

# Dialogues » WEALTH STRATEGIES FOR DISCUSSION



We know how hard you worked to accumulate your wealth, and that key concerns go beyond investing in stocks and bonds. We make wealth work by helping you determine what's important to you, then developing actionable strategies to help you realize your goals and guard against the things that might undo them.

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## Looking Beyond Short-Term Volatility

Whether you get your news from the papers, television or the Internet, you know how quickly the financial markets can change. Some days are euphoric (a key economic report may bolster consumer confidence or a company reports better-than-expected earnings for the quarter, igniting market indexes). Other days, however, aren't as sunny—and some of them may be downright unnerving. So what are some of the possibilities when an inevitable downturn occurs in the market?

An important piece of advice to keep in mind during a market slide is one you've no doubt heard before: Do not overreact. Even though your instincts may be telling you to try to protect your investments by switching to a more conservative approach or to liquidate your positions in hopes of buying them back at lower prices when the worst is over (an approach known as "timing" the market), it's important to keep your emotions in check—and your eyes on the long-term horizon. History tells us that over the long run the stock market can be quite resilient. From wars to natural disasters to economic meltdowns, the market has seen it all—and over time has shown remarkable capacity to bounce back.

While it's not always easy to maintain long-term perspective, overreacting to events as they unfold may compound the damage—and you may end up selling at the bottom or missing part or all of a subsequent market recovery. To help protect against short-term volatility and the anxiety it may create, together, we can help develop a diversified investment plan that reflects your long-term goals and tolerance for risk. By reviewing the investment plan on a periodic basis, we can try to alter it as needs change. At Smith Barney, our primary focus is ensuring that your wealth continues to work hard for you day in and day out. ■

Past performance is no guarantee of future results. Diversification does not ensure against loss.  
By the Smith Barney Division of Citigroup Global Markets Inc.

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# Managing Family Conflict

Conflict in families is unavoidable—and is not necessarily a negative. A lack of conflict doesn't always mean there's agreement; sometimes it just means there's apathy, which can be even worse.

» But conflict needs to be managed as one piece of a larger process called family governance. Many families find that the first requisite of family governance is a normative framework within which significant decisions may be made—a framework called a family council.

For many, the essence of family governance is finding a way to make decisions the entire family will respect. And that's where a family council can make a difference, as decisions are made through a transparent, rule-bound process. When a family makes decisions that way, and does so over a period of years, the council ultimately gains increasing moral and persuasive force, until its authoritative impact can become almost unquestioned—an extremely effective way to manage the potential for devastating family conflict.

Here are a few questions you need to address in the process of creating a family council.

## HOW MANY SEATS SHOULD BE AT THIS TABLE?

There can be an infinite number of subtle variations, but basically there are two types of family council structures: a true one-person/one-vote democracy, and a representative system, in which a handful of family members are elected to make decisions on everyone's behalf (or serve by virtue of a certain attribute, such as seniority). You may get more buy-in if everyone has a vote. But as a family grows, a system in which everyone votes on every issue may become unwieldy. One smart strategy can be to

transition to a representative system *after* a full-assembly council has set up the basic rules and built a track record of effective and widely accepted decisions.

## WILL OUR COUNCIL BE COMPOSED OF FAMILY MEMBERS ONLY?

Placing one or more family outsiders—attorneys, investment counselors or other trusted advisors—on your council can bring an independent voice into deliberations. It also can be a subtle but effective way to keep everyone on his or her best behavior.

## SHOULD CHILDREN BE SEEN AND HEARD?

There's no better way to prepare the next generation for future responsibilities than by letting them watch their elders work through challenging issues—besides, they may inject a fresh perspective. Many families have success with a tiered structure in which, for instance, family members begin to attend meetings as observers at age 18 and become full voting members at 21. The family council can be one of the tools the family uses to groom and identify its future leaders, and it can be the first formal setting in which cousins and more distant relatives learn to work together for the benefit of the extended family.

## AND WHAT ABOUT SPOUSES?

It's natural to value the opinion of longtime family members over that of a newcomer. But letting spouses fully participate fosters a spirit of openness and recognizes the contribution that in-laws make

to a family's culture—and it may prevent dysfunctional alternatives. Many families conclude that it's better to give spouses a forum to get those views out in the open, because they ultimately will find expression, one way or another.

## DOES MAJORITY RULE?

While consensus decision-making is very difficult, it is the most powerful and unifying way for families to make decisions. The alternative—decision-making by majority vote—is easier, but it creates winners and losers.

## HOW SHOULD WE GET STARTED?

Ease your family council into action slowly and modestly. The family council controls its agenda, so pick out matters that are relatively easy and—to the extent possible—not emotionally charged. Practice on the easy ones, get them under your belt and build a record of success. Over time, the success of the family council becomes self-perpetuating and reinforcing, until it gets to the point where it assumes an extremely powerful place in the ethos of the family.

