

News & Views



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Our thoughts on financial markets and the economy

In our opinion, there is a widening gap between the recent resurgence of the financial markets and the actual state of the global economy. While we are grateful for the strong performance seen in our clients' portfolios this year, substantial evidence still points towards slow economic and corporate earnings growth in upcoming years – at least in the developed world.

One respected research service we consult projects annual returns over the next five years of anywhere between -2% and 8% for balanced portfolios like those we construct here at PFPG. It is this kind of scenario analysis that leads us to believe the investment upside is now relatively modest. As a result, we continue to look for ways to temper the risks inherent in individual portfolios – while providing for growth opportunities as they arise.

What's so great about foreign stocks anyway?

We found this article from Fidelity ("[Why foreign stocks are important](#)") quite interesting. The usual rationale for investing in foreign stocks has been that overseas markets don't rise and fall in tandem with the U.S. market, so owning a healthy proportion of them in a portfolio will reduce overall risk. During the recent crisis, however, foreign stocks tumbled as much or more than U.S. ones. Fidelity's historical research suggests that once an acute crisis has passed, foreign stocks continue to add diversification benefits, and a portfolio that includes foreign stocks will outperform a U.S.-only portfolio. The higher growth rates of many foreign economies are an additional strong reason for long-term investors to include international investments in their portfolios.

Building a better risk tolerance questionnaire

PFPG uses a scientifically validated questionnaire designed by Finametrica to evaluate clients' risk tolerance. Finametrica's philosophy is that the measure of your risk tolerance isn't your willingness to invest in stocks during "normal" times, but whether you are likely to emotionally withstand the ups and downs of volatile periods. Good financial planning also takes into consideration your risk capacity, or how much loss the portfolio can bear without adversely affecting your current and future standards of living. A financial plan also analyzes whether your preferred allocation incorporates sufficient risk to meet your stated long-term goals. To read more about risk tolerance and Finametrica's approach, check out this article, "[How much risk can you stand?](#)" on [CNNMoney.com](#).

Insure to rebuild

Review your homeowners coverage periodically to make sure it covers the cost of rebuilding your home should a disaster occur. While home market values have been in decline, rebuilding costs have steadily increased. Construction prices fluctuate due to overseas competition for building materials, the weakness of the U.S. dollar, variations in fuel and energy costs, and less competitive pricing from builders as construction companies go out of business. The cost to replace your home, including any additions or renovations made since you purchased your policy, may far exceed its resale value on the market. In Maine, the cost to rebuild a typical house is \$150 to \$200/square foot.

Good time to consider disability insurance

Disability insurance protects your most important asset: the ability to earn an income and maintain your existing financial plan. If disability insurance sounds like an "extra", consider that roughly 30 percent of Americans age 35 to 65 will suffer a disability lasting at least 90 days sometime during their careers. If cost has deterred you from considering disability insurance, now is the time for employees and business owners to give it another look. Due to decreased business, insurance companies are dropping prices and improving benefits to attract new customers. A good policy

covers both accidents and sickness. Coverage is provided for a period of years or until a specific age. Because of the greater financial burden of chronic disability, a long-term disability policy is more critical than a short-term policy.

Philanthropy vs. charity

Few people today would be comfortable labeling themselves as philanthropists. That is a term reserved for Andrew Carnegie, Bill Gates, Warren Buffett or Harold Alfond. If we examine what philanthropy has meant in American history, however, we realize that all of us, regardless of economic status, have the capacity to be philanthropists.

What is the distinction between philanthropy and charity? Some view philanthropy as addressing society's future needs, whereas charity addresses immediate needs. Think of the Biblical adage of giving a man a fish vs. teaching a man to fish. Others see the two terms as synonymous.

According to Wikipedia, philanthropy may best be defined as private initiatives for the public good, focusing on quality of life. This distinguishes it from government (public initiatives for public good) and business (private initiatives for private good). Its Greek origin resides in "philos" (loving) + "anthropos" (humanity). In comparison, Wikipedia defines charity as the act of giving money, goods or time to the unfortunate. Its Latin origin is "caritas" (preciousness).

In colonial times, philanthropy was rooted in civic voluntary associations. It wasn't restricted to the wealthy helping the less fortunate. Instead, it was about people pooling their resources, primarily labor, to pursue specific common objectives - e.g. establishing a fire association, library, or hospital. If you give your time or your money to a community cause that helps others, you too are a philanthropist.

Happy (65th) Birthday to you

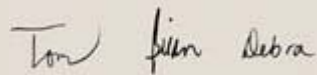
Approaching the Big 65, but uncertain about what the choices are for Medicare supplemental (Medigap) coverage? Wondering whether to keep your employer-provided insurance after becoming eligible for Medicare? [Southern Maine Agency on Aging](#) offers Medicare Birthday Seminars to help those turning 65 (or older) evaluate the options and get enrolled. There is no fee, but a \$20 donation is requested. If you don't live in southern Maine, check out the [State Health Insurance Assistance Program \(SHIP\)](#) to find free trained Medicare counselors in your area. The official [Medicare](#) website has excellent online tools for comparing both Medicare supplemental plans and Medicare Advantage plans (Medicare-approved private HMOs and PPOs) available in each state. And if you're already signed up for a Medigap plan, expect to see revisions in the alphabet soup lineup beginning June 2010. If you enroll on or after that date, coverage will include hospice care and respite care benefits. Check with your insurer now about whether your current plan will be grandfathered in, or whether you'll need to select a new plan.

Long term care insurance

The Long Term Care Insurance Partnership program is now available in Maine. If the policyholders exhaust their benefits for LTC services and need to apply for MaineCare, they may keep personal assets equal to the amount of the coverage under a qualified "partnership." That amount is in addition to already exempt assets (home and car). Other eligibility requirements apply, so be sure to discuss LTC options with a qualified agent or PFP.

We wish you a happy, healthy, and fun-filled holiday season!

Sincerely,



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