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Capstone Investment

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A NEW AGE OF RETIREMENT

Times

Investors need to recognize some myths

The financial meltdown has resulted in people learning the new phrase “I don’t open the envelopes anymore.” This is not an adequate financial plan!! You still need to have a financial plan and an investment plan in order to move forward. It is easy to understand what you have gone through is paralyzing, but paralysis is not an adequate response.

I would like to concentrate on the differences between reality and the myths that have been pervasive amongst advisors and investors for the past ten to twenty years. These are the takeaways that you need to move forward from here.

Myth #1- Buy and Hold is always the strategy and now is always the time.

Investment management companies are in the business of selling investments. They look for charts, facts,

and narratives that will convince you to buy investments. So, you need to understand what the truth is- if you buy investments when they are relatively cheap you will likely do very well over the long term. When you buy items at high prices, you will likely not do very well over the long term. This applies to all assets-real estate, stocks, US Treasuries, etc. This means you must conquer fear and greed. Those who are driven by these two emotions will not win over the long haul.

Myth #1-A Low cost index funds are the way to go.

The reason this is a myth is above. If you buy an index fund in a bull market, you will likely outperform most others with a low cost structure.

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Did you know?

Big Month - The total capitalization of the US Stock Market increased by \$700 billion during the month of March to \$9.4 Trillion (source: Wilshire).

Pretty Old - The Dow Jones Index turns 113 years old this month, the original index used 12 stocks in May of 1886. The index expanded to represent 30 stocks in October of 1928 only a year before the stock market crash of 1929 (Source: Dow Jones).

Huh? - It cost 9 cents for the US Mint to make a nickel (Source: Pennies.org)

Debt Free - More than twice as many households own their home “free and clear” of debt (25 million) compared to the number of households (10 million) where the outstanding mortgage debt exceeds the market value of the home. (source: American Housing Study, Money Magazine).

Coming Soon? - The 2010 mid-term elections are less than 18 month away. All 435 members of the House of Representatives and 34 of the 100 US Senators will be up for re-election on November 2, 2010 (source: Senate).



Myths

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If you buy an index fund when the underlying index is over-priced, you are likely to be making a large mistake. Bear markets require active management to control risk and deliver returns through skilled based investing.

Myth # 2- Investing in Style Boxes makes sense

If you work with an advisor, it is fairly likely that you have organized your investments in 9 style boxes. There are two plains to produce the nine categories: the first is small, medium, and large companies; the second is value, blend, and growth companies. The prescription is to invest in many of these 9 areas (e.g. small growth, large blend, etc.) in order to “diversify” your portfolio. This whole myth (driven by marketing companies) is akin to the idea that having 9 flavors of ice cream will give you a balanced meal. Studies have shown this entire method offers little diversification and reduces your results by as much as 3% per year. This myth will not die easily, as its death makes thousands of mutual funds irrelevant and unnecessary. You really need to diversify by adding other types of asset classes (e.g. real assets) and also adding other types of strategies to your portfolio.

Myth#3 Your mutual fund company puts your needs first

A mutual fund is a cooperative venture in which you are the shareholder. So, it makes sense that you are the primary focus of their efforts. Unfortunately, the belief that your long term best interests are at the heart of all mutual fund companies behavior is not born out by the facts. Many operate as marketing companies whose primary goal is to gather assets under management,

whether or not that is in your best interest. So, they manage their own risk first and concentrate on relative returns rather than putting your needs first. The manager’s goal is to beat a benchmark (an unmanaged index against which the manager is compared) over a specified time period rather than to return you the best absolute returns while managing your risk. Also, there has been scant evidence of funds reducing costs as assets grow in order to improve your return.

In order to craft a plan for yourself, you must challenge conventional beliefs and discard much of what you have assumed to be true. The opportunities to do well abound and there are excellent partners for you to choose from as you move forward to try to accomplish your financial goals. You just need to realize what your goals are and make sure the partners you choose are aligned with your goals.

Assemble the Family to Make Long-Term Care Decisions ?

Nursing homes and long-term illness aren't happy subjects, and that's why people typically avoid thinking about them until a sudden emergency occurs or someone mentions long-term care insurance.

Very seldom do families sit down and discuss how financially prepared they are for a long-term illness or permanent disability, or more important, how each individual wants his or her care handled by various family members. Yet many different scenarios merit such a discussion. Capstone Investment encourages you to have a family meeting on this subject if you find yourself in any of these situations:

- Your elderly parents have never told you about their finances or expressed their wishes on this subject.
- You or a person close to you have older or younger relatives with a chronic condition that may lead to a permanent disability later on.
- You are a single person living alone or with others, and you do not have a plan for care later in life.

