



MILNE FINANCIAL PLANNING

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Newsletter – Fall 2009

MARKET REPORT – Fall 2009 OPINION

What can I say that you do not already know? March 9, 2009 the Dow closed at 6,547.05, its lowest point since April 15, 1997. That is 54% lower than closing at its all-time high of 14,164.53 on October 9, 2007. The Dow lost nearly 54%. Ouch! Today, (early November) the Dow has increased about 55% from the March 9th low. This increase is far beyond my expectations. Though for many, it still leaves a significant loss.

Where are we headed? Like always, it is hard to know. There is some belief that the current market increase is a result of the markets falling too far. When our financial system was collapsing a year ago, fear overtook the market and the lows were well below true values.

Can the markets continue to increase? We will soon find out, but it seems likely that our economic recovery will be slow. Overall unemployment is still growing and consumer spending remains below previous levels. To me that makes for a slow recovery.

One of many reasons that I believe in a “buy and hold” strategy is that the market often recovers quickly. This makes it difficult, even if you sold out of the market at the right time (before it fell), to get back in. Generally, by the time you are “comfortable” enough to reinvest your money, the market has often increased a 1,000 points or more.

CLIENTS and MARKET TIMING

During the last year, I had many conversations with clients about selling their portfolio. One client stands out in particular. This client called during the summer of 2008 indicating that he had a feeling our world was headed for a big downturn and he wanted to sell. After a number of conversations about selling and reasons to maintain a buy and hold strategy, the client took my advice and did not sell. In early March 2009, the client called and said “I’m selling all my stock holdings”. Given that I had prevented a sale in the summer of 2008 and that we had covered the dangers of selling a number of times, I placed the trades without discussion. Now, after the market increased about 40%, this client is buying back some of his original holdings. This is a classic case of selling low and buying high.

CLIENTS and MARKET TIMING II – WHAT I LEARNED

As the Dow dropped to 7,000 and below, a number of clients were rightfully questioning my buy and hold strategy – I was questioning my buy and hold strategy. But I became stronger in my belief as I began to realize that I did not know how and when to get clients successfully back into the market.

For example, I discussed with these clients what their reaction would be if I called them up on the day the Dow dropped to 5,000 (it never did) to reinvest their money. I knew these clients would not let me put their money back into the market. I also knew that once the market increased to 9,000

or so (as it did) clients would be willing to invest again.

Though harder to understand when it was happening, it never makes sense to sell low and buy high. Many people seem to feel more comfortable investing when the market is doing well, however you will make more money buying low and waiting.

YOUR MONEY BUS

October 1st kicked off the second year of the *Your Money Bus* tour. The bus provides free financial answers to consumers' questions across the nation. It is sponsored by NAPFA's Consumer Education Foundation, TD Ameritrade, Kiplinger Personal Finance and FiLife. My roll puts me in a position of responsibility to assure we have a successful tour. During our first year, we visited 69 cities; this year we are going to 26 cities. To follow the tour, check us out at www.yourmoneybus.com.



BUY A NEW CAR

My 21 year old daughter (a junior at the University of Illinois) had a 2001 Audi A4 with 150,000 miles. I have never been one to shy away from high mileage cars, but in the last two years we have replaced: three rear wheel bearings, two water pumps, two timing belts, a brake caliper, rear springs (they broke), and a catalytic converter. Needless to say, this financially parent-supported vehicle was trying everyone's patience.

First, I never buy new cars – I believe used cars are a better value. In this case, I was out voted. A new car it would be. I thought that it might be fun to choose a car with my daughter and negotiate the

purchase. Narrowing down the list of possible cars was easier than expected when my daughter declared the VW GTI as the only possible choice. I had thought buying a car would be a learning process; I just did not know I was the student!!!!

Armed with my \$15 Consumer Reports review of the GTI, off we went in search of a new GTI. I was thinking \$500 above dealer invoice would be a fair price, and I might even pay more to transport the car from another dealer if necessary. Our best offer was about \$1,000 over dealer invoice. Since the number was higher than I thought was fair we left and had lunch. It is important to understand that I am poor negotiator, and I had a preference to buy local. During lunch my daughter said, "Dad, this is a lot of money, we need to find out if that's the best price we can get". After a second attempt, the local salesman held firm to his price.

Some additional on-line searching brought us to a dealer in Massachusetts. I called and discovered that yes, they still had the car, yes they would sell it at dealer invoice and yes they would consider selling it below dealer invoice. In about three minutes, I had reduced the cost of the same car by about \$1,500 and about \$800 less than what I was willing to pay.

Hitches to the deal? Only two: first, we had to drive to Tewkesbury twice, once to purchase the car, and again to take delivery with the proper Vermont registration papers; second, the "application" fee was \$299 vs. \$95 for the local dealer. Still, it was clearly worth the effort.



Tips for car buying:

1. Do your homework – there are a number of sites that will tell you the dealer cost of a new car, I like Consumer Report's site.
2. Have a fair price in mind; in my daughter's case I was willing to pay more than we actually paid.
3. Different dealers have different prices.
4. It is possible to buy a car below dealer invoice. The dealer gets what is called a holdback. In the case of the GTI it was about \$500 and we got \$300 of it.
5. When your car is paid off (assuming you had a loan) keep paying that "payment" into a car account. Many people think that once the loan is paid, they have "new found" money. By paying the car payment into the car savings account, you will have money for car repairs (since the car is getting older) and money for a down payment on your next car.

