

Dialogues » WEALTH STRATEGIES FOR DISCUSSION



FIRST QUARTER
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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.

Rethinking Risk in Retirement

Today, experts agree that longevity is the name of the game in retirement planning and investing, as life spans in the U.S. hit highs unprecedented in human history. According to AARP, actuaries now say that if a married couple is healthy at age 65, there's a 50 – 50 chance one of them may live to age 92.

Conventional wisdom says that as you near retirement, you should dial down portfolio risk and shift into bonds, known traditionally for their safety and dependability. But there's a consequence to that action: Tilting too far toward conservative holdings around age 65 may actually increase the risk of outliving your assets.

We're being challenged to adopt a new attitude toward asset allocation. The effect of this overall mix could be greater than, say, market timing or which company's stocks you choose—research published in 2000 by Yale finance professor Roger Ibbotson found that asset allocation could be responsible for up to 90% of a portfolio's returns over the long term.

Despite recent market volatility, long-term trends suggest that a sufficient allocation to equities is the best way, over the decades, to outpace inflation and keep up with the rising costs of living longer. Depending on your life expectancy, tilting the balance toward conservative bonds and cash equivalents may need to begin closer to age 75 than age 50.

We can help you determine how the assets in your portfolio should be allocated to help meet your specific needs and goals. How you deploy your funds is one of the most important decisions in your financial life—and quite possibly, one of the key factors to having your money last as long as you need it to. ■

Diversification does not ensure against loss. Bonds are affected by a number of risks, including fluctuations in interest rates, credit risk and prepayment risk. In general, as prevailing interest rates rise, fixed income securities prices will fall. Bonds face credit risk if a decline in an issuer's credit rating, or creditworthiness, causes a bond's price to decline. High yield bonds are subject to additional risks such as increased risk of default and greater volatility because of the lower credit quality of the issues. Finally, bonds can be subject to prepayment risk. When interest rates fall, an issuer may choose to borrow money at a lower interest rate, while paying off its previously issued bonds. As a consequence, underlying bonds will lose the interest payments from the investment and will be forced to reinvest in a market where prevailing interest rates are lower than when the initial investment was made.
By the Smith Barney Division of Citigroup Global Markets Inc.

INVESTMENT AND INSURANCE PRODUCTS: NOT FDIC INSURED • NO BANK GUARANTEE
NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY • NOT A BANK DEPOSIT • MAY LOSE VALUE

Protect Yourself Against Identity Theft

» While we can't promise that you won't become a victim of identity theft, there are measures you can take to help reduce your chances. Consider the following steps:

» **Protect your mailbox.** In the wrong hands, your incoming mail (e.g., credit card bills, bank statements, etc.) can be a treasure trove of information. If you don't have a locked mailbox, remove your mail soon after delivery or ask your local post office about centralized mail delivery. Also, deposit outgoing mail in post office collection boxes to lower your risk of identity theft.

» **Protect your wallet.** Even if you don't carry a lot of cash, your wallet is probably filled with credit cards, PIN numbers, health insurance IDs, etc. Keep items with personal information at home and do not share this information with friends or acquaintances. Also, don't carry your Social Security card in your wallet or write down the number on anything you carry. Finally, destroy all receipts when you no longer need them.

» **Protect your credit and debit cards.**

- Only carry the credit/debit cards you use daily. Cancel those you don't use.
- Check your credit card bills and bank statements monthly for suspicious activity. Many banks now offer online banking services, allowing you to check transactions more frequently. The quicker you detect a problem, the less damage there will be.

- Instead of signing the back of your credit/debit card, write "check photo ID" in the signature block. If your bank issues credit/debit cards that display your photograph on the front, consider this option.
- Make copies of the front and back of all credit/debit cards. Place the copy in a secure location (not your wallet). If your cards are stolen or lost, you'll have all the relevant information to contact the card issuers and report the lost or stolen items.

» **Protect your trash.** Take the time to remove documents with personal information. Most people cannot imagine anyone actually sifting through garbage bins, so they throw out things like unsolicited credit card applications, old bills, expired credit cards, unused checking account deposit slips, and countless other papers. For an identity thief, "Dumpster diving" can provide a rich harvest of personal information to help claim your identity. To thwart this, consider purchasing an inexpensive home paper shredder from your local office supply store.

“Check your credit card bills and bank statements monthly for suspicious activity. The quicker you detect a problem, the less damage there will be.”

- A good deal of stolen personal information comes from "pre-approved credit" offers you receive in the mail, and then discard unopened. A thief can use these applications to apply for credit in your name. To stop these offers, call 1-888-5-OPTOUT.

» **Protect your glove compartment.** For many of us, our glove compartment is a mobile filing cabinet that contains vehicle registrations, insurance cards, bills, credit card receipts, and the like.

» **Protect yourself.** If a thief wants to steal your identity, he/she may just ask for it. Posing as your bank, your insurance company or even your doctor's office, the thief calls you on the telephone, gives a plausible story and asks for personal information. If you are asked for any type of personal information, call the company using the customer assistance number shown on your account statement or bill (not the number given by the caller). Verify with the customer service department that the call is legitimate. If the call is not, you will have alerted the company of a potential fraud. ■

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.

Women & Co.[®]

A Robust Resource for Wealth Planning

» Whether you realize it or not, if you're a woman, you face specific financial challenges—and the way you approach managing your wealth may profoundly affect how you take advantage of new opportunities and experiences as you go through life.

Today, women are living longer and more vivacious lives—and that's good news. But for many women, the gift of longevity has become one of the biggest threats to financial well-being in retirement, due to escalating health care costs and uncertainty over government programs such as Social Security and Medicare.

Because of these and other factors, careful retirement planning is even more critical for women. But retirement isn't just about

finances—it's about life, and all of the family and career transitions it often brings. Fortunately, you don't have to face these changes alone: We can help you develop a suitable long-term plan that addresses your needs and objectives. And, go one step further with a Women & Co. membership to professionals and resources to help you shape your financial future.

Women & Co. is designed to help women stay informed on retirement and other wealth planning issues through a variety of benefits including monthly e-newsletters, audio conferences, Master Class Seminars, and a library of articles available “on demand” at its website. Women & Co. also provides access to a network of professionals in various fields to help you

navigate the questions that often come up in daily life, whether it's arranging child care, evaluating elder-care options or maintaining the family home.

To give yourself a chance to savor the life you've built and to add new experiences and enjoyments to that life, talk to us about how you can take full advantage of all that Women & Co. membership can offer. Best of all, Women & Co. is free for all Reserved clients. Talk to us today to discover how to participate in this special program. ■

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