REINVENTING Retirement
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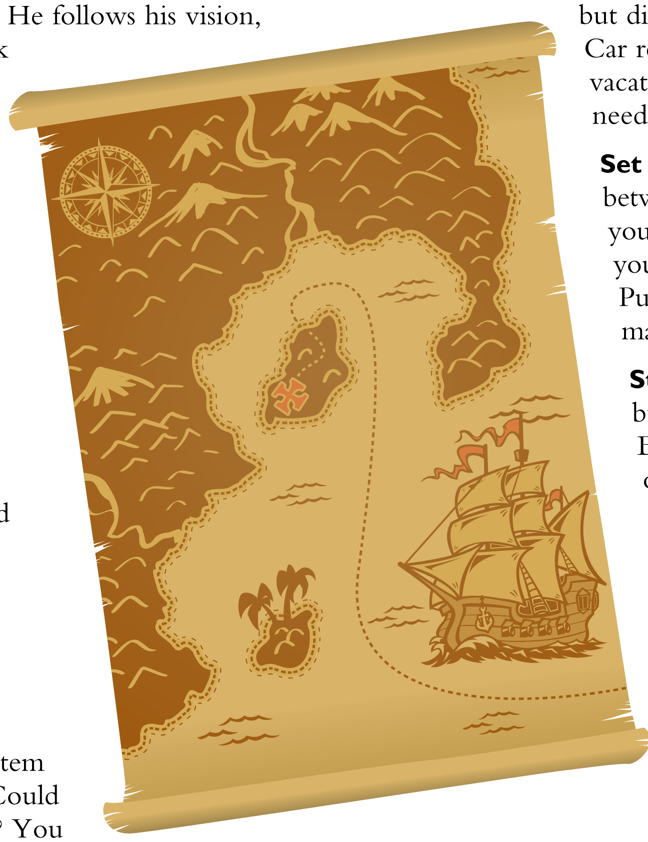
YOUR RETIREMENT PLANNING NEWSLETTER

Find the Money

How to free up money for your future

Let's assume that you want to contribute more to your retirement plan but don't know where you'll find the money. You can find inspiration from the movie, *Field of Dreams*, in which Kevin Costner as Ray Kinsella is told, "If you build it, he will come." He follows his vision, builds a baseball field in his back yard and it actually draws players and crowds.



Just like Ray, you can commit to building your own financial field of dreams. Your first step is simply to commit to save more. Then, once you vow to 'build it,' you'll need to find the money.

Pay yourself first. Simply set the money aside—or increase your salary deduction for your retirement savings account—and then use the following tips to come up with new ways to cut back on expenses so that you can find the money to build your nest egg.

Review all your expenses. Be thorough. Ask if each expense item is necessary. If not, cut it out. Could you spend less money on some? You might find less expensive alternatives or cut down on waste. Continue reading to learn how.

Find your buried treasure. Look for a single large item, or a few, where you could save a substantial amount. Instead of a week in a resort, you might take a "staycation"—stay home and make touristy day trips locally. If you smoke, or have any other expensive unhealthy habits, make new resolutions and look for help to quit. If you're a bit of a shopaholic, take a break from "retail therapy."

Separate your needs and wants. Make two lists titled "Needs" and "Wants." Enter each of your expenses on either list. For each item, ask: 'Do I really need this? Is it a need or a want?' For example, groceries are a need, but dinner in a fancy restaurant is a want. Car repairs are a need but an expensive vacation is a want. Provide for all your needs, but be selective with wants.

Set clear priorities. If you had to choose between buying a new car, saving for your children's college, or investing for your retirement, which would come first? Put more of a priority on tomorrow by making wise money choices today.

Stretch your money. Find ways to buy the same product for less money. Buy used items—such as furniture or a car—instead of new. Buy store brand products instead of name-brand goods. Do home improvement projects yourself. Bring a lunch to work. Drive your car for an extra year. Look for ways to be more energy efficient—lower your thermostat, drive slower, car pool. Change your own oil. Lower your car insurance premiums by raising your deductible.

