

Lynch Financial Advisors successfully moves individuals, couples and small business owners from where they are to **where they want to be.**

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Fee-Only Financial Advice

DEALING WITH DEPRIVATION ANXIETY (PART 3) THE LATER YEARS

by Bert Whitehead, MBA, JD and Charles "Chip" Simon, CFP®

In Part 1 of this three-part series, we defined deprivation anxiety, the obsessive fear of running out of money. In Part 2 we introduced the Cambridge Cash Flow Management System, which offered a strategy to help you cope with deprivation anxiety. In this final article, we'll explore how you can adapt this approach to more advanced stages of your financial life.

Deprivation anxiety is rooted in the fear of living life without enough money.

Structuring your finances to guarantee sufficient cash flow, therefore, goes right to the heart of the problem. This is especially pertinent in the later stages of life.

We saw in previous articles that the Cambridge Cash Flow Management System uses two strategies to help reduce anxiety in your early financial years:

- 1) Two bank accounts. Use a "working" account to receive deposits from all household income sources and to direct that money to other accounts dedicated to

specific financial goals. A "bill-paying" account is funded monthly from the working account and is used for monthly bills. Separating the two bank accounts helps you stick to your priorities. The dedicated bill-paying account prevents you from spending money that is just "lying around."

- 2) Liquidity, or emergency funds. These funds help protect you from life's financial uncertainties, from the unplanned auto repair to covering mortgage payments if you lose your job.

These strategies help you achieve the primary goal of your early financial years – accumulating investment savings while relieving stress and anxiety.

Later in life your financial goals usually change. You might want to work less or stop working, fund charitable endeavors, or start helping your family. It's time to use the money that is earned from your investment savings to supplement other sources of income such as pension payments, part-time earnings, or Social Security. This is when you use the third strategy of the Cambridge Cash Flow Management System

— the bond ladder. It is the bridge over which your investment capital travels safely back to your household spending. The bond ladder assures that you have real cash on hand for spending. This relieves the fear of running out of money, retirees' number one financial concern, especially those afflicted with deprivation anxiety. (Of course, you still continue to save 10% of your income every year, which adds even more security!)

A bond ladder is simply a series of bonds that mature in staggered fashion, usually annually or semi-annually. You can use various interest-earning investments, such as Treasury bonds, Treasury STRIPS, certificates of deposit, or municipal bonds, all of which are virtually assured to



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DEALING WITH DEPRIVATION ANXIETY - Part 3 (cont.)

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be free from default. Working with your Cambridge Advisor, you can start building a ladder ten years before retirement. You plan to have a given amount come due each year, starting with your retirement date. Ideally, each “rung” you buy on the ladder will correspond to one year, for 15 years into the future.

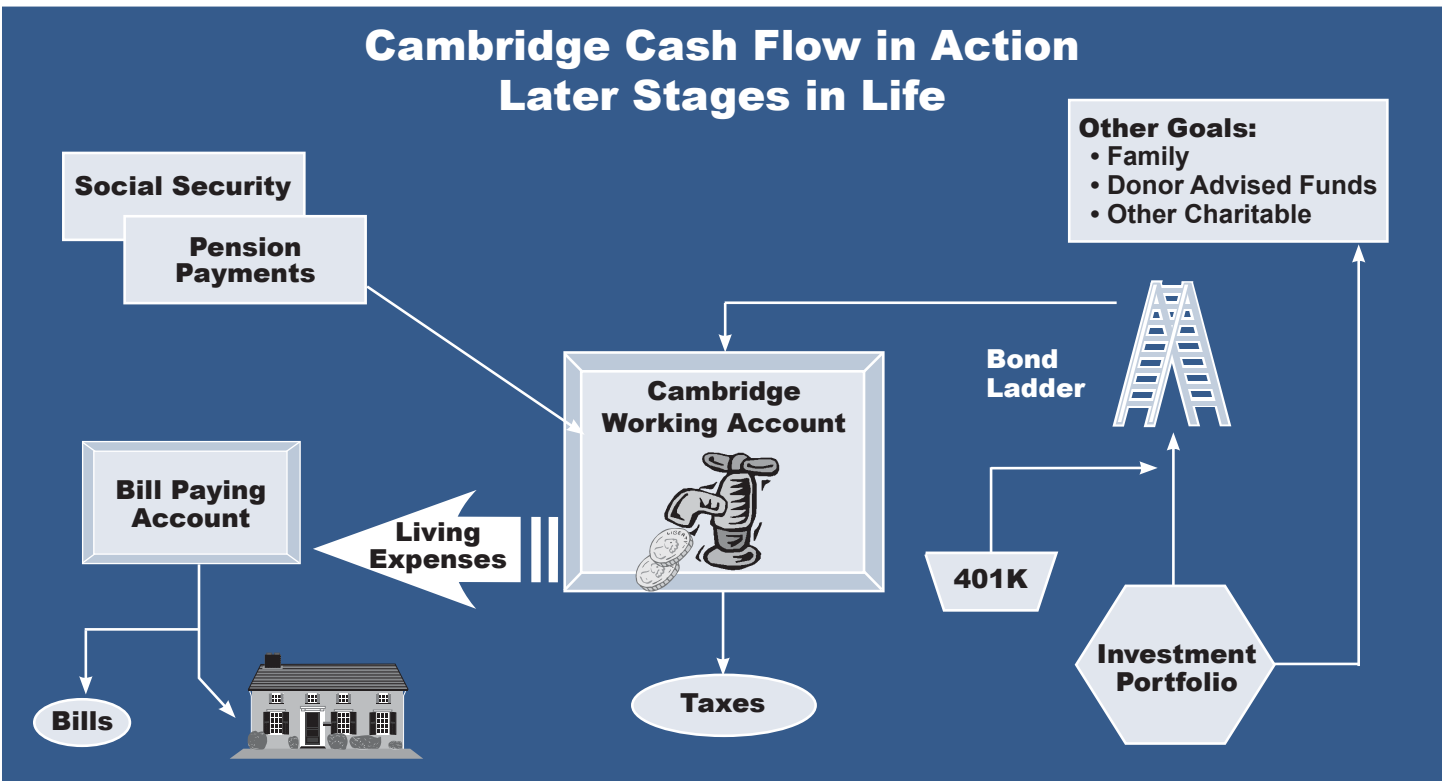
In retirement, a rung matures each year, and you take your cash flow – guaranteed. In prosperous years, the necessary cash flow may be taken from other real estate or stock investments. When this happens you use the maturing bond’s proceeds to replenish the rungs at the long end of the ladder.

