Let's Talk Money®

Compliments of... Peter J. Anderson

UNDERSTANDING THE MANY FACES OF RISK

IF YOU OWN MUTUAL FUNDS OR INVEST IN THEM THROUGH YOUR COMPANY 401(K) PLAN, YOU HAVE PROBABLY READ WARNINGS TELLING YOU TO CONSIDER YOUR GOALS, TIME HORIZON AND RISK TOLERANCE BEFORE MAKING ANY INVESTMENT. THE LAST FACTOR – RISK – IS ACTUALLY MANY FACTORS. HERE IS A LOOK AT THE DIFFERENT TYPES OF RISK TO CONSIDER WHEN YOU OWN INVESTMENTS.

MARKET RISK – Owning only stocks and watching the stock market take a tumble is not a recipe for building up your investments. True, time may help even the fluctuations of the stock market, but your best bet is to make sure that you allocate your investment dollars across asset classes: stocks, bonds and cash instruments. (Past performance does not guarantee future results.) These markets don't necessarily perform in lockstep with each other.

SECURITY RISK – This occurs when you are concentrated in a very few securities, such as your company's stock or a below-investment-grade bond fund. Diversifying among different securities is as important as asset allocation.

INTEREST RATE RISK – Changing interest rates usually affect the performance of bond funds. Bond prices decrease when interest rates increase, meaning that a mutual fund manager would have to sell older bonds at a discount because newly issued bonds are offering the current, higher interest yield. When investing in fixed income instruments, it may be appropriate to spread your risk across a spectrum of maturities. Shorter fixed income instruments, for instance, are able to adapt more quickly to changing interest rates.

INFLATION RISK – This one is simple: if your investments return less than the annual rate of inflation, you will lose purchasing power. This is one reason why even guaranteed investments, such as U.S. Treasury notes, may present some risk.

GEOPOLITICAL RISK – If you own international investments, political unrest and financial uncertainties in other countries will affect investments that focus on these countries.

Mutual funds involve risk and are offered by prospectus only, which you should read carefully before investing. Because fund values fluctuate, redeemed shares may be worth more or less than their original value. Consider investment objectives, risks, charges and expenses prior to investing. The prospectus, available from your registered representative, will include this and other information.

Asset allocation won't guarantee a profit or ensure that you don't have a loss, but may help reduce volatility in your portfolio. Diversification cannot eliminate the risk of investment losses.

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"Life's not about expecting, hoping and wishing. It's about doing, being and becoming. It's about the choices you've just made, and the ones you're about to make. It's about the things you choose to say - today. It's about what you're going to do after you finish reading this." Mike Dooley

I am committed to helping my clients achieve their financial goals for themselves, their families and their businesses.

Principal Financial Group

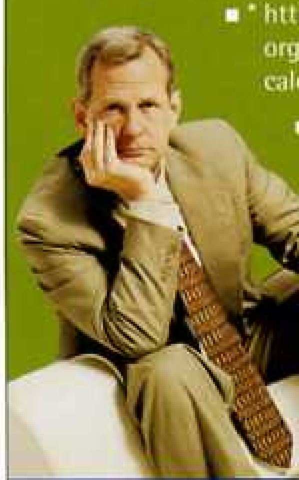
HOW INFLATION AND THE CPI AFFECT YOUR POCKETBOOK

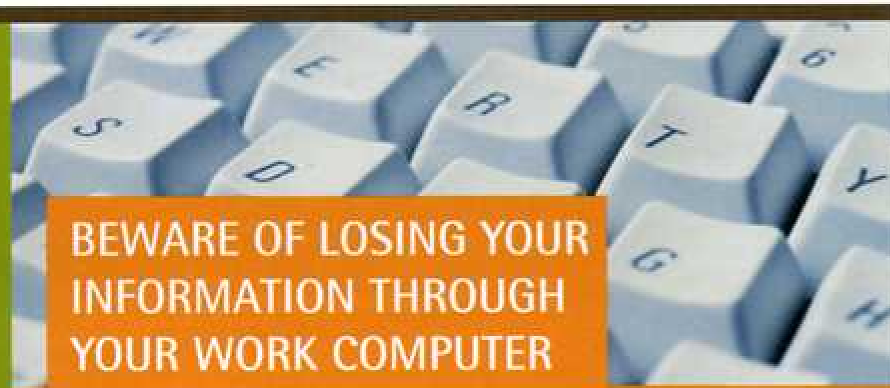
After years of little inflation, the last two years brought a slightly bigger increase* than in recent years, according to the Federal Reserve Bank of Minneapolis. Yet you might be confused by different figures. The government issues the official rate of inflation increase each month based on the Consumer Price Index (CPI), which measures the cost of what is supposed to be a typical basket of goods and services.

The CPI is actually a variety of indexes, although the most cited is the CPI-U, which measures prices for urban consumers, who comprise the vast majority of the country. The problem with the CPI-U is that it may not reflect your own inflation. For example, the CPI uses rents for housing costs, not the mortgages, insurance and upkeep the majority of the country has. Another CPI index that can prompt interest rate increases omits energy and food prices, which for many can make up a large portion of their expenses. However you look at it, the CPI measures inflation: the increase in prices from one year to the next.

