



**Bert Whitehead** has been selected as one of the  
“Top 100 Wealth Advisors” in the country by Worth Magazine.



**“Dedication, vision, and experience  
are requisite to be counted among  
the best of the best.”**

*Worth Magazine  
October Issue, 2005*

Bert has maintained this honor every year Worth has run the “best of the best” selection, beginning in 1994.

### Staff Changes

**Coming on board** – We are pleased to announce **Rebecca Chacko**, MSA CFP® has joined our Tucson staff. Rebecca is well suited to Cambridge Connection with great credentials, experience, and background in the fee-only financial planning industry. Her credentials include a Certified Financial Planner Professional (CFP®), an MSA, *cum Laude*, from the University of Notre Dame, and an MA from Case Western Reserve University. She is a member of the National Association of Personal Financial Advisors (NAPFA), and the Financial Planning Association (FPA), and is scheduled to attend Cambridge Advisor training and become a member of the Alliance of Cambridge Advisors. Welcome Rebecca!

**Leaving us** – **David King** is moving back to his home state of Tennessee, where he plans to set up shop with a virtual financial support business. We're sorry to have him pull up stakes, and we wish him every success!

### Client To-Do's

**Monitoring Credit Cards** – Using your credit card is not such a big deal, since you aren't liable for more than \$50. But getting credits or accounts opened in your name is a huge hassle and possible liability.

I am suggesting clients use Equifax Gold ([www.Equifax.com](http://www.Equifax.com)) which was suggested by Terry Fraser. I have been using the 'Silver' myself (\$40/yr) which notifies me whenever they receive a request for credit report from anyone, or any change is reported on my credit record, as well as when there is any charge on one of my credit cards exceeding whatever \$ and % amounts I specify. This has worked very well.

The problem with the 'Silver' service is that you don't know if someone is checking another credit bureau for info. The Gold service (~\$140/yr) notifies you if any of the three services has a change on your record, or receives a request for a credit report. I personally am upgrading to this level.

Since you can get one credit report per year from each service, you could check every year, but if someone stole your identity a month after you checked, it would be a year before you would catch it.

**Prescreen & Opt-Out Notice for Junk Mail** – “Prescreened” offers of credit are based on information in your credit report indicating that you meet certain criteria. You have the right to notify credit bureaus not to use your credit report in connection with any credit or insurance transaction you do not initiate. To exercise this right, please call the consumer reporting agencies toll-free 1-888-567-8688; or write to the credit bureau(s) listed below:

Equifax Options, PO Box 740123, Atlanta, GA 30374-0123  
Experian Target Marketing, PO Box 919, Allen, TX 75013  
TransUnion OptOut, PO Box 97328, Jackson, MS 39288-7329

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# financial

## focus

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## RILEY RECONSIDERED

by Chip Simon, MS

**W**hen I was growing up there was a TV show called *The Life of Riley*. The graphic used to depict the show's main character was a hammock, a symbol that endures as an image of retirement – retired life is easy, carefree, and passive.

Of course, this image is totally out of touch with the realities of retirement today. Why? Consider this. We're living longer. At the beginning of the 20<sup>th</sup> century the average lifespan was 47 years. Today it's 74 years – a 57% increase. The longevity trend has generated interest in post-retirement employment. AARP has reported that 68% of retirees never expect to retire because they want to use work to stay physically and mentally active. Of these, 46% expect to work just part-time, but 54% admit that they will need full-time employment to make ends meet.

That sobering statistic underscores the increased need for financial self-reliance, another compelling economic trend during the last 25 years. The traditional "three-legged stool" of retirement funding – a guaranteed pension, Social Security, and personal savings – is wobbling and losing its balance. Pensions are disappearing across the land because companies can't afford to fund 40 years of retirement. The steady three-legged stool is being replaced by an unsteady pair of crutches – an uncertain Social Security benefit on one hand and personal savings on the other. The result of all this change is that people are being



forced to make important new financial decisions for themselves.