Imagine what that means to you when you suffer from deprivation anxiety! For a 15-year period you have a government-guaranteed stream of cash to meet your household needs. And, since you are continuing to save 10% of your

income, your investments continue to grow so you will never run out of money! What’s more, once you reduce your anxiety and realize that you have a financial structure in place that provides solid, consistent income, you are able to turn your attention to your other life and financial goals. You can enjoy yourself more. You can focus on pursuits that make you happy rather than worry about finances.

The Cambridge Cash Flow Management System offers a compelling yet simple approach to dealing with deprivation anxiety. By aligning your financial priorities with your emotional needs, adapting to every stage of your personal financial life, and keeping you in touch with your Cambridge Advisor and your personal financial system, it reduces stress and anxiety while simultaneously meeting your day-to-day financial needs. ■ ■ ■

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MEDIA HYPE

by John Einberger, CFP®

Investment advice is everywhere. It is almost impossible not to come across a TV or radio show, newspaper or magazine article devoted to investing. But the question is, how much of this advice is helpful to you as you try to pay down a mortgage, send the kids to college, save for retirement, and just meet the day-to-day cost of living.

Mass media has incentives that are not always obvious and often are not in the best interests of investors. Magazines, newspapers, TV, and radio are in business to increase revenue and earn a profit for their owners. They do this by maximizing the size of their audience and subsequently their advertising revenue. How do they accomplish this? By running some variations on the themes:

The Best Five Mutual Funds to Own Today, **The Next Microsoft**, or the more dire **The Coming Real Estate Bust**. These headlines grab your attention and motivate you to buy the publication or watch the show, but rarely do they give you a successful investment experience. All media outlets want as much attention as possible, and this means they often take ordinary events and make them sound extraordinary, or they take random events and treat them as if they had a meaningful pattern.

Media advice is actually more dangerous than advice received from a broker or other salesperson. SEC regulators can penalize or shut down financial service organizations that provide false or misleading information to their clients. But who cares (or even knows) when **The Next Microsoft** turns

out to be a bust and a retired couple who followed that advice loses their retirement savings?

Financial reporters (often right out of school) seek “experts” to help them write the stories they have been assigned. If they believe a source is credible, they write what they are told, often unaware that

they have adopted the source’s agenda. From the journalist’s and the source’s point of view everybody wins – the reporter gets the story and the “expert” gets his or her message delivered. The losers are the consumers who were expecting fair and unbiased advice. To add insult to injury, by the time you read or hear about **The Next Microsoft** the Wall Street professionals have already bought the stock when it was cheap (thus bidding up the price) and are just waiting for you to buy so they

