

## IAP FINANCIAL ADVISOR

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## Points of interest:

- Since 1926, U.S. stocks have gained value in 605 of 972 months.
- During that period, stocks have risen in 58 of 81 calendar years.
- Over the 27 three-year periods since 1926, stocks have lost ground only two times.
- Since 1926 the market has not had a losing seven-year stretch.

## IN THE STOCK MARKET AS IN HORSE RACING, GO WITH THE ODDS

**P**redicting the stock market is like handicapping the horses: you can pull in and analyze lots of variables, but in the end it's better to go with the odds.

Bettors at the track look at a horse's lineage, recent races, jockey, performance in similar weather, and hundreds of other variables.

In the end, however, the results of that particular race may hinge on no more than your horse hitting a pebble on the track.

Despite the unpredictability of particular races, on average the favored mounts with low odds will beat the long-shots with high odds.

**More ups than downs**

So it goes with the stock market—predicting the outcome of a particular period is very difficult, but, on average, the longer the period of time, the higher the odds that things will turn out well.

For instance, since January 1926, the beginning of recordkeeping on the Standard & Poor's 500 Index, there have been 605 up months and 367 down months.

Although the good months outnumbered the bad months, there was a 38% chance that any particular month would see a decline in U.S. stock prices.

The odds improve on longer periods. In the 81 full years from 1926 through



It is fortunate for those stock market bulls who get mad when the market falls that declines occur less than gains.

2006, stock prices fell in 23 years and rose in 58. Stocks rose 72% of the time.

The odds of an up market rose to 80% for all two-year periods, and to 93% of the time for three-year periods.

**Still not a sure thing**

Similar studies of stock indices for earlier periods going back another 100 years or so have found similar results—the up periods outnumber the downs and longer periods of time have better odds of positive returns.

However, these trends are not determinative of the

future: there is no reason why we can't have more negative three-year periods in the market over the next 81 years than over the last.

But there is also not much reason why the long-term odds will shift dramatically, just as they won't in horse racing.

The reason is that the stock market, at least in the long run, is not totally governed by chance: it is tied to growth in the economy.

Yes, random and unpredictable events push prices around day to day and month to month, and the fickleness

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## IN THE END, PATIENT INVESTORS WILL BEAT OUT THE DOWNTURNS

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of investor sentiment can cause irrational price bubbles and runs on the market.

In the end, however, economic prospects push the market ahead. Over time the economy tends to grow, despite periodic stagnation and recession.

As long as the political climate allows a dynamic capitalist economy to operate with reasonable restraint, stock prices will increase.

All of this may seem cold comfort during an extended

market downturn. The latest evidence of this occurred when stock prices collapsed in late 2002, toward the end of a grinding three-year bear market.

It appeared that some investors had given up in frustration and fled the market just as it was about to begin its recovery.

Down markets like that—or even more severe—will come again.

To steel yourself against such an event, you should learn, review, and internalize what stock market and eco-



Bears are more likely to be frustrated.

nomics history has shown: That the declines in the market are temporary and the long-term gains permanent. The patient investor will win in the end.

## EASY BUT NECESSARY: UPDATE BENEFICIARIES

Not only is a beneficiary designation one of the most powerful estate planning tools available, it is the easiest to use. Unfortunately, that also makes it one of the easiest to misuse.

A beneficiary is the person who, at your death, automatically receives the asset you have designated for them.

They don't have to wait for an estate to be probated and the transfer to them is entirely private.

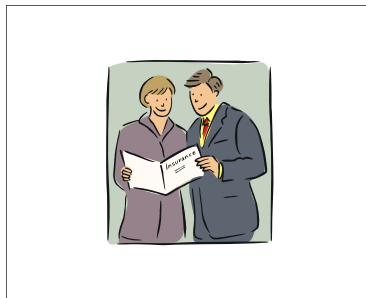
It is possible to name beneficiaries (or use the closely related "transfer on death" designation) on a wide variety of financial assets, including employer and personal retirement accounts, life insurance policies and annuities, bank accounts, mutual funds and broker accounts, U.S. Savings Bonds, and Section 529 College Savings plans.

Most account owners designate a beneficiary or beneficiaries when they buy an asset or open an account.

The first big mistake is

not naming a beneficiary, or automatically putting down "my estate."

Retirement accounts that pass to an estate lose their tax-deferred status quickly. The same heirs may get them, but they won't have the option of letting the money continue



**Make sure you select beneficiaries when you set up IRAs, buy life insurance and the like. Review them periodically.**

to grow tax-deferred for an extended period of time.

**Don't name the estate**

Life insurance left to an estate is also a problem: rather than passing quickly and privately to heirs, it becomes subject to potential creditor claims, attacks on the

will, and to probate costs.

The other big mistake is naming beneficiaries and then never updating those designations.

You should review beneficiary designations once a year or at least when major life events occur, such as birth, death, marriage, and divorce.

