In This Issue:
Accelerate Your Retirement Savings
Factors That Influence Your Asset Allocation
A Review of Your Portfolio
Lessons Learned from the Stock Market
Does Buy and Hold Still Make Sense?
Reevaluate Your Life Insurance at Retirement
Did You Know?

Comprehensive Financial Solutions™

Dean Zayed
JD, LLM, CFP®
Sr. Financial Advisor

1751 S. Naperville Rd.
Suite 203
Wheaton, IL 60189

(630) 665-4848 x12 • dzayed@att.net • Fax: (630) 665-4343

Securities offered through Waterstone Financial Group, a registered broker-dealer, Member FINRA/SIPC and Registered Investment Adviser, 500 Park Boulevard, Suite 800, Itasca, IL 60143, (630) 250-7000. Investment Advisory Services offered through Brookstone Capital Management, a Registered Investment Adviser. PRIZM Financial Advisors, Inc., Brookstone, and Waterstone Financial Group are independent companies.

The opinions expressed in this report are those of the author(s) and are not necessarily those of Waterstone Financial Group. The material has been prepared or distributed solely for informational purposes and is not a solicitation or an offer to buy any security.

PRIZM PERSPECTIVE

SPRING 2009

Accelerate Your Retirement Savings

Don't just give up on your retirement goals if you find you've entered middle age with little to no retirement savings. Sure, it may be harder to reach your retirement goals than if you had started in your 20s or 30s, but here are some strategies to consider:

❍ **Reanalyze your retirement goals.** First, thoroughly analyze your situation, calculating how much you need for retirement, what income sources will be available, how much you have saved, and how much you need to save annually to reach your goals. If you can't save that amount, it may be time to change your goals. Consider postponing retirement for a few years so you have more time to accumulate savings as well as delay withdrawals from those savings. Think about working after retirement on at least a part-time basis. Even a modest amount of income after retirement can substantially reduce the amount you need to save for retirement. Look at lowering your expectations, possibly traveling less, moving to a less-expensive city, or living in a smaller home.

❍ **Contribute the maximum to your 401(k) plan.** Your contributions, up to a maximum of $16,500 in 2009, are deducted from your current-year gross income. If you are age 50 or older, your plan may allow an additional $5,500 catch-up contribution, bringing your maximum contribution to $22,000. Find out if your employer offers a Roth 401(k) option. Even though you won't get a current-year tax deduction for your contributions, qualified withdrawals can be taken free of income taxes. If your employer matches contributions, you are essentially losing money when you don't contribute enough to receive the maximum matching contribution. Matching contributions can help significantly with your retirement savings. For example, assume your employer matches 50 cents on every dollar you contribute, up to a maximum of 6% of your pay. If you earn $75,000 and contribute

Continued on page 2

Factors That Influence Your Asset Allocation

While you probably won't make frequent changes to your asset allocation strategy, changes in your personal situation may necessitate periodic alterations. That will typically occur when personal changes alter the major factors affecting your asset allocation:

Risk tolerance — Your risk tolerance is likely to change, either as you become more familiar with investing or as you age. Familiarity with investing typically makes you more risk tolerant, while aging may make you more or less risk averse. Both conservative and aggressive investors are likely to hold changing views of risk tolerance over their life. Adjust your asset allocation when your risk tolerance shifts, so you don't become uncomfortable with the risk in your portfolio.

Return needs — Your need to emphasize income or growth is likely to change over your life. Young investors typically want to emphasize growth, while retirees may want to emphasize income.

Investment time horizon — With a short time horizon, your liquidity needs may require avoiding more volatile investments, such as stocks. With a longer time horizon, you can wait out any fluctuations in volatile investments. Typically, young investors have longer time horizons than older investors, so they can invest more aggressively. However, young investors may need to allocate at least part of their portfolio to conservative investments if they are investing for short-term needs, such as for a down payment on a home or to pay for a child's education. ❍❍❍

Retirement Savings

Continued from page 1

6% of your pay, you would contribute $4,500, and your employer would put in an additional $2,250.

❍ **Look into individual retirement accounts (IRAs).** In 2009, you can contribute a maximum of $5,000 to an IRA, plus an additional $1,000 catch-up contribution if you are age 50 or older. Even if you participate in a company-sponsored retirement plan, you can make contributions to an IRA, provided your adjusted gross income does not exceed certain limits. Starting in 2010, everyone can convert from a traditional IRA to a Roth IRA, regardless of their income. Thus, if you aren't eligible to contribute to a deductible or Roth IRA, you may want to contribute to a nondeductible IRA, which can be converted to a Roth IRA in 2010.

❍ **Reduce your preretirement expenses.** Typically, you'll want a retirement lifestyle similar to your lifestyle before retirement. Become a big saver now and you'll enjoy two advantages. First, you save significant sums for your retirement. Second, you're living on much less than you're earning, so you'll need less for retirement. For instance, if you live on 100% of your income, you'll have nothing left to save toward retirement. At retirement, you'll probably need close to 100% of your income to continue your current lifestyle. With savings of 10% of your income, you'll be living on 90% of your income. At retirement, you'll probably be able to maintain your standard of living with 90% of your current income.