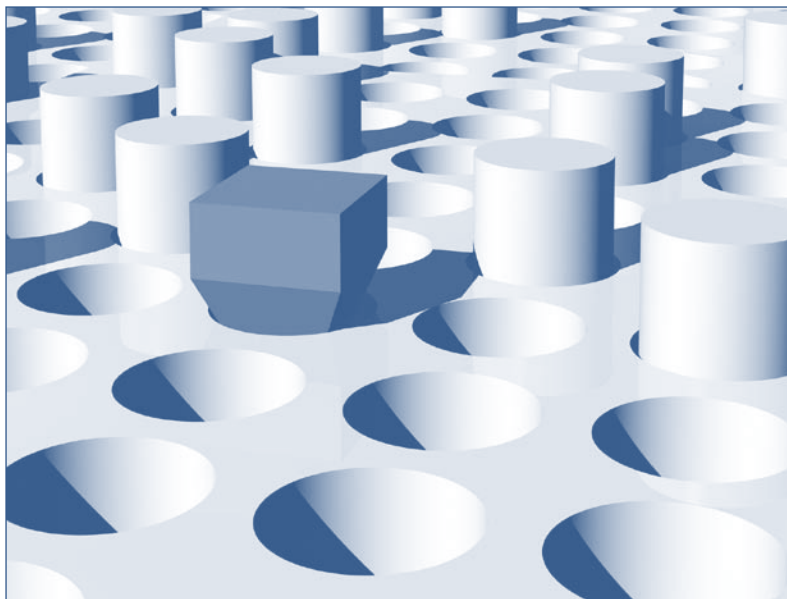
can sell at a nice profit.

The nature of any mass medium is that the same advice is given to thousands, even millions, of

individuals, all with their own circumstances, many of which are complicated or vexing enough to require more-than-average expertise. Remember, it isn’t the job of the mass media to make people good investors. Their job is to create a popular vehicle for advertising. The best advice we can give you is to just turn it off. Set down the

remote and put back the financial magazine. Much of the advice you receive from the mass media is either flat wrong or doesn’t apply to your particular situation. ■ ■ ■

“Much of the advice you receive from the mass media is either flat wrong or doesn’t apply to your particular situation.”





TWO WAYS TO SAVE ON ENERGY COSTS

by Karen Folk, Ph.D., CFP®

Is your budget reeling from the increases in heating bills on top of the cost of filling up your vehicle with gasoline?

If you are considering changes to save energy and reduce those higher costs, the good news is that new energy credits for 2006 can save you even more. The Energy Policy Act of 2005 authorized a number of new tax credits for both individuals and businesses. The three most likely to help the average taxpayer are

1) the Alternative Motor Vehicle Credit, 2) the Nonbusiness Energy Property Credit, and 3) the Residential Energy Efficient Property Credit.

You can qualify for the Alternative Motor Vehicle Credit if you purchase a hybrid motor vehicle, a qualified fuel cell vehicle, an advanced lean-burn technology vehicle, or an alternative fuel motor vehicle.

The credit is for new vehicles, both for business and personal use, with some restrictions on the size of the credit in relation to the AMT (alternative minimum tax) for personal use vehicles. The most common of these vehicles is the hybrid, which increases efficiency with an electric motor to assist the gas engine. The vehicle must be a passenger automobile or light truck and must be rated at 8,500 or less gross vehicle weight. Common examples are the Toyota Prius, Honda Insight, and others. If you plan to buy one of these vehicles in 2006, the sooner the better, as the credit will be allowed only for the first 60,000 vehicles produced by a manufacturer. The credit is calculated based on both fuel economy improvement over 2002 models and a conservation credit based on anticipated lifetime fuel savings. Estimated credits include: Chevrolet GMC Silverado/Sierra 4WD Hybrid, \$650; Honda Accord Hybrid, \$650; Honda Insight, \$1,450; Toyota Prius, \$3,150; Toyota Highlander 2WD, \$2,600; Ford Escape Hybrid 2WD, \$2,600; Ford Escape Hybrid 4WD, \$1,950.



Improving the energy efficiency of your home can also yield tax savings for you. The lifetime maximum for all home energy credits is \$500 per taxpayer, with the amount of credit coming from exterior windows limited to \$200. The Energy Efficiency Property Credit is equal to 10% of the cost of qualified energy efficiency improvements installed in 2006 and 2007.

What improvements qualify? Any improvement

that meets the Energy Conservation Code qualifies, typically insulation material or any system designed to reduce heat loss, exterior windows (including skylights), and exterior doors or storm doors. Expenses include the cost of installation. The Residential Energy Property Credit is equal to 100% of the cost of replacing furnace systems with energy efficient

replacements including high-efficiency furnaces, heat pumps, and some air conditioners and water heaters. All these improvements must be made to a taxpayer's principal residence, not a second or vacation home.

In addition, there is a credit (also subject to the \$500 lifetime maximum credit) for up to 30% of the cost of certain solar energy generating properties, solar water heating properties, and qualified fuel cell properties installed during 2006 and 2007. Solar heating for swimming pools or hot tubs does not qualify for the credit, and solar water heating systems must be certified to obtain the credit. In addition, certain credits are only allowed for a taxpayer's personal residence, and it must be in the U.S.

Since these tax credits are applied directly to reduce your total federal income tax bill, they have a bigger impact than itemized deductions that reduce income to be taxed. You will save on your tax return and lower your energy costs. Before contracting for any improvements or purchasing a vehicle, contact your Cambridge Advisor for further details of the credit requirements. ■ ■ ■