Ranstrom Financial Planning Services

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Thoughts & Comments

Fall 2010

We have a new format for our Thoughts and Comments this quarter. Morgan, Courtney, and Ryan each wrote a different section which may be of interest to you. Ryan recently celebrated his 7th anniversary with our firm, Morgan had his 2-year anniversary in September, and Courtney will have her 2-year anniversary in February. Stephanie, our Operations Manager, recently completed her 4th year with the firm. All have contributed to the quality of our services and the growth of our firm.

It has been and continues to be my goal, now our goal, to serve clients over a long period of time. We have many clients with whom we have worked over 10 years and often 20 years. I have always believed that financial planning and money management is not an event, but an ongoing process. The diversity of our ages, background, and experiences are a real strength for our firm. We will be here today, tomorrow, and for years to come to help our clients achieve their goals and objectives.

Obviously, we are in a challenging economic time, but that is not new. We have been through challenging times in the past. When I graduated from college in 1973, that was also a difficult economic time period. In my estimation, the recession of 1973-74 is similar to the current time period and was followed by a period of economic recovery. We are here to help you navigate through a difficult time and then take advantage of hopefully what will be a long recovery.

Regarding the Articles

Morgan wrote an article on recent market activity. Morgan is the internal analyst for our firm. His full time job is watching markets, tracking economic trends, and monitoring investment selection and allocation in our clients' portfolios.

Courtney wrote an article on the benefits of saving early. As I have mentioned previously, I believe for individuals and families in their 20s and 30s, preparing for a healthy financial future will be more challenging and early planning more important. One of Courtney's responsibilities in our firm is helping interested young individuals and families get off to a good start in their financial planning. Be sure to let us know if there are individuals or families we can help in this area.

Ryan wrote an article on mortgage interest rates and tax planning. In addition to his other responsibilities, Ryan offers tax planning and preparation to our clients. If you have questions or are interested in our tax-related services, please let us know.

Market Activity — from Morgan

Another year is beginning to wane and the days are most certainly getting shorter. However, the fall colors are absolutely stunning and provide ample consolation for the turning of the seasons. With three somewhat tumultuous quarters of 2010 behind us, we are interested to see what these final three months will bring. No one can say if it will be good or bad, but it will surely be exciting.

Regarding the markets, after a volatile summer, equity markets performed strongly throughout the month of September. As a general indicator of the U.S. markets, the S&P 500 index was up 8.76% in September and 10.72% for the quarter (Note: You cannot invest directly in an index). Bonds also continued to rally as deflationary concerns for the U.S. economy remain persistent. However, even with the recent month's good news, we think the overall market and economic conditions remain uncertain. Though there are no guarantees for the future, for the long-term investor we continue to promote a well-diversified moderate portfolio as the preferred means of riding out any future downside volatility while still taking part in the upside. If you have any questions on the allocation of your Portfolio please give us a call or send us an email.

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Start Early, Save Often — from Courtney

Most of us have heard that we should start saving for retirement early in adulthood. However, it can be hard to focus on a life event that is 20 or more years away. We are thinking of more immediate concerns – student loans, a mortgage, building a career, marriage, children – the list goes on. I find that it helps to visualize with a basic chart why it's important to start early and save often when it comes to retirement.

Assume that you want to retire at age 65. Based on the length of time you plan on contributing, you can end up with very different amounts:

Begin Investing	Years of Contributions	Annual Contributions	Total Contributions	Amount of Retirement Savings at the following Rates of Return: 6 Percent	7 Percent	8 Percent
Age 25	40	$6,000	$240,000	$928,572	$1,197,811	$1,554,339
Age 35	30	$8,000	$240,000	$632,465	$755,686	$906,266
Age 45	20	$12,000	$240,000	$441,427	$491,946	$549,144
Age 55	10	$24,000	$240,000	$316,339	$331,595	$347,677

Note: This chart is provided for illustrative purposes only, and actual rates of return may vary.

As you can see, even if your total contributions are the same, your annual contributions will be much less the earlier you start. In addition, your total amount saved factoring in hypothetical rates of return could be substantially more.

Mortgage Rates & Tax Planning — from Ryan

Mortgage rates are at historic lows. The average 30-year fixed-rate mortgage rate is hovering around 4.32%. In the event you have yet to call your banker or mortgage broker, you may want to consider doing so now (you can call us for a recommendation). It is hard to use a general rule of thumb when deciding whether to refinance or not. However, if your current rate is 1% or more higher than what you could receive via refinancing, it would be a good idea to run the numbers. We would be happy to help you determine what the breakeven point is for you to benefit from a refinance, so please call us.

2011 is shaping up to be a very interesting year for tax law changes. Congress decided to table the debate on any tax changes until after the November 2nd elections. President Obama continues to keep his campaign promise of only increasing taxes on couples earning over $250,000 (and singles earning over $200,000 per year). However, if Congress does nothing, almost everyone will see increased taxes — many of the so-called Bush tax cuts from his first term will expire and we will revert back to 2001 tax rates. Here is a short list of tax increases that we would see in that scenario:

- The "marriage penalty" would be back in play.
  - ~ The standard deduction would no longer be double what it is for a single filer.
- The 10% tax bracket would be totally eliminated and combined into the 15% tax bracket.
  - ~ The 25%, 28%, 33% and 35% current tax rates would increase to 28%, 31%, 36%, and 39.6%, respectively.
- The child tax credit would fall from $1,000 to $500.
- The capital gains tax rate on those in the 25% tax bracket and higher would raise from 15% to 20%.

As always, if you have questions regarding your Portfolio or financial planning questions or concerns, be sure to let us know.