

Dialogues » WEALTH STRATEGIES FOR DISCUSSION



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Whether you are focused on accumulating assets, preserving capital, generating income or transferring wealth to loved ones, count on us to help you develop an integrated financial plan for life's most important events. Our comprehensive approach to wealth management centers on creating a plan that addresses what is most important to you.

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What's on Your Life List?

Set foot on all seven continents. Learn to play Beethoven's Piano Sonata No. 14 in C-sharp minor. Run the Boston Marathon. Having a "life list" of goals you want to achieve is a growing trend—look no further than the spate of books with the phrase "before you die" in the title, web sites such as www.43things.com or the movie *The Bucket List*, starring Jack Nicholson and Morgan Freeman.

Similar to making a life list, retirement planning also involves identifying long-term goals. In fact, many of your life-list goals and retirement goals may be one and the same. Whether your retirement is 18 months down the road or 18 years, the planning process can help you identify what matters most to you. And because unexpected or milestone events can shift priorities, both your life-list goals and your overall retirement plan may be subject to change—it is life, after all.

When it comes to discussing your goals and creating your retirement plan, it's never too soon to start. We can help guide you through the planning process and access any resources you may require to implement your plan. If you already have a plan in place, it's important to revisit it on a regular basis, to ensure that it's consistent with your life list and the retirement goals you'd like to realize.

Whether it's your life list or your plan for retirement, it's exhilarating to think about the possibilities. But the best part is the clarity you can achieve to help you focus on what really matters—getting the most out of your life. ■

Understanding Our Behavioral Blind Spots

Making the Difficult Choices

» Investment decisions are among the most important life choices a person can make. They may determine where your children will be able to go to college, when you'll be able to retire, or what kind of lifestyle you'll enjoy after you retire.

Unfortunately, these are also some of the most difficult choices a person can make. In order to make sound decisions, we need to be aware of our own psychological blind spots. These can lead us to make persistently poor financial choices—errors that over time can do significant damage to our portfolios.

CHAINS OF THOUGHT

Traditional financial theory assumes all investment decisions are made rationally, based on the best available information. In theory, the result is an efficient market—one in which prices accurately reflect fundamentals, such as earnings and interest rates.

However, it's not always easy to reconcile financial theory with financial reality. Investors often appear determined to ignore the fundamentals, both in bidding stock prices up and slamming them back down again.

"In many important ways, real financial markets do not resemble the ones we would imagine if we only read finance textbooks," notes Richard Thaler, a professor at the University of Chicago and a leading behavioral finance researcher.

It's not that investors are totally irrational, Thaler and other researchers argue, but rather that their thinking can be influenced by mental biases. These quirks can lead them to make choices that appear intuitively correct, but produce poor performance:

» **Overconfidence.** Investors generally assume they know more than they actually do. They also tend to remember previous investment decisions in ways that exaggerate their own foresight. This can lead to overly aggressive trading and a reluctance to admit—and correct—mistakes.

“Some studies have shown that the more investors know about the investment process, the less likely they are to be misled by behavioral biases.”

» **Mental Accounting.** Financial experts often advise investors to take their entire portfolio into account when making investment decisions. Yet, many investors unconsciously divide their wealth into separate pots. If they have a big gain, for example, they may think of it as essentially “free” money and take greater risks with it than they would with their “own” money.

» **Anchoring.** Logically, investors should always base their decisions on current prices and expectations. Instead, they often become fixed on past events, such as the price they paid for a particular stock. Investors will often refuse to sell at a price lower than that—even when it makes more sense to accept their loss and invest their remaining money elsewhere.

» **Framing.** How people view a decision often depends on how their choices are presented. For example, in one study researchers asked participants how much they would be willing to pay to avoid a one-in-a-thousand chance of being killed.

The average answer was \$1,000. Participants were then asked how much they would demand to accept the same risk. This time, the answers ranged as high as \$200,000. From an economic point of view, the two questions were identical, but subjects saw them very differently.

» **Loss Aversion.** In a completely rational market, the risk of loss and the possibility of gain should carry equal weight. However, on average investors place twice as much importance on avoiding a loss as they do on making a gain. In other words, to accept a 50% chance of losing \$100, most people will demand at least a 50% chance of earning \$200.

THE VALUE OF ADVICE

Are investors doomed to repeat these mistakes? Maybe not. Some studies have shown that the more investors know about the investment process, the less likely they are to be misled by behavioral biases.

This is one reason we encourage investors to develop prudent, long-term investment strategies that take into account their goals and tolerance for risk. While this doesn't guarantee investment success, it can at least reduce the risk of being led astray by behavioral blind spots. That's something even the smartest investor might want to keep in mind. ■

Recognizing How You and Your Business Work Together

» If you are a business owner, chances are that some of your biggest concerns relate to business costs. In fact, research released in June 2008 by the National Federation of Independent Business reported that half of the top ten problems that worry small-business owners are in the “costs” category, be it the cost of utilities, supplies, health care or inflation.

If these concerns sound familiar, you already know how critical a role cash flow and a sound cash-management strategy play in your business. But is your overall strategic approach as efficient and beneficial as it could be? If you haven't factored your personal financial life into your business planning, the answer may be “no.”

Think for a moment about the many parts of your financial life, both business and personal—from your retirement accounts to the daily cash needs of your business; from vendor payments to tuition payments for your kids; from the mortgage on your lake house to the financing you need to buy out your biggest competitor. By using a “sum-of-parts” perspective, you can see how decisions made in one piece of your wealth puzzle can improve—or diminish—a different piece.

For example, say you wanted to build a new headquarters for your business. To do so, you may secure financing from your local bank—it's a basic approach. The bank, however, won't necessarily know about your ten-year plan to retire and sell the business, and certainly is not focusing on how

attractive those financing terms might be to potential buyers down the road.

We, on the other hand, can work with you to help find structures that carefully consider the big picture for both you and your business. This process begins with an assessment of your company's assets and liabilities, cash flow, short-term objectives and long-term plan—and ends with a better understanding of you and what you want to achieve, both with the business and without.

BUSINESS LENDING

When you started out, you may have borrowed to pay the rent, to cover some meals and to make sure the lights stayed on—and that was just for the office. Today, rather than a means for survival, borrowing is a potential growth tool for your business, one that allows you to expand into new markets, upgrade facilities and in many cases, just keep things humming.

Working with us, you have access to Citi's global financial network and knowledgeable business bankers, who can provide the right tools and the proper scope to help your business take advantage of just about any opportunity. Whether it's upgrading your equipment, financing the construction of new office space or just replenishing inventory, we and Citi's professionals can help you—all within the context of your projected financial plan.

CASH MANAGEMENT

As your business has evolved, so has its financial needs. What was once an offshoot of your personal checking account may now be a complicated web of credit facilities, lease agreements, controlled disbursement accounts and about ten other things listed on your various bank statements.

We, however, can help you see not only how these products connect with your bank statement, but also how they connect with you and your business. We understand that cash flow is your lifeblood, that you rely on timely payments from your customers in order to sustain the business—and how, for example, something as simple as electronic collections can improve not only that cash flow, but perhaps also relations with your accounting department.

And because we can connect you with banking professionals throughout Citi who can help you handle the day-to-day management of your cash operations, you'll be able to focus on more important things, like launching that new product or anticipating the market's reaction to your next big idea. ■

When used wisely, borrowing can be beneficial to your total wealth management. All commercial loans and lines are made by Citibank, N.A., equal credit opportunity lender. All credit products are subject to satisfaction of Citibank's underwriting guidelines and credit approval. Deposit products are offered through Citibank, N.A. Member FDIC.

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.