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FINANCIAL SERVICES

Financial Advisory & Outlook

City of Portland Tax Alert!

Sorry. I missed this one in last month's newsletter.

Last year, residents of the City of Portland passed an 'Arts' tax. If you live in the City, are age 18 or older and have earned income you will be assessed a tax of $35.00.

The tax will be collected by the City of Portland Revenue Bureau. It is due April 15, 2013, but they have neither systems in place to collect the tax nor forms for you to use to pay it. One of the City's Senior Revenue Auditors told me that payment information will not be available until sometime in February. At present, they intend to send out 2 postcards advising you to file and encouraging you to pay the tax online. Following that, there will be a series of 2 letters including forms for you to use if you elect to file by mail.

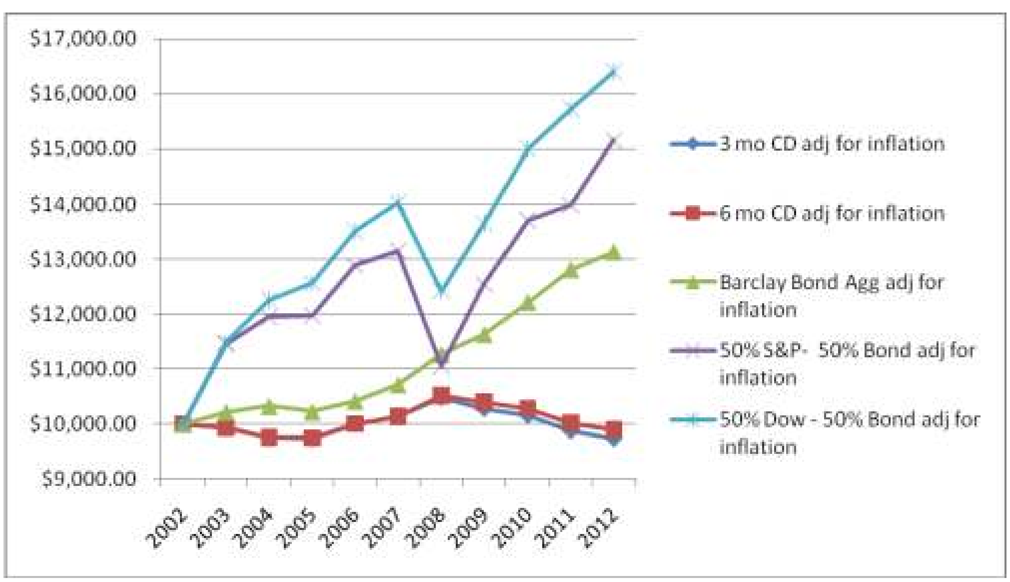
<u>Rest assured, they have hired and are training new staff to aid in the collection of this tax from residents.</u> If you work outside of the City and live in the City you will be assessed the tax. If you have no earned income and are receiving income from investments or some kind of retirement plan you will not be assessed the tax.

Questions? Please call. I will keep you informed.

What is the cost of 'SAFE' money?

Often, conversations with new clients nearing retirement involve their wanting to move everything to safe investments so they will not lose their money. Still fresh in their mind is the market decline of 2008; they just don't want to take the 'risk' of losing again. Yes, RISK is a four letter word that scares people. For most, the scary part is the unknown; not knowing what we are talking about when we talk about risk. Being able to identify and understand the various types of 'risks' we take when investing, allows us to develop a strategy to manage the 'risks' involved.

Inflation or loss of purchasing power is a risk that usually does not appear on people's radar. There is a false sense of security from having funds sit in the bank and collect little or no interest. Yes, the balance stays the same but the erosion of purchasing power of those dollars is a hidden trap many are not aware of until it is too late. Let's assume a 3% inflation factor for 10 years. In 10 years you will need almost $13,500 to purchase the same basket of goods that $10,000 buys today. Unless your investments grow enough to account for inflation your standard of living will go down.



This graph shows some investment strategies adjusted for the effect of inflation. I used an index for 3 and 6 month CDs, the Barclay Aggregate Bond Index, the S&P 500 index and the DOW index. For the inflation factor I used the Urban Consumer Price Index (CPI-U). To make life simple for the stock market strategies I use a mix of 50% of the stock indexes and 50% of the Aggregate Bond Index. I assumed a $10,000 investment at the end of 2002 so we could look at the results of a 10 year period of time. After returns are adjusted to account for the impact of inflation, the 'safe investments' (the CDs) actually show a loss.

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	Beginning Value	Ending Value	Annualized Return
3 mo CD adjusted for inflation	$10,000	$9,741.34	-0.26%
6 mo CD adjusted for inflation	$10,000	$9,894.45	-0.106%
Barclay Aggregate Bond adjusted for inflation	$10,000	$13,124.94	2.722%
50% S&P- 50% Bond adjusted for inflation	$10,000	$15,156.23	4.165%
50% Dow - 50% Bond adjusted for inflation	$10,000	$16,403.45	4.959%

This table summarizes the same data and assumptions from the graph. After returns are adjusted to account for the impact of inflation, the 'safe investments' (the CDs) actually show a loss.

Portfolios for people nearing retirement. I suggest one of the goals for the portfolio is to grow about 4% above the rate of inflation. Even with the severe decline of the market in 2008 either portfolio with stock would have met this goal. <u>Often when we weigh the risk of loss against the risk of market volatility, the desire to be 'safe' just doesn't pay off.</u>

The concept of 'point in time' risk. When we are adding to our portfolio this type of risk works in our favor; think dollar cost averaging. As the market declines we buy more shares because they are cheaper to buy. As the market recovers and values increase we have leveraged the market rise with cheaper shares.

But, in a declining market if we are withdrawing from our portfolio for income to live on, it has an adverse effect on our portfolio.We have to sell more positions to maintain the same income because share prices are cheaper. As markets recover we lose because we have fewer shares to benefit from the market increase; hence portfolio values never recover to levels before the market declined.

Many retirees withdrawing funds from their portfolio during the market decline in 2008 had to either reduce their life style or develop some other strategy (like going back to work) to accommodate their losses from this 'point in time' risk.

A strategy to accommodate market fluctuations is to develop a portion of the portfolio to draw from without having to sell positions in a declining market. Then as the market recovers, portfolio values should recover to near the positions before the decline because you have not had to sell shares with declining values.

Life Style Planning. A few years ago I added this component to working with clients. Helping people focus on the true values and motivations in their lives, aids in determining the goals and objectives they use to provide the framework for making choices and decisions that have both financial and non-financial consequences. Yes, 'RISK' is a four letter word but, when put into the context of goals and objectives for our lives, the veil of mystery is removed and it becomes a manageable part of our financial lives.

A final note to satisfy the lawyer types –
The indexes used for this discussion are from a Morningstar database. The Urban Consumer Price index is from the US Bureau of Labor Statistics website. The illustrations provided are for discussion purposes only and are not intended as an offer to buy or sale any specific security. Past performance is not indicative of future returns.

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