In the past, employees knew the formula: work for so many years, collect the pension, and live within that budget. But today the right retirement number is not likely to be a "given." It has to be calculated. Given the trends, you would think that workers would do that, right? Yet the American Savings Education Council tells us that 61% of all workers have not yet calculated how much money they will need for a comfortable retirement!

So here's your first step toward improving your financial situation. Make sure you are not among that 61%. To hit the bull's eye you must know where your target is. Here is a simple approach to help you calculate your retirement needs.

First, assume your current lifestyle will be your retirement lifestyle. Then add up your cash expenses: your annual household expenses, your annual tax payments, and the amount you save each year. And don't forget to factor in the unexpected car repair and helping out your children or grandchildren from time to time. That equals the total amount of income you'll need. Next, add up all of your guaranteed sources of income: projected annual Social Security benefits, pensions, as well as other income sources. That's your cash inflow. Is this more than your expenses? Great. If not (very likely), then you need to generate cash from personal savings to fund the "gap."

*How much savings will you need?* Multiply your "gap" by 15 to calculate your required personal savings. We use 15 to get the income replacement number. It calculates the amount of required savings that will earn enough interest to cover your gap, assuming an interest rate of 6.67% ( $1/15 = 6.67\%$ ). This is considered a reasonable after-tax return on an investment portfolio.

For example, if you have \$50,000 in annual household expenses, \$7,000 in annual savings, and \$10,000 in annual tax payments, then your annual cash

*Cont. on page 2, Riley Reconsidered*

## INSIDE THIS ISSUE

- 2 The Big Lie
- 3 Home Mortgages:  
Lending from the Lenders' Perspective
- 4 Ask an Advisor



## THE BIG LIE - Part 2 of a Two-Part Series

by Bert Whitehead, MBA, JD and Mark Stempel, EA, CFP®

In Part 1 of this article, we explored how the financial industry has perpetuated the myth that it is possible to beat the markets through market timing systems. We showed why this is, in fact, a “big lie.” In Part 2 of this article we will introduce you to our approach to investments, an approach based on “balance” rather than “timing.”

We maintain that there are only three possible economic scenarios that you must plan for as an investor. They are: inflation, deflation, and prosperity. The key is addressing all three of these scenarios when investing. Our approach utilizes “functional asset allocation” which stresses “balance.” Balanced investing means that about one-third of your portfolio should be in bonds to protect against deflation and to provide capital preservation. Another third of your portfolio should be in stocks to enable you to participate in times of prosperity and to provide the growth engine in your portfolio. And the final third of your portfolio should be in real estate. For most people, their key investment is not stocks or bonds -- it's their home. Your home serves the function not only of personal enjoyment but also of protection from inflation.

Contrary to what many investment advisors will tell you, people don't get rich from their investment choices. The way that we have seen people get wealthy is by following three different paths: 1) real estate appreciation, 2) enterprise (either through stock options or growing their own business with a successful exit strategy), and 3) through intellectual property, such as books, teachings, and speaking. Entertainment and sports stars who get rich through their natural talents or gifts also fall into this third category. When we work with clients with a \$3 million net worth, we have to realize that today they are not “rich.” A \$3 million net worth can generate a standard of living based on an income in the low six figures. This is an income which is typical of most professionals, executives, and successful entrepreneurs in our society. But this is not “rich.”

The big lie that the investment industry has promulgated is that money managers and market timers can make you rich and also protect your assets. They want you to believe that for their fee of 1% or 2% of your assets each year, they will add enough value to outperform the market, protect you from inflation, and – in the end – make you rich. The truth, as we have outlined above, is that a functional asset allocation approach with balance among bonds,



equities, and real estate works best. Real estate protects your assets against inflation and is the best method of accumulating wealth for the ordinary person. The best investment you can make is in your own home, utilizing this strategy with professional supervision and proper leveraging techniques. Balancing real estate value with the other two functional asset allocations is the key to success, not which stocks or bonds you pick.

