USA Living Financial Group
1125 Yellowheart Way
Hollywood, FL 33019
954-302-3628
www.usa-living.com

October 2009 Hot Topics

Do You Move Toward or Away from Your Goals?

You may subconsciously be putting your best interest on the back burner. A lot depends on whether you view your goals in a negative or positive light.

In an article by Van K. Tharp, Ph.D, he notes that most self help seminars and presentation are designed primarily for people who move toward their goals. Many people however have a subconscious tendency to "move away" from something rather than "move toward" something.

Mr. Tharp notes that many people have the "move away" instead of the "move toward" mindset when establishing their goals. He goes on to say that people who move toward their goals will find they have a more complete picture of what's important to them. People who move away from things might not be as satisfied with the results because they may have negative values such as avoiding failure or rejection or abandonment.

Move Toward or Move Away Test

Mr. Tharp prepared the following test to help you determine how you view your goals. Before reading further, take a moment to write your answers that come to you first

1. What are three things you look for when buying a car?
   a. ______________________________
   b. ______________________________
   c. ______________________________

2. Why do you want your three most important goals in life?
   a. ______________________________
   b. ______________________________
   c. ______________________________

3. Are you more likely to move toward what you want or away from what you don't want?

   ____

4. If you were to buy a dog, what three qualities would you look for?
   a. ______________________________
   b. ______________________________
   c. ______________________________

Evaluation of Results

To evaluate this test, notice whether your responses tend to be positive or negative. For positive responses put a plus sign next to your answer. For a negative response put a minus sign next to your answer.

The following illustrations will help your decide whether your answer is positive or negative.

For example, for question 1.

- "I want a car that isn't in the shop all the time like my last clunker." This is a negative response. If you response is based on something you don't want then it is negative.
- "I really like the design of the car." This is a positive response because it is forward looking.

For question 2.

- "I want to own my own business so I don't have a stupid boss breathing down my back." This is a negative response because the motivation is to get away from your boss.
- "I want the freedom to work my own hours doing what I want to do and have the potential for unlimited income." This is a move toward goal.

For question 3.

If you answered "move toward" it is a positive response. Put a plus sign next to your response. If you said "move away" put a minus sign next to your response.

For question 4, notice whether you are looking for positive or negative qualities:

- "I want a dog that doesn't shed." This is avoiding something so mark with a minus sign.

- "I want a dog that's really loyal and smart." This is a positive quality so mark your response with a plus sign.

What does it mean?

Add up your plus and minus signs. If you have six or more plus signs, then you tend to be a "move toward" person. If you have six or more minus signs, then you tend to be a "move away from" person. A "move toward" person tends to set clearer, better defined goals. They tend to be forward looking. The generally have a clear picture of what they want and a plan on how to accomplish their goals.

A "move away from" person tends to be backward looking. They tend to move away from want they don't want, rather than toward something they do want. Generally this type of person does not have well defined goals and consequently is not likely to have a plan for the future.

Which type of person you are is not important. What is important is that you recognize and acknowledge your tendencies. By knowing our own weaknesses and strengths, it becomes possible to seek assistance in those areas where we are weak.

This material was written by USA Living Financial Group

Based on an article by Van K. Tharp, PhD called "Do You Move Toward Your Goals or Away from What You Don't Want?" Synergistic Trading, Sep 14, 2009.

Managing Volatility with a Ladder

During the past decade, income focused investors have faced a remarkable period of interest-rate volatility. In the past 10 years ending in 2008, the Federal Reserve adjusted the federal funds target rate, which influences the interest rates that consumers pay and bondholders earn, 41 times[1].

One way to help manage interest-rate risk and cash flow from income focused investment is to construct an investment ladder. This allows the investor to benefit when the rates are high and to help minimize the effect when rates are low. Implementing a ladder investment strategy is easy and can be done with bonds, CDs or annuities.

Step by Step Using Bonds

Bonds, which are debt obligations of the issuer, are issued with maturity dates ranging from a couple of years to 30 years or more. Interest payments are generally every six months with the face value of the bond due at maturity. The interest rate paid by bonds is established when the bond is issued. If interest rates later rise, the issuer will pay a below market interest rate. Conversely, if interest rates fall, the issuer is straddled with paying an above market rate interest rate.

Federal Funds Target Rate

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009*
Direction of adjustments	↑	↑	↓	↓	↓	↑	↑	↑	↓	↓	?
Number of Adjustments	4	3	8	2	2	4	7	4	2	4	1
Rate on last day of year	5.5%	6.5%	2.0%	1.25%	1.0%	2.0%	4.0%	5.25%	4.5%	1.0%	.25%

* 2009 Target Rate has varied between 0% - 0.25% through September 2009

Although the interest paid by the issuer will remain constant, the principal value of a bond may fluctuate with market conditions. Bonds redeemed prior to maturity may be worth more or less than their original cost. Investors seeking to achieve higher yields may also face a higher degree of risk. The interest earned may also be taxable at both the state and federal level.

