

Dialogues » WEALTH STRATEGIES FOR DISCUSSION



Baby Boomers are redefining retirement, and we take a fresh approach to helping clients plan for this new set of values and associated challenges. We advise clients at every stage of retirement planning to be financially prepared in order to live fully during their retirement years.

THIRD QUARTER
2009

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How Much Money Do You Need for the Next Phase?

IT DEPENDS ON THE KIND OF RETIREMENT YOU ENVISIONED.

These days, “What’s my number?” is a question millions of baby boomers are asking themselves, as in, “How much money do I need to stop worrying about retirement?” Figuring out that magic number has never been more challenging—or more important.

You have to figure out how to fulfill your retirement goals without sacrificing a comfortable life. Your money has to last, but you don’t know how long your retirement will last (today, the average American can expect to live nearly 78 years). And longevity isn’t the most remarkable aspect of baby boomers heading toward retirement—it’s what they plan to do with those years. Golf and grandchildren still have their place, but people retiring today are just as likely to be balancing tee times and family visits with a second career, entrepreneurship, world travel or pursuing an advanced degree. How can a person possibly fit it all in—and afford it?

Talking is a good start. You may be surprised to learn that your retirement expectations differ from your spouse’s. Perhaps you want to stay put in your suburban house, while your spouse envisions a move to the city. As you work out compromises, each decision will help you assess how much money you will need to finance your retirement.

Identifying your shared goals is vital to successful planning; but crunching the numbers definitely plays a role since the amount of income you’ll need in order to live comfortably once you retire may be higher than you think. So, doing the math and finding your number sooner rather than later are definitely key steps.

Your number is as unique as your set of aspirations and needs. Together, we can work to clarify your priorities and calculate your number—and then help convert this number from a daunting prospect to the retirement you always wanted. ■

Seven Strategies for Investing

During Volatile Markets

» The markets don't always behave the way we'd like them to: Geopolitical turmoil, natural disasters, interest rates and world events can have a profound effect on market movements. If recent market volatility has you concerned about the economy, you are not alone; this is a confusing time for many investors. Some have decided to stay the course, while others are sitting on the sidelines waiting for the market to rebound. However, since no one can predict how the markets will perform, it's important to develop an investment strategy that can help you stay on the right track to meeting your long-term financial goals. Here are some strategies that you can implement that may help to manage risk during these uncertain times.

Work with a Financial Advisor. There are a lot of do-it-yourself investment resources available to investors today. However, none of those resources can replace the experienced, personal service we can provide. We can offer an understanding of your complete financial picture, not just your investments. Additionally, in periods of market volatility when you need the most support, we can provide:

- » Access to important decision-making research and information;
- » Ongoing monitoring of your investment portfolio, while anticipating your changing needs; and
- » A comprehensive market-volatility plan.

Have a plan. Developing a financial plan is one of the best ways to meet your long-term goals. Your plan should also include an action plan to address market volatility, which should be developed well in advance of a turbulent market. Having a market-volatility plan will help you to set realistic goals and appropriately manage your return expectations.

Invest regularly. It may not seem intuitive, but investing regularly—even during market downturns—can help to reduce your overall costs. Dollar cost averaging is one of the best ways to invest regularly, since you're investing a fixed amount on a fixed schedule, regardless of how the markets perform. Investing regularly can also have intrinsic benefits: It encourages discipline and may also ease the anxiety of daily market fluctuations.

Diversify. If you've ever heard the saying, "Don't put all your eggs in one basket," then you already have a basic understanding of diversification. Diversifying your portfolio can reduce risk and volatility if the assets have little or no correlation to each other.

Investing in mutual funds is one way to achieve portfolio diversification, since mutual funds are typically a diversified investment. There are also several other ways to diversify and potentially reduce portfolio volatility:

- » Within an asset category, such as purchasing different types of mutual funds;
- » Among asset categories, such as purchasing stocks and bonds; and
- » Outside the United States, since some markets move opposite to the U.S. stock market.

Put volatility to work for you. Do you think of the glass as half empty or half full? Your perspective can affect the investment decisions you make during market

downturns. Investors who view market volatility negatively can make irrational decisions. A down market can be an opportunity for you to build your portfolio and take advantage of lower unit costs.

Stay invested. You are probably anxious during times when the value of your investments has decreased. As a result, you may be tempted to move out of the market, sit on the sidelines and wait for the market to rebound. However, since no one knows how the markets will move, how do you know you're leaving at the right time? Also, how will you know when it is the right time to get off the sidelines and start investing again?

If you have worked with a Financial Advisor, your investment strategy was developed to help you meet your long-term goals. Timing the market could potentially jeopardize your financial plan—and your future goals.

Be patient. There will always be uncertainty in the markets; market volatility is a natural part of the investment cycle. Although it may take some time, markets do rebound.

In the meantime, call us to help you develop an action plan for market volatility and continue to focus on your long-term investment goals rather than short-term market moves. ■

Asset allocation and diversification strategies do not guarantee a profit or protect against loss.

A periodic investment plan such as dollar cost averaging does not assure a profit or protect against a loss.

International stocks are subject to certain risks of overseas investing including currency fluctuations and changes in political and economic conditions, which could result in significant market fluctuations. These risks are magnified in emerging markets.

Mutual fund investments are subject to market risk, including the possible loss of principal. They are sold by prospectus only. The prospectus contains the investment objectives, risks, fees, charges and expenses, and other information regarding the mutual fund and variable annuity contract and its underlying investments, which should be carefully considered before investing. Prospectuses are available through your Financial Advisor or at www.smithbarney.com. Read the prospectus carefully before you invest or send money.

