

Dear Clients & Friends:

We hope that your summer has been focused on enjoyment rather than the drama of the financial markets and the political circus. In this letter we address the day-to-day issues of the declining dollar, mortgages, the future of Social Security, and annuities, as well as recent practice news.

THE DECLINING DOLLAR

What's all the fuss about the declining dollar? It's actually a big deal. Since 2002, the purchasing power of the U.S. dollar, relative to other major currencies, has dropped by circa 20%. As a result, it is now more expensive to buy imported goods or travel abroad. What lies ahead? Unfortunately, we don't know. Neither do Central Bankers, economists, or Warren Buffett.

Investors concerned about this trend should increase their exposure to non-dollar denominated assets indirectly by investing in U.S. large company stock funds with multinational exposure or directly by investing in foreign stock & bond funds that don't hedge against currency movements. This approach is already incorporated into our investment strategy. More aggressive strategies could include investing in commodities, hard asset, or foreign currency funds. Not surprisingly, we recommend using caution when choosing your investment vehicles.

MORTGAGES

We know you've all heard too much about the widespread defaults in subprime mortgage loans and the investment securities tied to them. But what does that mean for the rest of us who are looking to buy, sell, or refinance a home? In general, fixed-rate mortgage loans are still readily available in amounts up to the "conforming" limit (\$417,000) but with stricter underwriting standards. However, it can be much harder (but not impossible) to find attractively priced financing for jumbo loans. Thus, at least some segments of the real estate market are likely to see continued downward pressure on home prices and values.

SOCIAL SECURITY

In September, Brian attended the annual NAPFA West Region Conference in Santa Barbara, where one of the keynote speakers was Rajnish Mehra, a University of California economist who is studying the Social Security system. His insights are of interest to all. Based strictly on his analysis of costs versus expected revenues, we can expect that currently promised benefits are sustainable for the next 15 to 20 years even though total benefits paid out will continue to rise faster than the tax revenues supporting them. By 2030, if no adjustment is made to FICA tax rates, benefits will have to be cut by approximately 25%.

There are two major alternatives to future benefit cuts. First, SSA's "normal" retirement age could be raised to bridge the gap between benefits and revenue. There is ample precedent for this (as we are now phasing in the change from 65 to 67), but further upward adjustments would likely have to play out over a prolonged timeframe. Increased life expectancies make this a perfectly justifiable proposition, but currently the political will is not present.

The other major option would be to raise FICA payroll taxes, alone or in combination with later retirement ages. Demographically this is a logical solution since the cohort of older Americans is growing much faster than the number of working-age taxpayers. Thus the younger generation (which also exhibits lower voter participation rates) will be politically disadvantaged at the time any fiscal adjustments are ultimately made by Congress.

The practical implications are somewhat positive for our clients and their financial plans. Current recipients of SS benefits need not be especially worried about cuts in their promised benefits. However, those yet to retire need to be cautious about using their annual SSA estimated benefits statement when tallying amounts of future retirement income. (And we should all be more worried than ever about the financial state of Medicare, but that's another discussion!)

ANNUITIES

As members of NAPFA, we are now able to make available institutionally priced immediate annuities to our clients with IRA rollover assets. NAPFA's agreement with Hueler Investment Services of Minneapolis allows us to access Hueler's Income Solutions© quoting platform to obtain lower prices than those typically available through retail distributors. Participating insurance companies include AIG, Hartford, Integrity, Mutual of Omaha, Principal, and Prudential. A variety of options permits purchasers to customize their plans.

Immediate annuities, also known as income or payout annuities, can improve financial security in retirement by providing a dependable monthly income stream for life or for a specific fixed period of time. In exchange for a lump-sum premium payment, the insurance company converts the assets into a stream of guaranteed monthly payments. In combination with a properly diversified stock and bond portfolio that provides liquid assets in case of unexpected expenses, an annuity can significantly increase the likelihood that your portfolio will last throughout your lifetime.

PFPG NEWS

Tom was elected a member of the Board of Directors of the Maine Estate Planning Council in June. In September, he attended the Maine Elder Law and Estate Planning Conference in Augusta. This month, he attended the NAPFA Regional Conference in Hartford, which focused on practice management. Brian was quoted in an article about hedge fund regulation in a recent issue of Investment News, and his comments about saving for retirement just appeared in an October 21 article in the Maine Sunday Telegram.

October 5 marked Debra's six-month anniversary at PFPG. Besides having the opportunity to meet and assist many of you personally, she has been increasing her understanding of the financial planning process. Debra has also used her phenomenal organizational and database skills to streamline many of our office procedures. We are very excited to have her as a member of the PFPG team.

We wish you all the best.



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