



MILNE FINANCIAL PLANNING

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2008-2009 Newsletter

MARKET REPORT – Fall 2008

I have sat many times in the last couple of months contemplating the markets, your portfolios and my *own* portfolio. I have thought not so much what I could have done, but about what I may do differently in the future. I also reread last year's newsletter and the Market Report looks pretty insightful.

MARKET REPORT – Fall 2007 - The stock market was fantastic this year – at least until August. As I write this newsletter, we again hit a new high, but who knows if it will last. I expect we will continue to see a significant amount of volatility.

A few clients have asked if I was concerned about the market decline. Any market decrease concerns me, but this is part of the process. If we look back and realize the gains the markets have made in the last three to four years, a market correction seems likely. What is unknown is how far the market will drop and how long will it last. As my clients know, my investment philosophy focuses on the long-term. Though it is difficult to ignore the shorter-term market fluctuations, this volatility is part of being invested in the market.

Today, though my philosophy remains steady, the volatility and market correction I commented on last year has surpassed all expectations. Market declines of 10%, 15% and even 20% seem possible at any given time, but as of today (mid November 2008), the 12-month market decline is about 50%. Ouch, and double ouch. Obviously such a decline is possible, it has happened before; however, it has never happened in such a short amount of time. I suspect the true value of the market is somewhere between the bottom of this current fall and the highs of early 2007. At this point, sound

investment strategy – buying and holding – has not yet been proven wrong, but is certainly being tested and feels a little scary.

I have had clients share their feelings and emotions about their portfolios. Clients have talked about where the money came from and why it is important to them. These clients share a common feeling; they want to stop the pain, and that means selling now to stop the losses. I understand this pain, but as the advisor, I discuss the longer term benefits of a buy and hold strategy and the disadvantages of selling now, which only locks in the losses. After telling the client to hang in there and that we are doing the right thing by holding tight, the market might close down 4% or more that day – testing my advice again.

Is the worst of the market decline over? It is impossible to tell, though when the market fell to 7,500 it felt like a bottom. I believe increases and decreases do not last forever. I do think we will see \$200 a barrel for oil in the future, but this past summer, the “experts” all but guaranteed \$200 a barrel by the end of 2008 – far different than the current price of less than \$50 a barrel. Markets are volatile and when a market is going up, everyone assumes it will continue forever and when a market is falling, again it is assumed to continue indefinitely. Nothing lasts forever.

MY PORTFOLIO

I personally remain invested in the market and hold many of the same mutual funds and investments as you do. As an advisor I do not have “one” portfolio that I use for everyone. Each client is

different and each portfolio is created at different times. However, the overall investment strategy and beliefs remain constant.

RECENT PORTFOLIO CHANGES:

Though my portfolio strategy and allocation has not changed, we have changed some portfolios:

- A client sold one-half of the portfolio when the Dow was just under 11,000. Today this looks like a brilliant move. This client has yet to reinvest the money.
- A client sold one-half of the stock holdings. This client felt better – we stopped the pain (the losses). However, the market did rebound 900 points the next day.
- A client was scheduled to liquidate their investments (unrelated to the market) in January 2009. We sold the holdings early to avoid any further losses.
- A client has stopped investing retirement contributions. This client is tired of seeing hard-earned money evaporate.

Each client and each case is different. If you have questions, I would be happy to discuss them.

ARE YOU READY TO INVEST?

Are you ready to invest today? I think now is a good time to invest new money. However, I have been reluctant to invest a client's cash reserves in today's market. If this downturn lasts as long as people are saying, cash has never been more important. However, that does not mean that a portfolio can not or should not be reallocated.

I have reallocated a number of portfolios. If a portfolio was originally allocated with a 60% stock allocation, then the current allocation is less than 60% (quite a bit less based on current market values). To bring the allocation back up (or closer) to the original target (60%) we have sold bond holdings and purchased additional stock funds.

WHO AM I WORRIED ABOUT?

Everyone, but that's the easy answer. There is a group of clients (and population) that rise to the top of the "worry" list.

- **Soon-to-Retire** – If you are planning on retiring in the next 12-24 months do not sign on the dotted line until we have reviewed and updated your retirement plan. Each client and each set of circumstances are different, but it is a given that retirement spending projections are not as strong now. The question we need to answer is, "are the projections strong enough for you to retire as planned? The reality is you may need to postpone retirement.
- **Recently Retired** – If you recently retired you may be about to receive a heavy dose of reality. Assuming the market stays at this level for a while, most retired clients will need to reduce spending. Yet, I am hesitant to react too quickly and create a panic by updating the retirement projections each time the market drops to a new low. "Dear Worried Client, yesterday the market hit a new low, I have recalculated your optimal retirement spending (again), please reduce your spending by another \$125 a week as of this correspondence." Obviously, that strategy does not make much sense. However, as we review spending in 2009 with these clients, a reduction in spending will be part of the conversation. The best advice is a dollar not spent today is a dollar that is available to spend in the future. Cutting spending, postponing major purchases and eliminating "I want" items are prudent moves that I recommend to everyone.
- **Off to College** – Clients with children going to college in the next to year or so are a worry. One client has a senior in high school. The money invested for college was allocated with a 25% exposure to the stock market a year ago. The first college bills will be due in August 2009. I am not sure if there is such a thing as good news in today's markets, but the good news is – the 25% stock allocation was a