All too often a young single employee will name her parents as beneficiaries of a new 401k plan, for instance. When getting married, she may forget to update that designation and name her husband, and if children come along, she may also forget to add them to the designation.

It is also wise to name a contingent beneficiary who gets the account if the primary beneficiary is not around or disclaims it.

Use the "rule of two" when making such designations: for every name in a document (such as yours as account owner) you should have at least two backups.

*"Retirement accounts that pass to an estate lose their tax-deferred status quickly."*

## TEENS HAVE HIGH ASPIRATIONS BUT NEED HELP UNDERSTANDING MONEY

The typical teen believes it is important to live within one's means and to have good money habits.

But the typical teen also lacks basic financial knowledge and has unrealistic expectations about their earnings potential as adults.

The average teen looks forward to an annual salary of \$145,000 once they hit the workforce.

Boys, who expect to earn \$173,000 per year, have higher expectations than girls, who expect to earn \$114,200.

Those findings come from a survey of 1,000 teens by Harris Interactive Inc., a Rochester research firm, for Charles Schwab & Co., a major broker based in San Francisco.

### Teens know shopping

About half of teens say they have financial savvy when it comes to shopping, writing checks, and flashing a debit or credit card.

But when it comes to more grown-up financial situa-

tions they are generally lacking in know-how, the survey found.

They ranked their financial knowledge low when it came to knowing how to pay for college, how credit card interest and income taxes work, or what a 401k plan is.

Yet they have a willingness to take responsibility and learn about money, the survey found.

### Savers abound

Saving is a habit for 84% of the teens surveyed, and they have an average of \$1,044 in savings, the survey found.

Half of those who have savings said it was set aside for a long-term goal, such as paying for college or a car. They also don't like debt: 88% said they don't like owing money to someone.

Teens indicated they want to learn more about money: 89% said they want to learn how to make their money grow, while 65% be-



Teens don't know enough about money but they want to learn.

lieve learning about money is "interesting."

The top reasons they cited for wanting to learn about money were "to stay out of debt," "to be able to pay my bills," and "to not have to rely on others for money."

The majority of teens want to learn about money from their parents. Yet only one in five said their parents had "taught me how to invest money wisely to make it grow."

*"Boys, who expect to earn \$173,000 per year, have higher expectations than girls, who expect to earn \$114,200."*

## SEX VS. MONEY, E-MAIL STOCK TIPS, & MORE

The eternal battle in the bedroom takes second place to squabbles over money in the average relationship, a new survey shows.

The survey by PayPal found that 37% of young couples identify money as their number one area of conflict. Fights over frequency of sex trailed at 28% of couples.

Some 82% admit to having hidden purchases from their partners, while 46% try



to minimize conflict by using separate bank and credit card accounts, the survey found.

### E-mail stock tips

Think that stock tip you received in your e-mail is directed solely at you?

It is estimated that 100 million junk e-mail messages touting stocks are sent out each week.

One academic study has shown that such messages are designed to let the senders profit from quick rises in

the stock. Buyers usually end up disappointed.

### Rich get conservative

Last year may have been a great year for the stock market, but the richest Americans scaled back on their investment risk, found a survey by the Spectrem Group in Chicago.

Its survey of investors with net worth of more than \$5 million found that 43% preferred a guaranteed rate of return in 2006.

Only 20% said they were "aggressive" investors.

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## YOUR FINANCIAL EXPERTISE PEAKS AT AGE 53, RESEARCHERS CONCLUDE

An intriguing new academic study pinpoints the age at which financial expertise peaks: a few months after turning 53.

Two researchers with the Federal Reserve and two professors from Harvard and MIT studied the usage by consumers of all ages of thousands of home equity loans, lines of credit, car loans, and credit cards.

Their conclusion: "The sophistication of financial choices peaks at about age 53."

Their study adds evidence to the previously observed fact that performance in various fields tends to rise and then fall with age, they said.

They noted previous studies that show baseball players reach their peaks in



A combination of experience and adequate analytic ability peaks in middle age.

their late 20s, mathematicians at age 30, chess players in their mid-30s, and novelists around age 50.

The researchers found that borrowers in their early 50s paid lower interest rates and fewer fees on loans and credit cards than did borrowers who were younger or older.

They noted that this probably demonstrates higher

skill on the part of the middle-aged borrowers: "Most financial products are complex and difficult to understand. Fees are shrouded and the true costs of financial services are not easily calculated. Making the best financial choices takes knowledge, intelligence, and skill."

The study suggests that financial expertise comes from a combination of the ability to analyze and knowledge gained through experience.

Although cognitive studies show that analytic ability tends to begin falling in the late 20s, the accumulation of experience through middle age makes up for that slow decline, the researchers theorize.

By old age, the decline in analytic ability tends to overshadow experience and reduces financial acumen.