To set up a six-year bond ladder, you would purchase five different bonds with maturity dates of two, three, four, five and six years, respectively. If these are new issue bonds, you will earn an interest rate close to the prevailing market rate. When the first bond matures after two years, you purchase a new six-year bond to keep the ladder intact. Each year when the bond matures, you simply purchase a new six year bond. If interest rates have risen, you benefit from having cash available to invest in a new bond at the higher rate. If interest rates have fallen, only a portion of the portfolio is subject to the lower rate.

An alternative to buying individual bonds is to invest in a bond mutual fund or ETF. Interest is paid monthly

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1 A complete history of the specific change dates and rates for the Fed Funds Target Rate are found on the Federal Reserve website at http://www.federalreserve.gov/fomc/fundsrate.htm

instead of semi-annually and you don't have to worry about reinvestment interest rates.

Using Annuities

Annuities come is many flavors ranging from simple savings annuities to complex variable annuities. The ones we are interested in for an annuity ladder are the short term, no fee and no commission savings annuity[2]. This type of annuity is available from several insurance companies. They can be purchased for various time periods ranging from two to ten years or more and generally have a minimum investment amount with $20,000 to $50,000 being common. These annuities offer a fixed rate of return for a fixed period and the purchaser has no market risk.

For example, in mid September 2009, a simple $100,000 2-year saving annuity contract can be purchased earning 1.75%. A $100,000 5-year saving annuity will earn 3.65%. You can buy this directly from the company with no fees, no commission or salesperson involved. You simply give them a check for $100,000 and in two years they give you back a check for about $103,560. The 5-year annuity would earn about $20,000. Unlike bonds and CDs, the tax on the interest earned on an annuity is deferred.

Constructing an annuity ladder is similar to that of a bond ladder, but you may be limited to the term lengths offered by a single company. For example, some companies offer 2, 5 and 10 year saving annuities. Others offer may offer 3, 5, 7 and 10 year terms.

The interest rate paid on an annuity contract is also influenced by the Federal Funds Target Rate. Like bonds, you will want to keep the ladder short with five to six years probably being the limit. To construct a two-year annuity ladder, purchase a two-year annuity this year and one year later purchase another two-year annuity. When the first one comes due, you may be able to do a 1031 exchange into another two-year annuity which may be paying a higher rate of guaranteed return. The 1031 exchange will allow you to defer the tax on the interest earned.

If a company allows for a three-year annuity contract, the ladder is constructed over a three year period. Or you could build a five year ladder by buying a five-year contract every year for five years. The longer the ladder the more stability the annuity ladder will offer but may subject you to interest rate risk.

Using CDs

Constructing a CD ladder is very similar to the bond and annuity ladder but with more choices. Term lengths on CDs range from three months to five years. In mid-September 2009, the highest rate available on a one-year CD is 2.15% APY.

To construct the CD ladder, buy five separate CDs with maturity dates of 1, 2, 3, 4 and 5 years. As the first one matures reinvest in a new five-year CD. Unlike annuities, you will pay the tax on the interest earned each year even if the money earned will not be received until the CD matures.

With CDs it pays to shop around. You may purchase the CD from practically any bank located anywhere within the USA. Interest rates vary widely between banks with a high today of 2.15% APY down to a low of 1.25% APY. You can find current rates on www.bankrate.com. It may also pay to call the bank directly to request quotes or check the bank's Web site.

There is no trick to CD laddering. Only due diligence is required in order to minimize risks. You may pay a surrender charge if you cash in a CD before its maturity.

Income investing using a ladder strategy can help provide stability during periods of interest-rate volatility. Remember to read all the fine print before purchasing.

Where to Use a Ladder

All three ladders will create taxable income so it would be wise to consider which investment vehicle: a Traditional IRA, Roth IRA or Saving Account would be the most appropriate. The Roth IRA would by far be the best location because all income is receive tax free after you reach 59 ½. It would not make sense to place an annuity ladder in a Traditional IRA. An IRA already has deferred tax status. It's a duplication of effort. Both the bond and CD ladder would fit nicely in any of the three investment vehicles.

This material was written by USA Living Financial Group

[2] Surrender charges will apply for withdraws prior to end of contract.

Leaving Memories, Not a Mess

Over the next 50 years, an estimated $45 trillion is expected to pass through estates to heirs and charities, the largest transfer of wealth in history.[3] That alone justifies the importance of having estate documents in place, such as a will, powers of attorney for health care and finances, and possibly trusts.

