Investment Advisory Professionals, LLC

Volume 9, Issue 1

November 2007

IAP Financial Advisor

INSIDE THIS ISSUE:

Points of interest:

- Back in 1982, we were in a cold war with the Soviets. Few predicted the momentous fall of the Soviet Union.
- In 1982 there were no cell phones, public Internet, iPods, or e-mail.
- The Dow stood at just 777 in mid-1982. Since then it has increased by 1,700% to its recent high of 14,000.

Forget the dire predictions: Get invested for the long term

Since the subprime mortgage mess hit the markets like a bombshell earlier this year, economists and analysts have been working harder than ever to forecast its future effects.

Forecasting potential outcomes is big business in the financial markets, and there is no dearth of "experts" and TV talking heads telling us what lies ahead.

Their record of prediction is pretty poor as evidenced by the perpetual surprises that send the market soaring, as it did after recent interest rate cuts by the Federal Reserve, or plunging on news equally unforeseen.

Analysts and economists try to do the impossible: predict the future course of the financial markets.

A longer perspective

Stepping back from the market's day-to-day action can give an investor a little valuable perspective. A longer view illustrates two vital lessons: first, how difficult it is to predict the unpredictable, and, second, whether it is even necessary to predict, given the market's propensity to rise over time.

Rather than the three- or six-month view Wall Street considers "long term," try a 25-year look at the markets, world history, and your own life.

In 1982 Ronald Reagan was in the third year of his presidency. Did you predict then that six years later his vice president, George Bush, would become president, or, even more improbably, his son, George W. Bush - a 36-year-old Texas oilman in 1982 - would also become president? Or that, in between, an Arkansas governor would be president and eight years after leaving office, would campaign for his wife's presidential bid?

Long-time Soviet leader Leonid Brezhnev died that year, at the height of the cold war. Who foresaw that the stunning breakup of the Soviet Union would come just nine years later?

Were you aware of the momentous shift in information transmission protocols that would lead a few years later to the Internet? Even if you knew, could you have predicted the vast societal changes it caused?

Did any of us imagine the development of cell phones, e-mail, iPods, laptop computers, or cloning?

A stunning bull run

The U.S. stock market was in miserable shape in 1982, having suffered a long-term bear market—punctuated by occasional upturns—for 15 years.

The Dow Jones Industrial Average stood at 777 on Aug. 12, 1982, inflation was high, interest rates were stifling

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SPENDING 25 YEARS IN THE STOCK MARKET LED TO RICH REWARDS

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growth, unemployment was rampant. At that point, who predicted that we were at the start of an 18-year super-bull market that would peak with the Dow at 11,723 by early 2000? Or that the recovery from a brutal bear market from 2000-2003 would push the Dow to 14,000 earlier this year?

An investor who had $10,000 in the U.S. market via a fund that replicated the Standard & Poor's 500 Index would have seen it grow to nearly $265,000 by this past summer's highs, despite several intervening stock market crashes, two U.S. wars in Iraq, the 2001 terrorist attacks, and numerous other economic and political setbacks.

Keeping that $10,000 in short-term bank deposits instead would have resulted in a nest egg of just $35,000.

No one knows if we are in a long-term bear market now, with brief upturns in between, a long-term bull, or something else. Our ability to know the future is very limited. A prudent investor will diversify and stay the course for the long term.

Be wary of stock market predictions.

TAKING THE MYSTERY OUT OF COLLEGE AID

The parents of prospective college students are bombarded with scary messages about the cost of college.

It's easy to find out that the average four-year private college costs $22,218 this year, or that George Washington University has become the first to break the $50,000 mark in tuition, fees, and other mandatory costs.

But the mystery to many parents and college-bound students remains how much they will be required to pay, and how much aid the students will get.

Until recently parents could either hire a college aid planning firm to find out what college will cost, or they were forced to wait until the spring of a student's senior year in high school to find out what financial aid would be offered by the federal government and the college.

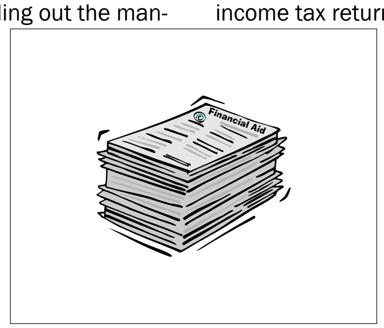
A new calculator

Families facing college are getting a break this year with two new online calculators that help them get a handle on their potential costs in advance.

The U.S. Department of Education offers its new FAFSA4caster, a tool that gives an early estimate of potential aid, and also simplifies the process of filling out the mandatory Free Application for Federal Student Aid, also known as the FAFSA.

The Education Department estimates that 30 minutes spent filling in information on the new planning tool will result in a report detailing whether the student qualifies for federal grants and loans and how much they would receive, as well as showing how much the family is expected to contribute to college costs from its own resources.

The calculator can be found online at: www.FederalStudentAid.ed.gov.