As I mentioned, I am not afraid of buying older, higher mileage cars. But how do you know when enough is enough? That's a question I have a hard time with. This is clear when you learn that I once continued to drive a car after the shock tower broke though the body (after fixing it). Looking back, I would do it again, I loved that car! However, this past summer, my instinct told me to sell the 1999 Jeep with 150,000 miles. Since then, I had some paint work done, replaced the entire rear axle and now the heat does not work – requiring the dash to be disassembled. It also needs tires and a battery – clearly, I have kept this one too long. To make matters worse, the new paint is already bubbling!!

GROWING MY PRACTICE

Like always, if you are happy with the work I do, sharing my name with others is my best source of new clients. My passion for what I do is only part of what I bring to clients, but a recent conversation with an investment advisor working for a bank reminded me that the decisions financial professionals make for clients are not always based on what is best for the client, but what pays the

highest commission to the advisor. If you work with a commission advisor, ask what the advisor's commission will be and if there are alternatives that pay a lower commission.

DO MY VALUES GET IN THE WAY?

A good planner tries to remain neutral in presenting suggestions and recommendations for clients. Even though my recommendations are independent of product commissions, I sometimes notice that my personal beliefs and values can get in the way of helping a client. It is important to consider all possibilities and understand that the client's values are not necessarily the same as mine. Here is an example.

A recent Morningstar article came to my attention, "Retirement's 80% Myth"; the article starts with a response from reader Dr. H, who is replying to a previous article: "Another absurd statement is that you 'need' 80-90% of pre-retirement income to live on. We are living comfortably on less than half of what we used to earn – the biggest budget category decreases, in order, are: taxes, retirement savings and charity."

In many client meetings, I have said a person or couple entering retirement will need 100% of their pre-retirement spending in retirement. This is based on many factors, including having several clients indicate they spend more in retirement than they did before retirement.

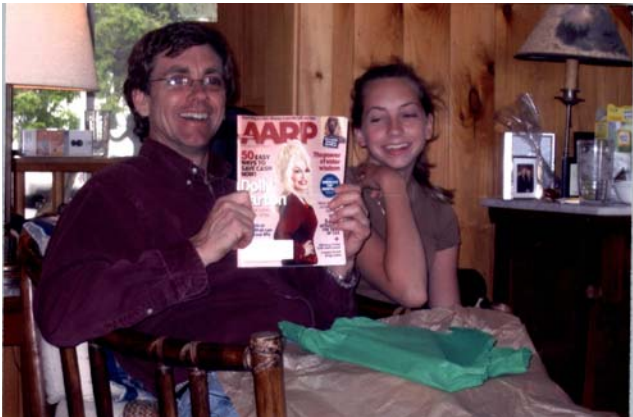
With portfolio values being lower, many client retirement projections are not as strong as they once were and require a lower targeted spending amount. As a result, I have seen a number of new client projections that indicate their maximum retirement spending, though adequate, is significantly lower than their current spending level. For example, one client was spending about \$150,000 a year and the retirement projections indicated a maximum retirement spending of \$90,000 a year; they were comfortable with this lower number. My biased thinking was that they cannot reduce spending that significantly, yet

\$90,000 certainly is enough to live quite comfortably in retirement. Though I might find it difficult to reduce yearly spending by \$60,000, there is no indication that this client could not achieve the lower level of spending.

KNOW YOUR FINANCIAL PLANNER

During a client meeting, I am the one asking all of the questions. These meetings can become quite personal. I will often share personal information, but most of you do not know much about my personal side. For example:

- In May 2009 I celebrated my 50th Birthday – I am now an official member of AARP!



- I have a \$1 million term life insurance policy and a couple of smaller policies. When I recommend a client should increase their life insurance I have committed to providing for my family.
- I have a shared long term care policy with my brother, his wife and my wife Donna.
- My investments have taken the same roller coaster ride as your portfolio has. My investment allocation is slightly more aggressive than many of my client allocations, so the highs and lows are a little more pronounced.
- I have too many cars. You can say I have a hobby, but regardless how you define it there are more cars than needed. But in the end, I enjoy cars.

- I am a runner. About four years ago I decided to track my yearly mileage. The first year, I ran about 550 miles, the next year, about 800 miles. Last year, I ran 900 miles. This year my goal was to run 1,000, but by year end, it will likely be 1,200 or more miles. I discovered I do run more, just because of my goal. Setting a goal and maintaining a log really makes a difference.
- I enjoy road biking, but this year running has reduced my biking. Though I did ride from St. Johnsbury, Vermont to Wells, Maine (145 miles) in one day this summer. To be honest, I started “dying” before I got half way and really struggled for about one-third of the ride. However, I was revitalized with just a little help from:
 - 1 creamy
 - 1 large piece of chocolate Swiss cake
 - 1 20oz NOS (an energy drink – I now highly recommend)
- I continue to volunteer, both as a member of the St. Johnsbury Rotary and with NAPFA (National Association of Personal Financial Advisors) and their foundation (NAPFA Consumer Education Foundation).

MY CHILDREN

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 biology with an environmental science focus. My youngest daughter, Alex, is an 8th grader at the Stevens School in Peacham, VT.

ADV FORM and PRIVACY STATEMENT

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