However, there is another document that can help your heirs understand and carry out your wishes during a difficult time: a letter of instructions. Although it is not a legal document, a letter of instructions enables you to clearly describe your preferences for a variety of issues, such as organ donations, memorial/funeral arrangements, and other details that are not specified in a will or a trust.

The letter can also describe where important financial documents are located; provide the names of financial advisors, attorneys, insurance agents, and accountants; and name people to contact in the event of your death.

POSSIBLE ITEMS TO INCLUDE IN A LETTER OF INSTRUCTIONS:

- Location of a will and other important legal documents: birth certificate, marriage and/or divorce papers, Social Security and Medicare cards, deeds to real property
- Insurance coverage: companies, policy numbers, levels of coverage
- Employee benefits: type/amount of benefit, beneficiaries, employer contact information
- Bank account and financial paperwork: account numbers, safe-deposit box location, tax returns, trusts
- Financial logins and passwords for bills, investments, banking services
- A list of creditors and the location of bills

Once you have written your letter of instructions, take the time to review and update it regularly. Many items in the letter may be subject to change, so you might want to update it on a semi-annual or annual basis. Store your letter in an accessible location known to your family and address it to your spouse, a family member, or a close friend.

Although your will addresses many important legal matters, it may not be the most appropriate place for your personal requests. Writing a letter of instructions can help ensure that your final wishes are fulfilled and may help your family manage your estate.

This material was written and prepared by Emerald Publications.

[3] San Francisco Chronicle, November 25, 2007

A Long Look at the National Debt

Short-Term Deficits Pale in Comparison to Unfunded Liabilities on the Horizon

Dwindling U.S. economic activity and accelerating government spending resulted in a record $455 billion federal budget deficit for fiscal year 2008. During the same trying period, the total national debt increased to about $10 trillion, and the forecast for 2009 was for an even larger deficit and more government borrowing.[4]

As the numbers continue to escalate, how can we put the magnitude of the current national debt in perspective? Are there risks involved when government pushes the payment of its obligations into the future? And could it be that government action to reform entitlements such as Social Security and Medicare is all but imminent?

It's All Relative

To better comprehend the size and scope of the national debt, it helps to measure it against the size of the overall economy. At $10 trillion in 2008, the national debt represented 69.5% of gross domestic product, which is only slightly higher than the previous high point in 1996, when it reached 67.3% of GDP. Yet consider how U.S. government debt compares to that of other nations. Italy's debt-to-GDP ratio was nearly 120% in 2007, and Japan's was over 170%.[5]

What's the Risk?

Economists have long debated whether short-term deficits increase competition for loan able funds and put upward pressure on interest rates, and a significant amount of research has tested this theory. Among 66 studies on how budget deficits affect interest rates, half found they do have significant effects and half found mixed or insignificant effects.[6]

[4] U.S. Department of the Treasury, 2008
[5] Federal Reserve Bank of St. Louis, 2009
[6] Federal Reserve Bank of St. Louis, 2009

The primary and less debatable risk is that long-run structural deficits and the accompanying debt levels could one day lead to a crisis of confidence among both foreign and domestic U.S. creditors.

Who Owns Our Debt?

Foreign holders of U.S. Treasury securities

China	$587.0 billion
Japan	$573.2 billion
United Kingdom	$338.3 billion
Caribbean banking centers*	$185.3 billion
Oil exporters**	$182.1 billion
Brazil	$141.9 billion
All other nations	$852.9 billion

*Caribbean banking centers include Bahamas, Bermuda, Cayman Islands, Netherlands Antilles, Panama, and British Virgin Islands.

**Oil exporters include Ecuador, Venezuela, Indonesia, Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, the United Arab Emirates, Algeria, Gabon, Libya, and Nigeria.

Source: Federal Reserve Bank of St. Louis, 2009 (data as of September 2008)

Paying for Promises

As our society ages, demographic changes will begin to drain Social Security trust funds beginning in 2016 and health-care costs for older Americans are expected to grow significantly.[7] Over the next 75 years, the government estimates that the present value of future expenditures on Social Security in excess of future revenue is more than $6.5 trillion, while that of Medicare is $36 trillion. This amounts to more than $42 trillion in unfunded liabilities for these two programs alone.[8]

Under current law, the federal debt held by the public would reach 170% of GDP by 2040 and far surpass the post–World War II historic high of 109% of GDP. By 2080, the total government cost would be more than three times its annual revenue.[9]

As future budgets are proposed, it's not likely that government leaders can continue to ignore the unfunded liabilities that threaten to increase the debt burden to unsustainable levels over the coming decades. It's likely that younger and higher-income Americans will eventually pay the price for program reforms by way of higher taxes and/or a reduction in future benefits.

[7] Social Security Administration, 2009
[8] U.S. Department of the Treasury, 2008
[9] U.S. Department of the Treasury, 2008

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