A new federal college financial aid calculator aims to make it easier for parents to estimate their eligibility for assistance.

College Board helper

To obtain the calculation a family has to provide information on the student's earnings and savings, the parent's latest income tax return and one for the student if available, and information on the parent's savings, business investments, and investment records.

The College Board, an independent organization, also offers a free online college cost calculator, the Financial Aid Easy Planner. Go to its site at www.collegeboard.com.

The calculator integrates information on the cost of specific colleges with available federal aid and scholarships. It also offers tips on saving for college and how to improve eligibility for aid.

"But the mystery to many parents and college-bound students remains how much they will be required to pay."

Most retirees should have more money in stocks than they think

It is common for those planning for retirement to feel that they should make their investment portfolios more conservative once they leave the workforce.

After all, they have to live off their nest eggs for the rest of their lives and can't afford to lose money in a declining stock market.

However, new studies continue to show that most retirees can and should own more stocks rather than less if they want to beat inflation and make their portfolios last throughout retirement.

Two professors from the State University of New York at Brockport have done a new study that confirms the advantage of having more stocks in retirement.

To rebalance or not?

The study by John Spitzer and Sandeep Singh, published in the *Journal of Financial Planning,* was not even designed to prove this point.

Instead, they wanted to find out whether it helped to regularly rebalance a portfolio between stocks and bonds during the period when a retiree is making income withdrawals.

Holding stocks longer in retirement results in better chances of making income last.

Many studies have confirmed the advantages of rebalancing when investing, because it forces you to stay exposed at the same levels to different asset classes even when one class is up and the other is down.

Spitzer and Singh compared six different portfolio allocations between stocks and bonds, five withdrawal rates ranging from 3% to 7% annually, and various methods of selling investments in order to raise cash for retirement expenses.

Some of the selling methods were designed to keep the portfolio in its original stock/bond balance, while others were not.

They then tested whether each portfolio, using the different withdrawal rates and selling methods, would last for a 30-year retirement.

Stocks did best

Surprisingly, the rebalanced portfolios did not hold up well. Instead, those portfolios that sold off fixed income investments first and held onto stocks for later had the largest remaining balances after 30 years, the professors said. Withdrawing stocks first left more shortfalls.

"The larger the proportion of stocks to bonds in the portfolio, the longer the portfolio tends to last," they wrote.

"Those portfolios that sold off fixed income investments first and held onto stocks for later had the largest remaining balances."

IRAs soar, the rich get richer, & more

Retirement savings in the United States hit a record level of $16.6 trillion at the end of March, announced the Investment Company Institute, a mutual fund trade organization.

It said retirement savings accounted for 38% of all household financial assets.

The biggest growth from the previous year came in Individual Retirement accounts, which grew to $4.4 trillion from $4.2 trillion a year earlier, and employer-sponsored defined contribution plans, which grew to $4.2 trillion from $4.1 trillion.

Richest get richer

The latest statistics from the Internal Revenue Service show that the richest Americans are taking home a record portion of the country's wealth.

The top 1% of income earners garnered 21.2% of all adjusted gross income in 2005, up from 19% in 2004 and ahead of the previous record 20.8% back in 2000, the IRS said.

The bottom 50% of earners took in 12.8% of adjusted gross income, down from 13.4% in 2004.

Working into old age

The number of older Americans who work later in life is increasing, says the U.S. Bureau of Labor Statistics.

Some 52.5% of those between 60 and 65 were working last year vs. 45.8% ten years earlier.

Meanwhile, 15.4% of Americans who were 65 and older last year were working vs. 12.1% back in 1996, the Bureau said.

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Baby boomers rely too heavily on their homes for retirement

The love affair baby boomers have had with real estate may not pay off in retirement, a new survey has found.

Some 68% of affluent boomers count the value of their homes as part of their retirement savings, said Bell Investment Advisors of Oakland, California.

Boomers expect their homes to produce retirement income.

Almost a quarter of boomers said their homes accounted for up to half or more of their savings, found the survey, conducted by Opinion Research Corp. of Princeton, N.J.

Bell Investment Advisors said boomers are not being realistic, since it is difficult to derive a retirement income from personal real estate.

Although some workers think they can sell their homes and downsize, the difference between the profit on the old home and the cost of the new home often does not provide a large enough sum to generate significant income.

Reverse mortgages are becoming a more popular way to derive income from a home while continuing to live in it. However, the mortgages include hefty fees to cover origination and to insure against a fall in the home's value during the life of the mortgage.

Reverse mortgages also cause resistance because retirees often want to leave their homes to children as a legacy. A reverse mortgage drains the equity out of a home and can leave little to pass on to heirs.

Fortunately, boomers in the survey also indicated that 401k plans also represent significant portions of their savings.

Liquid investments in the world's financial markets offer a much better opportunity to provide a stream of retirement income that keeps pace with inflation.

Certainly such investments can be tapped much easier than home equity. In addition, they don't require carrying costs and maintenance like real estate. Finally, there is always a ready market when selling, with multiple bids offered at all times.