Monitor your money. Don't just spend. Plan. Budget. Review expenses. Consider ways in which you could save more. Finding the money to fund your future is an ongoing process, but it can be fun and liberating.

Financial Plan: Ready, Set, Action

A financial action plan involves two parts—making a plan and then taking action. Here are some steps to help you turn your financial plan into action:

Set goals

What are you saving for? Do you have specific goals? Saving money is important, but it can be more meaningful and effective if you identify a goal and have a clear vision of what you're saving for and a timeline for accomplishing it.

For example, a goal five years from now will call for a different mix of investments than a target 20 or more years away. A shorter time frame will require a more conservative approach than one that is decades away. Over long periods of time, stocks have tended to have higher average annual returns than other types of investments, although there are no guarantees. But stock prices tend to be more volatile over shorter periods, which means you have a greater risk of losing money.

Break it up

Once you have identified a goal, focus on key action steps towards it. Let's say you know you want to save $50,000 to help pay for your child's college education 10 years from now. If you break that into monthly savings, not accounting for investment earnings, you could reach your goal by saving $400 a month, or about $5,000 a year. A first step is to open an account, such as a 529 plan account, and start investing with a lump sum or set up an automatic investing plan that would transfer money directly from your bank account into the plan each month.

Every step you take is important. Recognize that and reward yourself in some way for making progress as you move towards your goal.

Make it automatic

Automatic investment plans, such as payroll deduction into your retirement savings account, are easy and can help you stop procrastinating, since money is invested regularly without you having to do anything. This can help to keep you on track to reach your investment goals with minimal thought or action required.

You can apply this automated approach to other parts of your financial life. For example, pay bills—such as your mortgage, car loans, or utilities—through automatic electronic funds transfer. This can keep you from incurring late fees or damaging your credit history through a missed or late payment.

Review and rebalance

Over time, your needs will change, the economic situation may improve or worsen, and you need to be able to adapt. Plan to review your finances and investments every year, and rebalance your investment mix as needed. Also, update your personal information on various accounts in the event of a major life change such as marriage or divorce. Take a fresh look at your goals, and your progress towards them, and see what you should be doing to make sure you reach your goals. Keep taking action to move your financial plan forward.

Behaving Wisely

We can keep ourselves from making mistakes

"I'm only human" or "We're only human"—those are common refrains when people make mistakes. We have to be realistic. People do err, and sometimes we're ruled by our emotions, for better or worse. As investors, though, the mistakes that we make due to emotional or irrational behavior can be costly. The study of these common foibles is called behavioral finance.

Some of the ways we trip ourselves up financially include:

- **Procrastination and inertia:** Knowing what you should do and actually doing it are two very different things. Often people put off making important decisions or taking action. But when that happens, it can be a tremendous lost opportunity. And the longer you wait, the harder it is to act.
- **Analysis paralysis:** Too many choices can overwhelm people and lead to an analysis paralysis. Sometimes making any choice can be better than no choice. And limiting the number of choices can make it less likely that people will be overwhelmed.
- **Overconfidence:** One of the big problems among some investors is a sense of overconfidence. Some fail to take heed of risks and believe they made money in the past because of superior skill when it might have been partly due to luck.
- **Fear of loss:** It's understandable that it's harder to admit having made a mistake than it is to take credit for a smart move. Accordingly, many investors hold onto a losing investment far too long out of a deep dislike for admitting they were wrong. But that can just make a problem worse.
- **Anchoring:** We sometimes place too much emphasis on things that happened recently because they weigh more heavily on our minds. A fund's recent performance must be judged over longer periods to be valid and fair.

It's helpful to know these behavioral tendencies. Here are three ways in which we can act to overcome some of them.

Make it automatic

Participants in a workplace retirement savings plan already benefit from this in several ways. Payroll deduction is a form of automatic regular savings. It's easy and effective and it eliminates second-guessing.