Staying at Home

Shouldn't Mean Leaving Retirement Behind

» Today, it's increasingly common for women (and men!) to spend time outside the workforce for any number of reasons—such as to raise children, care for a parent or even write a novel. On top of the many emotional issues often associated with this decision, there are important financial aspects to consider beyond the loss of income and need for day-to-day belt tightening.

Leaving the workforce often means putting your 401(k) or other company-provided retirement plan on hold. It also means a smaller Social Security benefit in the future because that benefit is dependent on how much you earn and how many years you work. And if you are married or have a domestic partner, you now face funding two retirements out of one income, all of which can have significant implications for your cash flow in retirement and thus for your lifestyle in retirement. Fortunately, there are a few simple steps you can take to help keep your retirement savings on track.

MAX OUT YOUR 401(K) PLAN

If you are currently working but expect to leave the workforce in the future, maximize what you are contributing today to your 401(k), 403(b) or other employer-provided retirement plan. Remember, if you are age 50 or older, you are entitled to make an additional contribution of up to \$5,000 in 2008. Similarly, open an IRA now and make the maximum annual contribution permissible. Your Financial Advisor can help you determine an appropriate type of IRA for your situation. And, if you decide to go back to work, try and contribute the maximum to your retirement plan each year thereafter.

“Successful retirement planning is a family affair and should take into consideration the individual goals and needs of both the working and nonworking spouse.

Once you decide to leave the work force, don't cash out your 401(k) or other employer-sponsored retirement plan. Your Financial Advisor can help you evaluate whether to leave the money in your employer's plan or transfer the funds to a rollover IRA. Remember, a trustee-to-trustee transfer typically is the best way to avoid unintended tax consequences.

EXPLORE A SPOUSAL IRA

If you are married and not employed, work with your spouse and Financial Advisor to set up a spousal IRA. A nonworking spouse can make an IRA contribution of up to \$5,000 in 2008 if under age 50 (or \$6,000 if age 50 or older), as long as the couple files a joint return and the working spouse has enough earned income to cover the combined total of both spouses' IRA contributions. So, if you contribute \$5,000 to one IRA and you want to contribute another \$5,000 to a spousal IRA, then you need to have at least \$10,000 in earned income to cover both contributions.

The deductibility of the spousal IRA contribution depends on a couple's adjusted gross income, so you should consult with your tax advisor about your situation. One thing to keep in mind: Even though you are using your spouse's earned income to qualify, the account will be in your name. Also, if you opened an IRA while employed, you can use it for your spousal IRA contribution.

REVIEW YOUR LIFE INSURANCE

Regardless of where you are today, make sure that your family has adequate life-insurance coverage. Many of us are reluctant to talk about certain “what ifs” because we worry that just saying the words will make them a reality. So, we assume that our spouse or partner has taken care of things, and we turn a blind eye to stories about families left in desperate financial straits after a tragedy. Women in particular should pay close attention to life insurance, as they are statistically more likely to live longer and be left responsible for managing their family's finances. The general rule of thumb is that life-insurance coverage should equal eight to ten times the total household income. However, you should consult with a knowledgeable professional to determine an appropriate level of coverage for you and your spouse or partner given your family's situation.

Successful retirement planning is a family affair and should take into consideration the individual goals and needs of both the working and nonworking spouse. Your Financial Advisor can help you develop a plan that fits your family's needs and work with your tax advisor to help you take advantage of all applicable tax provisions. ■

Courtesy of Women & Co.

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Why Investing in a 529 Plan Makes Sense in 2009

Now more than ever, saving for your child's college education is crucial.

➤ According to The College Board®, the average 2008 – 2009 tuition increase was 5.9% at private colleges, and 6.4% at public universities. The ten-year historical rate of increase is approximately 6%. Not only are these figures substantially higher than the general inflation rate, they are also much higher than the average increase in personal incomes.

Unfortunately, current economic concerns have caused 34% of parents to decrease the amount they are saving, or stop saving altogether, for their children's educations.¹

Recently, industry leaders have criticized the federal rule that permits 529 college savings plans to allow investors to change their investment options on existing contributions

once per year. Many believe this rule is too rigid, pointing to last year's turbulent market as a reason for more investment flexibility.

To that end, for calendar year 2009 only, 529 college savings plans may permit investors to switch the investment options on their existing contributions twice per year instead of once per year.² That's one more reason to continue investing in your child's future.

Here's something else to consider: Those who continue to invest in a 529 plan are on track to cover 40% of their children's college expenses—double the nationwide rate.³ ■

^{1,3} Fidelity Investments' second annual College Savings Indicator.

² IRS Notice 2009 - 01.

PROJECTED 4-YEAR TUITION AND FEES

Type of Institution	Today (Enrolling 2009)	In 18 Years (Enrolling 2027)
Private College	\$116,600	\$332,800
Public/University (in-state resident)	\$30,500	\$87,200
Two Years Community College & Two Years Private College	\$66,900	\$191,200

(Based on average tuition and fees for 2008 – 2009 as reported by The College Board® and assumed to increase 6% annually.) The figures above do not include other costs such as room and board, books, supplies, equipment and transportation.

Investors should consider, before investing, whether the investor's or designated beneficiary's home state offers any state tax or other benefits that are only available for investments in such state's qualified tuition program.

Please consider the investment objectives, risks, charges and expenses associated with municipal fund securities before investing. The offering statement contains this and other information. To obtain an offering statement, please contact your Financial Advisor. Read the offering statement carefully before investing.

Investments are subject to market risk and may fluctuate in value.