conservative allocation. The account has lost value, but not a significant amount of money. I am sure other parents have had a greater market exposure for their children's college money. However, with college starting in less than 12 months, as sound as the strategy might be, it has not worked from today's perspective. What do we do now? Do we sell and lock in the loss? Do we use other money (including loans) and delay using the invested money until the 4th year? Yet, this last strategy will create a 100% allocation to stocks as all the other money has been spent while waiting the four years for the market to recover. There is no easy or right answer. In this case, we will delay selling at least for a year.

CASH RESERVES

I have always used a minimum cash reserve of two years of spending for retired clients. Some clients have five years of cash in reserve. The purpose of the cash reserves is to fund the spending needed each month and insulate the portfolio fluctuations from everyday spending needs and worries.

As you contemplate your financial situation and the loss of value, review your cash positions and compare it to your spending to determine how long you can go before you have to sell assets to support spending. The cash reserve provides you the freedom to put off the decision to sell – a nice feeling in a market drop such as this. The real question is at what point do we replenish cash? When there is one year of cash reserve left, or do we wait until there is one week of cash reserve left? If the market is still down as cash reserves are depleted, do we sell bond holdings (effectively increasing the stock allocation) or do we sell bond and stock holdings maintaining the original stock allocation? These are all great questions that we are likely to tackle in the coming year or two.

CLIENT PROFILE – Frugal as a lifestyle?

Two clients caught my attention his year. The first has a large net worth and had not yet done any estate planning – not even a will. To this client – call your estate planning attorney today!!!!

The other client I have continued to think about since our one-time meeting. **Client Background** – Average to below-average pay, money saved and money to invest. The client's goal in life is to live frugally, be socially sustainable and enjoy the environment we live in. Over the 13 years I have been helping clients, I have seen spending needs range from very little, to more than \$300,000 a year. However, I have never seen minimal spending be a lifestyle. Some of the techniques used include:

- Renting – all utilities included (cable and internet). Home ownership is possible and affordable, but this client chooses to rent.
- Living close enough to walk to work.
- Taking advantage of community gardening.
- Enjoying nature – both as a passion and a way to avoid costlier hobbies and entertainment.

None of the techniques listed above are unusual in themselves, but this client has strung a number of frugal living habits together and more importantly, was saving about 40% of the money earned. **The Take Away** – if you think you can not cut spending, you can. However, significant reductions in spending may only be achieved with significant changes in attitude, beliefs and lifestyle. For this person it is a way of life, for most of us, it is unthinkable – but is it so unthinkable? We are a consuming nation – can we continue to be?

GIVING BACK

Giving back is a one way to feel good about yourself and your community. I have been involved with NAPFA (National Association of Personal Financial Advisors) since 1996 and I Chaired the organization in 2004-2005. Since that

time I have served as Vice President of NAPFA's Consumer Education Foundation board. In October, the foundation and our sponsors, TD Ameritrade and Kiplinger's Personal Finance, launched a bus tour (www.yourmoneybus.com). There are 65 scheduled stops around the country. Our mission is financial literacy and our purpose is to answer consumers' questions about debt, savings and personal finance. The bus is making quite a splash as it moves from city to city. We have offered free advice on NBC's Today Show and have been part of Katie Couric's CBS nightly news. More importantly, we have answered thousands of questions for consumers. The bus is currently scheduled in Vermont, May 18th.



The bus & NAPFA Advisors - Manchester, NH



**Jamie answering questions in Harrisburg, PA
GIVING BACK II**

If you know of anyone that needs advice but does not know where to turn, I may be able to help. I am offering to donate my services for employees that have been recently laid off. If you know of someone who has either been laid off, or needs help and cannot afford the help, I would be happy to donate my advice.

CLIENT APPRECIATION DAY

The day before Labor Day marked the second annual Client Appreciation Day, held at Joe's Pond, Vermont. We enjoyed an afternoon of sun, a pontoon-boat ride and a good meal. To show my gratitude for the continued support of my clients and to get to know my clients better, I intend to continue this tradition each summer. Please watch for announcements on next year's event!

PERSONAL

A group of six of us rode in Iowa's RAGBRAI. Since the early 1970's they have been biking across Iowa; this year's registration was limited to 7,500 bicyclists. The experience was incredible – there were bikes everywhere, the organization of the event was mindboggling and biking seven days in a row (53 miles – 83 miles a day) was tougher than I expected. For those who think Iowa is flat, think of never ending rolling hills!

My older daughters are both at the University of Illinois. Caroline is a PhD student doing biofuels/chemical engineering research and Christine is an undergraduate studying environmental science. My youngest, Alex, is a 7th grader at the Stevens School in Peacham, VT.

ADV FORM and PRIVACY STATEMENT

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