then tapered off, most of the purchases may have been transacted after the share price has climbed. Theoretically, the fund’s 15% “real return” could actually be a real loss for some individual circumstances.

To help individuals sort out the variables and make some sense of the true gains or losses that are occurring, Walt Woerheide, vice president of the American College, has

Template to Calculate: Approximate Monthly Rate of Return, YTD Rate of Return, YTD Net Deposits, & Deposit/Withdrawal Ratio

Year = 2002

(Cells that are italicized require data entry, all other cells contain a formula.)

	January	February	March	April	May	June
Beginning of Month Value	\$25,000	\$25,189	\$26,214	\$26,523	\$26,703	\$27,143
End of Month Value	\$25,189	\$26,214	\$26,523	\$26,703	\$27,143	\$24,500
Total Deposits	\$200	\$200	\$200	\$200	\$200	\$200
-Total Withdrawals	\$0	\$0	\$0	\$0	\$0	\$3,000
= Net Deposit	\$200	\$200	\$200	\$200	\$200	-\$2,800
Beg. of month net deposit	-0.044%	3.249%	0.413%	-0.075%	0.892%	0.645%
End of month net deposit	-0.044%	3.275%	0.416%	-0.075%	0.899%	0.578%
Approx. Mthly Rate of Ret.	-0.044%	3.262%	0.414%	-0.075%	0.895%	0.612%
YTD Return	-0.044%	3.217%	3.644%	3.567%	4.494%	5.133%
YTD net deposits	\$200	\$400	\$600	\$800	\$1,000	-\$1,800
Deposit/Withdrawal Rate	0.80%	1.60%	2.40%	3.20%	4.00%	-7.20%
	July	August	September	October	November	December
Beginning of Month Value	\$24,500	\$24,856	\$25,327	\$25,243	\$26,003	\$27,560
End of Month Value	\$24,856	\$25,327	\$25,243	\$26,003	\$27,560	\$27,494
Total Deposits	\$200	\$200	\$200	\$200	\$1,000	\$200
-Total Withdrawals	\$0	\$0	\$0	\$0	\$0	\$0
= Net Deposit	\$200	\$200	\$200	\$200	\$1,000	\$200
Beg. of month net deposit	0.632%	1.082%	-1.113%	2.201%	2.063%	-0.958%
End of month net deposit	0.637%	1.090%	-1.121%	2.218%	2.142%	-0.965%
Approx. Mthly Rate of Ret.	0.634%	1.086%	-1.117%	2.210%	2.102%	-0.962%
YTD Return	5.800%	6.949%	5.754%	8.091%	10.364%	9.302%
YTD net deposits	-\$1,600	-\$1,400	-\$1,200	-\$1,000	\$0	\$200
Deposit/Withdrawal Rate	-6.40%	-5.60%	-4.80%	-4.00%	0.00%	0.80%

The information, formulas, and assumptions in this spreadsheet are based on approximations and are provided only as a tool for the user's education. The use of this worksheet does not represent a personalized recommendation. Any interpretation of the computations should be made in conjunction with an appropriate financial planning professional. This spreadsheet was developed by Walt Woerheide, PhD, as a complement to his article, "How Did I Do This Month?" (Journal of Financial Service Professionals, Vol. 57, No. 5). The Society of Financial Service Professionals, The American College, and Dr. Woerheide disclaim any implied warranties of merchantability or fitness for a particular purpose and shall not be liable for any consequential, incidental, indirect, economic, special, exemplary, or punitive damages arising as a result of use of this spreadsheet.



developed an Excel spreadsheet that can be downloaded from the organization's website, and used by investors to get a better gauge on the performance of their investments. (The URL is www.amercoll.edu/woerheide_worksheet.)

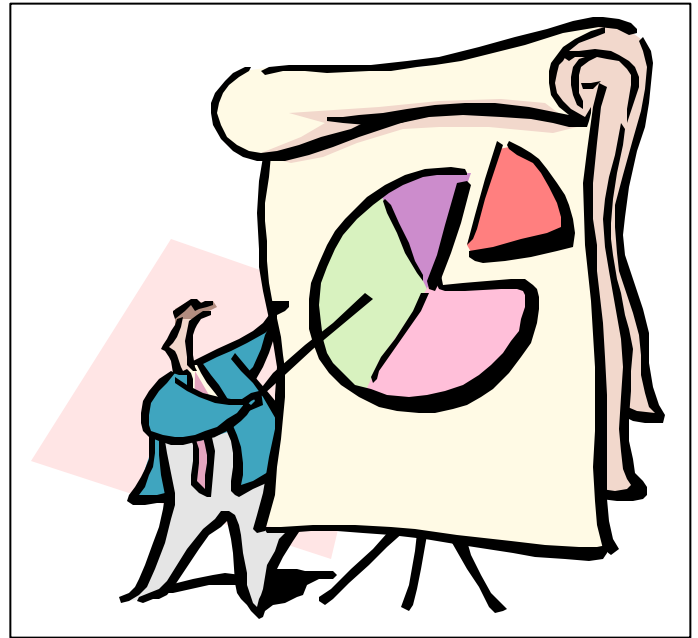
As well as calculating the account's monthly increase or decrease on a percentage basis, the spreadsheet also allows for monthly deposits and withdrawals, on both a regular and irregular basis. The end result is a reasonable approximation of one's "personal rate of return." The spreadsheet doesn't allow for mid-month calculations (i.e., if the deposits or withdrawals occurred in the middle of the month), and consequently comes with the usual disclaimers. But the program does give individuals a much better approximation of the real returns they are achieving with their invested savings.

Download the free Excel spreadsheet from The American College to calculate your return:

www.amercoll.edu/woerheide_worksheet

The example reproduced below shows the performance results of someone starting the year with a \$25,000 balance, adding \$3,200 of deposits, and reinvesting all dividends and capital gains. In June, a \$3,000 withdrawal is taken. Thus, the net input for the year is \$200. Since the year-end balance is \$27,494, it's fairly easy to conclude that the account was profitable, but by how much?

While not a day-by-day analysis, the spreadsheet does generate a more accurate assessment. The format shows deposits spread over 12 months, with the withdrawal as a one-time event tied to a particular point in the year. And each month, account values fluctuated based on the performance of the underlying investment. The calculated return? 9.3 percent.



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