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On To Your Next Career, Again!

We had this information in the last newsletter, but with the recent economic downturn the timing seemed right to leave these handy resources here.

These websites have put together some good references and job opportunities with senior friendly employers. Including www.seniors4hire.com and www.retireeworkforce.com which help seniors find an employer who is eager to hire the experience the older worker can provide.

“What is the next move?”

Two other helpful job search sites are www.workforce50.com and www.retiredbrains.com; they certify that the employers on their websites are looking for seniors to employ. The positions can range from the retail worker to higher level management openings, with tens of thousands of openings combined.

The internet has opened up tools to help the restylement minded senior keep active, get motivated and move on to the next stage of their lives.



Long Term Care

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A family meeting at the kitchen table is a good start. It may also be a good idea to bring your questions to our office. Capstone Investment can help you put the family and the financial pieces of the puzzle together. Here are some items we suggest to discuss:

Start with the basics. Families and / or trusted friends need to know where important papers are including information protected with a password on a computer. They will need to know how household expenses are paid, who doctors and specialists are, what medicines are being taken, and whether there's a Will, an advanced medical directive, and a funeral plan (and money or insurance proceeds to pay for it). There may be dozens more issues to explore based on your personal circumstances. We encourage you to create a list to answer the question: "What do we need to know if Mom or Dad suddenly becomes ill?"

The average private room in a nursing home today costs \$88,000 per year in New York City and \$44,000 in New Orleans. Prices differ all across the country. Surprisingly, home-based care is just about as expensive as nursing home care and requires considerable coordination based on the individual's condition. Consider long-term care insurance or other options if you are financially unprepared to handle long term health expenses.

With managed care today, the majority is "at home" and considered "custodial." These are all out-of-pocket costs for you or your loved one unless they are covered by adequate long-term care insurance. How prepared are you to shoulder these costs? Does it make sense to allocate assets toward these potential expenses or buy long-term care insurance? And if the discussion leans toward insurance, what type of policy should be bought?

There are very few people who would opt for nursing home care over home-based care if they had a choice. Long-term care insurance can certainly cover home-based care, but it's very important to get the broadest quality of coverage that you can afford so bases are covered if more expensive and intensive care services are needed. Also, which family and friends will participate in decision making and delivery of care? Who will help and when, and will there be an option for respite care for primary caregivers who get exhausted? Finally, all family members need to know and understand every one's "What if?" scenarios.

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CAPSTONE

investment financial group, inc

615 N. Nevada Ave.
Colorado Springs, CO 80903

ted@capstoneinvest.com
Phone (719) 477-9883
Toll Free (888) 571-3713

5555 DTC Parkway
Suite D2002
Greenwood Village, CO 80111

tim@capstoneinvest.com
Phone (720) 842-1249

Housing Debt Woes for Seniors!

Mortgage payments in retirement have become a huge burden for many seniors. The Associated Press securitized the 2007 Census Data from 2007 and found of the seniors that have mortgages around 3 in 10 seniors pay more than 38% of their household in mortgage payments.

If you own a home and are paying more than 38% in Pretax income on household expenses you may qualify for help with loans from Fannie Mae and Freddie Mac, check with them or a mortgage broker that works with them.

Seniors may be worse off than most, though some regions have been hit harder than others, seniors are often on a fixed income. Often times they have to choose between medical needs and meeting their housing and living expenses.

Some cities and towns are trying to help seniors with payment assistance. The municipalities are allowing their citizens to defer payments for property taxes. Minnesota, Oregon and Washington are participating, so check with your local or state government and see if they are offering any assistance.

While you're at it check with your municipality on the appraised value of your house for property tax purposes and see if your home value has dropped significantly. If so you might consider challenging the assessment, it may save you some green in the long run. But be prepared challenging an assessment is a lot of work.

Long Term Care

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All adults should not only have a will, but should designate a health power of attorney—a particular individual or individuals to make health care decisions for them if they are incapacitated. Depending on your assets and estate, such documents can be written in accordance with other estate directives to designate how assets may be used in the payment of care as well as the ongoing operation of a household or support of children.

When a friend or family member becomes seriously ill, people can sometimes panic, forget things, or take action reflexively outside their role. It would be worthless to spend all this time conferring on a plan without writing it down with specific assignments and sources of money to pay for various needs. Take the time to draft a document to keep on file for distribution in case of emergency. That way, everyone will know what to do when it's time.

“...Flowing water never stagnates and a busy door with active hinges never rusts or rots. Why? Because they exercise themselves perpetually and are almost always moving.”

Sun Ssu-mo