❍ **Move to a smaller home.** As part of your efforts to reduce your preretirement lifestyle, consider selling your home and moving to a smaller one, especially if you have significant equity in your home. If you've lived in your home for at least two of the previous five years, you can exclude $250,000 of gain if you are a single taxpayer and $500,000 of gain if you are married filing jointly. At a minimum, this strategy will reduce your living expenses so you can save more. If you have significant equity in your home, you may be able to use some of the proceeds for savings.

❍ **Substantially increase your savings as you approach retirement.** Typically, your last years of employment are your peak earning years. Instead of increasing your lifestyle as your pay increases, save all pay raises. Anytime you pay off a major bill, such as an auto loan or your child's college tuition, take the money that was going toward that bill and put it in your retirement savings.

❍ **Restructure your debt.** Check whether refinancing will reduce your monthly mortgage payment. Find less-costly options for consumer debts, including credit cards with high interest rates. Systematically pay down your debts. And most important — don't incur any new debt. If you can't pay cash for something, don't buy it.

❍ **Stay committed to your goals.** At this age, it's imperative to maintain your commitment to saving. Please call to review your retirement savings program. ❍❍❍

A Review of Your Portfolio

With the recent market declines, it may be painful to reevaluate your portfolio in depth. But this review is necessary to see if changes are needed to your portfolio. Some factors to consider include:

❍ **Measure the performance of each investment in your portfolio.** Many investments and investment managers will provide you with periodic performance information. If you invest in individual stocks and bonds, you may need to calculate those returns yourself. Your total return equals the change in market value plus any dividends, interest, or capital gains, divided by the beginning market value.

❍ **Compare each component of your portfolio to an appropriate benchmark.** A wide variety of market indexes now exist, covering many different segments of the market. You should be able to find ones that track investments similar to each component of your portfolio. Making comparisons to a benchmark should help identify portions of your portfolio that may need changing.

❍ **Calculate your overall rate of return, comparing it to your estimated return.** When designing your investment program, you probably assumed a certain rate of return, which determined how much you needed to invest to achieve your financial goals. Calculating your actual return will determine if you are on track. With the recent market declines, you are likely to find you have not made that much progress. In that case, you need to recalculate how much you should be saving on an annual basis.

❍ **Review your overall allocation to determine whether changes are needed.** This annual review is a good time to compare your actual allocation to your desired allocation. You may find you need to make changes for a variety of reasons.

Please call if you'd like help with this analysis. ❍❍❍

FR2008-1215-0283

Lessons Learned from the Stock Market

The stock market volatility of the past few years has taught some valuable lessons about the stock market:

- ❍ **The market tends to revert to the mean.** There is a tendency for the stock market, when it has an extended period of above- or below-average returns, to revert back to the average return. Thus, following an extended period of above-average returns in the 1990s, the stock market experienced a significant downturn, helping to bring the averages back in line.
- ❍ **Don't chase performance.** Investors often move out of sectors that are not performing well, investing that money in investments that are currently high performers. But the market is cyclical; and often, those high performers are poised to underperform, while the sectors just sold are ready to outperform. Rather than trying to guess which sector is going to outperform, make sure your portfolio is broadly diversified across a range of investment sectors.
- ❍ **Avoid strategies designed to "get rich quick" in the stock market.** The stock market is a place for investment, not speculation. When your expectations are too high, you have a tendency to chase after high-risk investments. Your goal should be to earn reasonable returns over the long term, investing in high-quality stocks.
- ❍ **Don't avoid selling a stock because you have a loss.** When selling a stock with a loss, an investor has to admit that he/she made a mistake, which is psychologically difficult to do. When evaluating your stock investments, objectively review the prospects of each one, making decisions to hold or sell on that basis rather than on whether the stock has a gain or loss.
- ❍ **Make sure an investment will add diversification benefits to your portfolio.** Diversification helps reduce the volatility in your portfolio, since various investments will respond differently to economic events and market factors. Yet, it's common for investors to keep adding investments that are similar in nature. This does not add much in the way of diversification, while making the portfolio more difficult to monitor. Diversification does not assure a profit or protect against loss in declining financial markets.
- ❍ **Periodically check your portfolio's performance.** While everyone likes to think their portfolio is beating the market averages, many investors simply don't know for sure. So thoroughly analyze your portfolio's performance periodically.

Please call if you'd like to discuss strategies for your investment portfolio. ❍❍❍

Does Buy and Hold Still Make Sense?

We all know the basics — design an asset allocation plan, ignore market fluctuations, and stick with the plan for the long term. In other words, become a buy-and-hold investor. But in an era where everything seems to change overnight, is it realistic to expect to find investments you'll be comfortable owning for years or even decades?