The financial industry would also have you believe that “investment prowess” is required to become financially independent. It is not “investment prowess,” but rather a sound financial plan that is necessary to become financially independent. A sound financial plan requires only three things: persistent saving (10% per year), earning the market rate of return (over a 30 or 40 year period of time), and balanced investments (in bonds, stocks, and real estate). So don't be conned by “the big lie.” Twenty years from now we are going to look back and wonder how people in the 1990's and early 2000's could possibly have been so naïve as to believe that somebody else could make them rich in the stock market. ■ ■ ■

### *Cont. from page 1, Riley Reconsidered*

need is \$67,000. Suppose that you will have \$18,000 in Social Security income and a \$25,000 pension. That will leave you with a \$24,000 gap (\$67,000 minus \$18,000 minus \$25,000 equals \$24,000). Multiplying \$24,000 by 15 gives you \$360,000 in required personal savings. If \$360,000 earns 6.67%, this will generate the \$24,000 gap.

Now remove the pension amount in the example above to see what happens. The gap will increase to \$49,000. Multiplying that times 15 gives you a \$735,000 required savings balance. You can see that much more personal savings is required when you don't have a guaranteed pension payment available, as is the case with so many of today's retirees.

So take an important step to improve your financial future right now. Don't rest on your laurels like Mr. Riley. A simple estimate of your future financial needs can have a profound effect. It can help direct your thoughts and, more importantly, your behavior to fulfill realistic goals. This is critical in an era of financial self-reliance. And when you want to make the calculation more specific and precisely in tune with your personal plans and financial circumstances, consider working with a trained financial advisor who can help make sure that you are on track to hit your target.



## HOME MORTGAGES: LENDING FROM THE LENDERS' PERSPECTIVE (PART 2)

by W. Tedd Oyler, JD

**E**ach incremental increase or decrease in the mortgage interest rate you pay has a life-long effect on your path to financial independence – and on how well you are doing compared to others in your age and income bracket. In this light, it behooves one to seek and then pay the lowest amount possible for credit. Your credit rating is an important factor and one you will want to understand.

The first thing any mortgage lender will want to do when you apply for a loan is obtain your credit report from one of three national credit-reporting companies.

Your credit history determines your credit score, from which all lending decisions subsequently flow.

How is your credit score generated?

A “perfect” credit score is 850 (no one ever receives a perfect score). Points are subtracted based on a multitude of factors from your financial history, with recent years weighted more heavily. How lengthy is your credit history? What does it show - are you slow to pay or do you keep your promises to pay on time? How much do you owe overall and on what types of accounts? How much debt is already available to you (what are your credit limits)? Have you taken on a lot of recent debt? Are there lawsuit judgments against you? Have you declared bankruptcy?

Obviously, the higher your score, the more interested the lender will be in your business. A lower score may still qualify you for a mortgage, but the lender may then charge a higher rate or place additional conditions on your loan. I asked Chris Zehnder, a Cambridge Advisor in Orlando, Florida and a mortgage-lending expert, for credit tips on how to get the best mortgage deal possible:

- Generally speaking, do not randomly put yourself in a position where others will be obtaining your credit report; each time your credit history is pulled, there may be a

negative effect on your overall credit score as lenders will be concerned that you are trying to obtain a lot of credit in a short time. So limit the number of times you authorize anybody to access your information.

- About 90 – 120 days before you think you’ll need the loan, obtain a copy of your credit report through [www.myfico.com](http://www.myfico.com) (pay for what’s called a “3-way merge” so you’ll get the most thorough data) and comb through it for any inaccuracies or misreported items.

- Close any inactive accounts so that your “available credit” won’t be unreasonable.

- File dispute letters regarding any entries you question or challenge

(the credit agency has to investigate) and take this opportunity to explain specific issues (divorce, medical issues, identity theft) affecting your history.

- Take steps to have entries expunged where appropriate (the debt has been paid or the judgment satisfied).