When done right, the family council can become not only the vehicle by which family conflict is managed (as important as that is), but also the chief organized forum for articulating and implementing your family's values, mission, vision and goals. The family council can be a robust and vital family institution—and the engine of your family's future success. ■

# Retiring Right

Wealth alone is no guarantee of a secure retirement. It's time to start thinking about what you'll need.

» Even if you are doing well, plentiful assets and a good income are probably not enough to get rid of your worries about retirement—at least not according to new studies of high-net-worth investors. Thousands of affluent boomers and Gen Xers studied by Wharton and State Street Global Advisors expressed fears about outlasting their money. You may be worried about preserving your standard of living in the face of market downturns, inflation and health care costs during a retirement that may last 30 years. In fact, 57% of those surveyed cited rising health care costs as their number-one concern. And if you're in the younger half of those surveyed, a lack of traditional pensions and Social Security and Medicare safety nets is probably also on your mind.

Experts agree that wealth alone is no guarantee of retirement security; saving too little “runs up and down the income scale and wealth scale,” says Olivia S. Mitchell, an insurance and risk-management professor at Wharton. Comfortable living inevitably translates to spending. Though the wealthy save, Mitchell explained in the Wharton study, “people with high earnings also spend a lot” to keep the lifestyle they enjoy going.

## REASONS FOR CONCERN

Your retirement isn't likely to be the same as it would have been 50 years ago. The old adage was that you needed 80% of your current income when you retire—but nearly half of the 1,800 millionaires surveyed by the 2007 Phoenix Wealth Survey said they will need more than 100%.

You may even be thinking of working indefinitely, at least part-time, in order to stay engaged and support a comfortable lifestyle. Also, your life expectancy has increased, even from just a generation ago. Determining your retirement goals is a complex process—one that means taking the time to figure out what it is you really want now and down the road.

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## THE PLAN

Worried as you may be, you may not have begun planning. Fifty-nine percent of high-net-worth investors have no formal written plan for their retirement goals—but Smith Barney's retirement analysis can help. Your Financial Advisor can run this analysis to assess your financial situation, your potential annual retirement income, your savings and investments and your tax situation.

Then, it's time to analyze your retirement goals. Once you know what you want, your Financial Advisor can determine ways to help you get there, whether that involves altering your investment strategy, changing the amounts you contribute or something else entirely. The retirement analysis will provide you with a full report, including savings recommendations and sources for retirement income.

Talk to your Smith Barney Financial Advisor about how a retirement analysis might benefit you. ■

# Did You Know?

## The Benefits of Starting Early

Thomas Jefferson once said, “Never put off till tomorrow what you can do today.” A familiar phrase that no doubt has rolled off the tongues of many a parent who implored an unwilling child to mow the grass, take out the trash or clean a room.

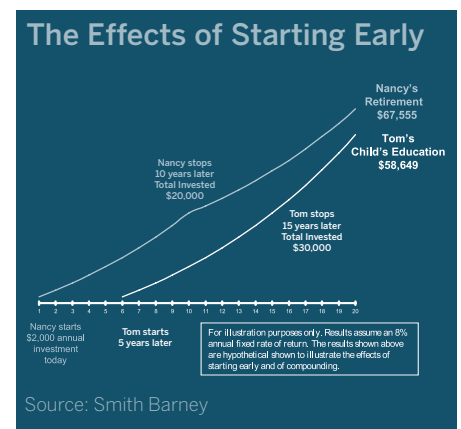
» But like the procrastinating child who waits until the last minute, many adults fail to heed their own words. They put off until tomorrow the investment plan they should begin today.

There’s no better time than the present to begin planning for the future. Your child’s education or your retirement may seem a long way off, but don’t be fooled. A delay today can impact what you may earn tomorrow. Let’s take a look at two hypothetical investors, Nancy and Tom. Nancy is a working mother who plans to retire in 20 years. She hopes to grow her retirement nest egg to a level that will support her in retirement. Tom meanwhile just got married. He and his wife anticipate starting a family and would like to start investing in a college fund with a 20 year time horizon.

Nancy starts her investment program today with a \$2,000 initial investment. She invests the same amount each year for the next 10 years for a total investment of \$20,000. Tom, on the other hand procrastinates. He puts off his initial \$2,000 investment for 5 years, then tries to make up for lost time by investing \$2,000 each year for the remaining 15 years. His total investment reaches \$30,000. Who do you think fared better at the end of the 20 year period? Nancy who invested less money? Or Tom who invested more?

The answer may surprise you. Assuming that both earned an 8% annualized rate of return, Nancy’s \$20,000 grew to \$67,555 while Tom’s \$30,000 grew to \$58,649. Remember, this chart is for illustrative purposes only and is not meant to be a

recommendation. And in the real world, unlike in our hypothetical model, taxes, market fluctuations and the costs of investing can alter investment results. However, in this case, the benefits of starting early are evident. ■



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