So what does the CPI and inflation mean to you, when you have an idea of your personal rate of inflation? Very little, unless you receive Social Security or belong to a union. Social Security and many unions' cost of living increases are pegged to the CPI.

- * http://www.minneapolisfed.org/research/data/us/calc/hist1913.cfm
- *Consumer Price Index 1913-; 3/07*





BEWARE OF LOSING YOUR INFORMATION THROUGH YOUR WORK COMPUTER

Do you pay your bills online while at work? If you do you might have a couple of reasons to worry. First, many companies forbid personal use of computers and may even fire employees if they are caught. Second, and just as serious, your personal financial information can be retrieved by co-workers or outside hackers, who may not have the best intentions for your personal data.

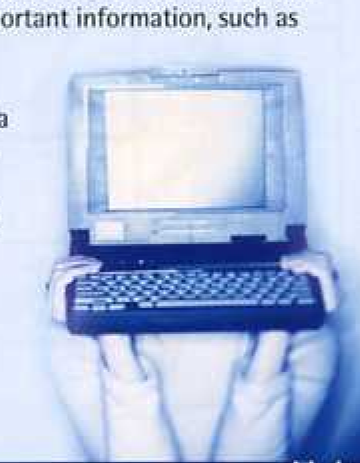
Deleting files actually doesn't delete the content, just the file names from the index. The files may be harder to find, but they still exist somewhere on your computer disk drive. Additionally, temporary or backup files identified by name in the index may still be around. Even if you were to use a program to overwrite these files, which is the only way to erase them, bigger companies may keep copies of all files and emails on their servers.

The solution? Do your personal chores at home, where you won't put your job in jeopardy. But take the same precautions to erase these files and prevent hackers from getting your financial information.

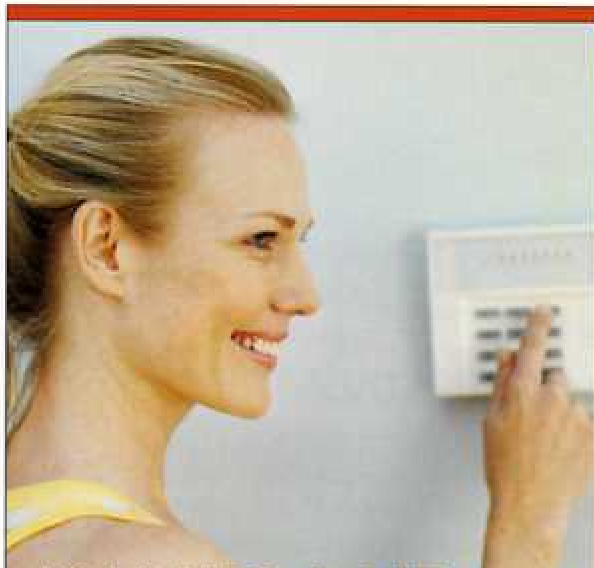
Keep an eye on your electronic bill paying

For many Americans, automatic electronic bill-paying has replaced the traditional stamp and envelope method of paying bills. This new bill-paying way has many advantages. Automatic means you won't forget to send out a payment on time and it saves you time and money, with no stamps or envelopes required.

However, potential mistakes can accompany this ease of use – mistakes that can cost you money if you're not vigilant. What could happen? Companies can accidentally double-charge your account. Unauthorized debits can occur. Forgetting to change important information, such as a new address after moving, could result in late or non-existent payment to your creditors. Or you may have forgotten that a debit would occur, for example, when you order a magazine subscription and your renewal payment is automatically debited, whether you wanted to renew or not.



That's why it's important to regularly monitor your electronic bill-paying, whether you do it through a bill-paying service or through your bank.



KEEPING A LID ON UTILITY COSTS

The costs of utilities increase, just like the cost of most things in life. When you add up phone services, electricity, gas, water, air conditioning and heating costs, they can comprise a large part of your monthly bills. Here are a few ways to get your utility costs under control.

PHONE SERVICE

Today, many young adults are doing without a land-line phone entirely, preferring to do all their calling on a cell phone. But if you still prefer the traditional land line, match your package to your calling habits. Getting unlimited long distance or international calls at an additional price may not make sense if you rarely make a call outside your calling area.

ELECTRICITY

Electricity can be costly, especially if you heat or cool your house with it. Consider buying only the most energy-efficient appliances possible. The savings can add up big over time. Also consider changing habits, such as running the air conditioner when you aren't home or keeping the empty second refrigerator in the garage turned on.

CLIMATE CONTROL

Whether you cool or heat your house by electricity or gas, try not to heat the entire neighborhood. Keep shades up in the winter to let the sun in and shut them in the summer to keep the heat out. Caulk leaky windows or buy storm windows. Ask your utility provider if it conducts energy audits of homes.