Many savings plans have other automatic features, which may include automatic enrollment and/or a default asset allocation into a target-date fund or other balanced-type of investment choice. Both of these are default choices, which any participant may replace with another option. Please check with your plan to see if any of these automatic features are offered.

Take your time

Rather than make a rash decision or a snap judgment, you could benefit from taking your time and sleeping on a decision, giving yourself some time to reflect, or seek another person's opinion. Also, working with a financial advisor could be very helpful for many people.

Keep it simple

Many people hurt themselves by simply being too active in making trades and overthinking their investments. If you have a long-term goal, such as retirement in a few decades, and which could last many years, what happens in the next few months is less important than being properly positioned for your time horizon and risk tolerance level. For long-term investors, leaving your money invested can be more appropriate than hyperactivity. That's also easier on the nerves, and might help you sleep better at night.

Retirement in Motion

TIPS AND RESOURCES THAT EVERYONE CAN USE

Boomers on the Brink

Issues facing participants approaching retirement

Pre-retirees relatively calm
A recent study about pre-retirees and their retirement prospects revealed that most of them don't plan to delay their planned retirement date despite current economic challenges. However, 88% of those surveyed plan to continue working even after they're eligible for full retirement benefits. Their main reasons: the need for more money and a desire to remain mentally, physically or socially active. Three-quarters of the survey's respondents said they expected they wouldn't need financial support from others at any point. The survey was conducted last July and sponsored by Schwab.

Q & A

Common questions asked by retirement plan participants

Why has my account balance shrunk? Shouldn't my investments be earning money, not losing it?

We invest for retirement and other goals, expecting that over time, our money will earn money. But stocks and other investments can lose money over periods of time. For the past few years, the U.S. stock market has performed below its long-term average. However, by investing regularly through payroll deduction, retirement plan participants benefit from dollar cost averaging, which lets them buy more shares when the price per share drops and fewer shares of an investment when the price per share rises. Dollar-cost averaging does not ensure a profit or protect against a loss in declining markets. Having a long time horizon makes the day-to-day or month-to-month ups and downs less important than the long-term performance of your investments. Diversification into a variety of investments can also be very helpful.

Tools & Techniques

Resources and ideas to guide you in your retirement planning efforts

Ways to "find the money"
If you are looking for ways to save on various expenses in order to free up money for your retirement, here are a few pointers:

- Don't be compulsive. Avoid spontaneous purchases. When shopping, try to stick with what you planned to buy.
- Compare prices. Use tools online to compare prices or research the quality or value of various purchases.
- Stick to a budget. Track your money. Hold yourself accountable. Eliminate unnecessary spending, so that you don't shortchange your future.

Read more in "Find the Money: How to free up money for your future" on the front page of this newsletter.

Quarterly Reminder

Have you increased your contribution rate recently?
Participating in your workplace retirement savings plan and making a commitment to save a percentage of your salary every payday is critically important. But this is a case where more is almost always better. One way to increase your salary deferral rate is to tie in regular increases. For example, you might make a new year's resolution to increase your salary deferral by one percent each January. Or you could tie it to any salary increase. Perhaps you could give yourself a birthday present of saving more for your retirement. Whatever approach you use, try to increase your salary deferral level regularly.

Corner on the Market

Basic financial terms to know

Asset Location
It's not what you earn that's most important. It's what you take home. With investments, we need to think about taxation and after-tax returns as well as an investment's basic return. Dividends are taxed at an investor's ordinary tax rate, which can be as high as 35% currently. In comparison, capital gains are taxed at 15% or less. Therefore, investments that generate capital gains (for example, stocks) are more tax efficient and generally should be located in a taxable account for greatest benefit. Bonds, which issue dividends as the primary source of returns, are less tax-efficient and generally should be in a tax-deferred account, such as an IRA or 401(k).

Kmotion, Inc., P.O. Box 1456, Tualatin, OR 97062; www.kmotion.com