- Remember that lending is a negotiation – fees are negotiable, and rates and terms are negotiable. Also, you should do your negotiating with at least two potential lenders BEFORE they pull your credit report so that you limit the number of reports issued.

The downside to impaired credit is costly indeed: higher interest rates, lower loan-to-value ratio, imposition of prepayment penalties, and higher loan application costs. Do your credit-repair work ahead of time, for once you have already committed to buying the house of your dreams, it is probably too late to do anything but accept the terms the bank offers you, and you’ll be paying more than you might otherwise have to. ■ ■ ■





# ASK an Advisor

## NORMAL RETIREMENT AGE? . . . EARLY BENEFITS?

by John Scherer, CFP®, CLU, ChFC

**Q.** What is normal retirement age? I hear and read different things from different people. I know that I can get retirement benefits from Social Security at 62, but what about the new requirement that sets the retirement age at 67?

*A. How we talk about "normal" retirement age can help shape expectations, as we consider all the costs of early retirement. From a simple survey on normal retirement age, it seems that the younger the worker, the younger the retirement age he or she considers normal. Not many answered with an age as high as what Social Security deems normal. This simple explanation about reduced benefits can help us understand how our Social Security system is currently structured.*

### Social Security Normal Retirement Age Table

Year of Birth	Normal Retirement Age
1937 and prior	65
1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months
1941	65 and 8 months
1942	65 and 10 months
1943 - 1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67

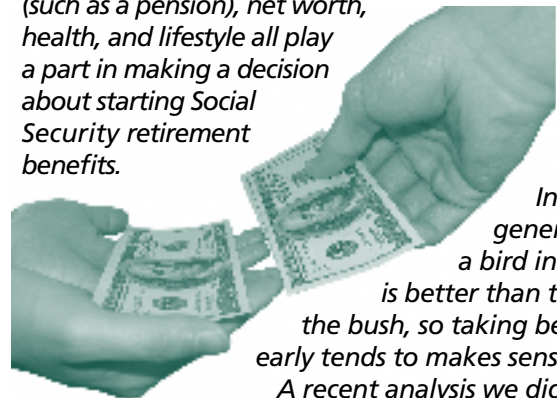
*If one retires earlier than the Social Security Normal Retirement Age, reduced benefits are available as early as age 62. The benefit is reduced 5/9 of one percent for each month before normal retirement age, up to 36 months. If the number of months exceeds 36, then the benefit is further reduced 5/12 of one percent per month.*

*This means that those born in 1943 have a*

*normal retirement age of 66. If they retire this year, at age 62 four years before normal, they get 75% of their Social Security benefit:  $(5/9\% \times 36) + (5/12\% \times 12) = 20\% + 5\% = 25\%$  reduction.*

**Q.** So, is it better to take early benefits or wait until normal retirement age?

*A. The answer, like almost everything in personal finance, is "it depends." Other income streams (such as a pension), net worth, health, and lifestyle all play a part in making a decision about starting Social Security retirement benefits.*



*In general a bird in hand is better than two in the bush, so taking benefits early tends to makes sense.*

*A recent analysis we did for a client showed that at her current earnings rate she would receive \$1,345 per month if she took benefits at age 62, or \$1,830 if she waited until her normal retirement age of 66. So she'd get \$16,140 for four years - totaling \$64,560 - by taking early retirement.*

*Then, after age 66, she'd be giving up \$5,820 per year, getting only \$16,140 versus the \$21,960 available at full retirement.*

*The "break-even" point is 11 years. If she lived to age 77, the total dollars received would be approximately equal; dying younger than that, she'd realize more by taking early benefits. Living longer favors later benefits.*

*In her situation, she decided to take early benefits because she is in good health now and felt certain that she would be able to make good use of the money before age 77. She didn't want to take the chance that her health later on wouldn't allow her to enjoy the money as much.*

*You can use these formulas to help you decide what makes the most sense for you regarding when to take Social Security retirement benefits.*