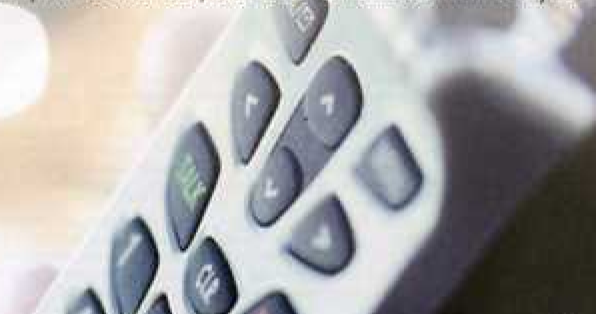
WATCH FOR WAYS TO MINIMIZE YOUR CELL PHONE BILL

If you're like most Americans, you know the drill now. Pick a plan and depending on how much you pay per month, you'll get so many minutes of free cell phone airtime during peak hours – usually before 7 or 9 p.m. on weekdays, and a large amount of weekend and off-peak hours free.

Picking the right plan by estimating your correct usage can save you money. Buy too much time and you'll pay for time you don't use. Buy too little time and you'll pay a higher per-minute charge on the overage. However, cell phone time is only one of the components of your cell phone bill. A host of newer services can add up to big money if you don't watch out.

- **TEXT MESSAGING** – Some plans allow a minimum amount of text messaging per month; others charge per message either over a certain limit or for all messages.
- **RING TONES** – They're cool and can make your cell phone ring stand out. They can also make your cell phone bill stand out if they're changed frequently, because many of these ring tones cost extra. Make sure you determine what's free and what's not from your cell phone provider.
- **MUSIC DOWNLOADS** – If an iPod or portable CD player isn't enough to amuse your children, music downloads on their cell phones might. Again, there is a charge for every song downloaded.
- **INTERNET ACCESS** – Cell phones are becoming more multi-functional all the time, and most now let you access the web. Of course, there is a price attached to that, too.
- **GAMES** – Yes, you can even download what passes as a video game for your cell phone, but the prices for these downloads can be hefty.

You needn't be at the mercy of add-on services with your cell phone provider. Some providers allow you to block downloads. But the best way to keep cell phone costs in check is to lay some rules down before handing the cell phone over to your children and to monitor your bills.



SHIFTING STRATEGIES AS YOU NEAR RETIREMENT

WHEN WE RETIRE, IT IS NATURAL TO CHANGE OUR INVESTMENT PORTFOLIOS' ASSET ALLOCATION IN AN ATTEMPT TO PRESERVE WHAT WE HAVE SAVED. YET, LONGER LIFE EXPECTANCIES AND RISING HEALTHCARE COSTS SUGGEST THAT WE MAY NEED TO KEEP GENERATING INCOME ONCE RETIRED.

Consider the life expectancy at birth of Americans in 2004: 80.4 years for women and 75.2 years for men. This is an average increase of almost six years since 1970. And the U.S. National Center for Health Statistics estimates that the average life expectancy in 2015 will be 76.2 years for men and 82.2 years for women.* These trends suggest that many people will live a third of their life in retirement, meaning that we must find a way to not only preserve retirement assets, but also generate some income.

Fixed annuities

If you're looking for guarantees, you might also consider purchasing an immediate fixed annuity with some of your retirement assets. It's immediate, because payments will begin almost immediately and it's fixed, because your payments remain the same. This is different than a variable annuity, which doesn't guarantee a rate of return. You can choose a term that lasts for a fixed number of years or for as long as you and your spouse live.

Invest for income and growth

After working a lifetime to build up a retirement accumulation, you'll naturally want to preserve the gains and contributions you've made. Although there are no guarantees, investing in bond mutual funds and money market mutual funds may help you preserve what you already have while earning a modest return. Most retirement experts agree that you should invest more conservatively as you near or reach retirement.

Investing in bond mutual funds or money market mutual funds may help you reduce your investment portfolio's overall volatility, but will it keep pace with inflation? Along with longer lives and higher expenses, inflation can eat away at your retirement dollars. One strategy to consider is to allocate a portion of your assets in investments such as stock mutual funds, as determined by your need for income and your risk tolerance profile.

Consider how much of your retirement assets you could live without for ten years. If you can afford to put aside whatever amount of money this is, you give your equity investments the chance they need to ride out natural ups and downs. Over the long haul, equities typically outperform most other types of investments, although past performance doesn't guarantee future results.

You have many choices to make about money before you retire, and those choices will continue into retirement. Reevaluate your income and expenses and create a matching strategy to help generate and preserve the income you'll need.

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Asset allocation won't guarantee a profit or ensure that you don't have a loss, but may help reduce volatility in your portfolio. Diversification cannot eliminate the risk of investment losses.

Annuities are long-term financial products. Generally, annuity policies have limitations and a charge for early withdrawals. Guarantees are based upon the claims-paying ability of the insurer.

* U.S. Census Bureau Statistical Abstract of the United States: 2007, Table 98

We Value Your Input...

Your feedback is very important to us. If you have any questions about any of the subjects covered here, or suggestions for future issues, please don't hesitate to call. You'll find our number on the front of this newsletter. It's always a pleasure to hear from you.