Before you answer that question, you need to consider whether it's possible to reliably time the market. Unfortunately, it's a difficult strategy to implement for a couple of reasons:

- ❍ **No one has been able to consistently predict where the stock market is headed.** Many try, but so many factors affect the market that even professionals watching the market full-time find it difficult to time the market with any degree of accuracy. In retrospect, everything seems crystal clear. Are you still upset you didn't get out of technology stocks in 2000? While we now know that was the market top for technology stocks, very few recognized that in 2000. Also, significant market gains can occur in a matter of days, making it risky to be out of the market for any length of time.
- ❍ **Frequent trading seems to reduce, rather than increase, returns.** Several studies of investor trading found that investors who trade more frequently have lower portfolio returns than those who trade less frequently. A recent study found that for the 20 years ending in 2007, the average equity fund investor earned an annualized return of 4.5%, compared to an annualized return of 11.8% for the Standard & Poor's 500 (Source: *Fortune*, November 10, 2008).* Why? Investors tend to buy hot sectors and sell underperforming investments — the opposite of a buy low and sell high strategy. Also, trading results in a taxable event. Even with capital gains rates at 15% and the highest ordinary income tax rate at 35%, taxes significantly reduce your portfolio's return.

Rather than trying to time the market, devise an asset allocation strategy you'll be comfortable with for years and then purchase investments for that strategy. If you'd like help implementing this strategy, please call. ❍❍❍

* The S&P 500 is an unmanaged index generally considered representative of the U.S. stock market. Investors cannot invest directly in an index. Past performance is not a guarantee of future results. Returns are presented for illustrative purposes only and are not intended to project the performance of a specific investment.

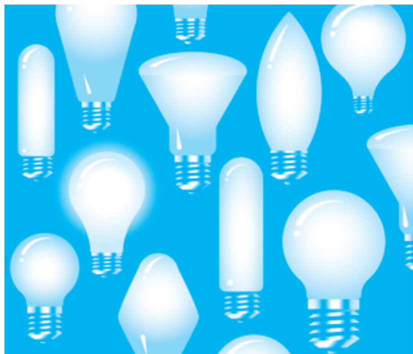
Copyright © 2009. Some information provided in this newsletter was prepared by Integrated Concepts. This newsletter intends to offer factual and up-to-date information on the subjects discussed, but should not be regarded as a complete analysis of these subjects. The appropriate professional advisers should be consulted before implementing any options presented. No party assumes liability for any loss or damage resulting from errors or omissions or reliance on or use of this material.

FR2008-1215-0283

Reevaluate Your Life Insurance at Retirement

As retirement age approaches, it's usually a good time to reassess your life insurance policies to see if your needs have changed. With your children on their own and no earned income to replace, you may no longer need a large life insurance policy. Especially if your insurance premiums are high, you may be tempted to cancel the policy, take the cash surrender value, and enjoy retirement. Before doing that, however, make sure there aren't other uses for your life insurance policy, such as:

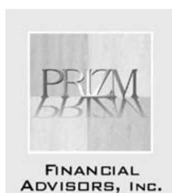
- **To leave a legacy to heirs** — Even if the money isn't needed for your children's support after your death, many people like the thought of leaving a large inheritance to their children or grandchildren. With an insurance policy in place, you can feel free to spend your retirement assets, knowing the insurance policy proceeds will be paid to your beneficiaries after your death. If you have a large estate, the policy proceeds can be used to help pay estate taxes.



- **To pay your grandchildren's college expenses** — With the rapidly increasing costs of college making it more and more difficult for parents to cover this cost, you might want to use an insurance policy as a college fund for your grandchildren. If you're still alive when they start college, you might be able to borrow some of the cash surrender value to pay these costs.
- **To support adult children** — There are a variety of reasons why you might want to provide financial help to an adult child. Perhaps your child is a doctor, but has significant debt from college. Or your child might work at a job that doesn't pay a significant amount of money.
- **To provide a large charitable contribution** — A life insurance policy can serve a couple of purposes when making a large charitable contribution. You can name the charity as the beneficiary of the policy. Or you can leave other assets to the charity that would have been included in your estate and possibly subject to estate taxes. The proceeds of the life insurance policy, if properly structured, can then be paid to your heirs estate- and income-tax free.
- **To help deal with long-term-care costs** — Many individuals don't purchase long-term-care insurance, believing their spouse will take care of them. However, when one spouse dies, there may not be anyone to take care of the surviving spouse. The proceeds of a life insurance policy can be used to provide long-term care for the surviving spouse.
- **To optimize pension benefits** — When retiring, irrevocable decisions about pension-plan benefit payments must typically be made. An individual life income option will pay higher benefits than a joint and survivor benefit, but then your spouse will not have pension benefits if you predecease him/her. You could use the proceeds from a life insurance policy as a source of income for your spouse after your death.

While it is generally believed that life insurance needs decrease after retirement, there are a variety of reasons why you might want to retain your life insurance policy. If you'd like to review your circumstances, please call. ❍❍❍

FR2008-1215-0283



Comprehensive Financial Solutions™
1751 S. Naperville Rd., Suite 203
Wheaton, IL 60189