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**Special points of interest:**

- Markets closed-Veteran's Day (11/11), Thanksgiving (11/26) and Christmas.
- Enclosed is our annual Form ADV offer as required by the SEC. Please let us know if you would like a copy and we will be happy to mail you our most recent filing.

## Value Investing

As I'm sure you are aware, the markets continued to bounce back from the unduly low levels reached in March 09 and closed up 15% for the quarter ending September 30. I've said to many of you that I continue to believe that the market got ahead of itself in 2008 and overreacted on the downside when it corrected, *particularly* during this March's historic low. While the third quarter 2009 continued the healing trend that began in the second quarter, I have believed during this current quarter that things have become a bit stretched—good but stretched.

Whether it be individual company earnings or the aggregated earnings of the 500 S&P companies, individual stocks and markets are priced off of some multiple of actual or future earnings (i.e. "Price/Earnings or P/E"). Over the long-term just as there has been an upward gradual slope to US corporate earnings, so too has there been an upward long-term slope to stock prices. Think of this upward stock trend as a tautly stretched line—not one made of steel cable, but rather one of an elastic material that can be pulled away from its steady state upward slope. The line is elastic because the markets are a reflection of human emotion, not merely a mathematical fixed relationship between earnings and price. When human expectations, fear, and greed are factored in the price earnings multiple can expand and contract—the elastic line can be pulled above or below the long-term trend line. The price/earnings ratio can become more or less than a fixed

ratio mathematical model. Sometimes one plus one equals two, but more often than not in the financial markets one plus one equals three or four, or sometimes only 1/2. It all depends on how we collectively feel about things in general and earnings prospects in particular.



While the rubber band of P/E ratios can be stretched higher or lower as we emotionally vacillate between pessimism and optimism, it will only stretch so far before too much stress is induced and the band snaps back towards its steady state. As you can no doubt see in your mind's eye, as an over-stretched band is released its first move will bring it to a nearly equally opposite position (if we stretch a rubber band up two inches and let go, it will first snap downwards by about 4 inches) and it will then move up and down in increasingly smaller amounts until it stops and returns to a straight line. If you can see that picture in your mind you can now "see" stock market movements over time. If we turn that picture into a graph, you now have a graph of the S&P 500, Dow 30 or any individual stock over time.

*Continued on page 3*

## Third Quarter 2009 Market Wrap

<u>Market Indexes</u>	<u>% Change in Q3</u>
S&P 500	+15%
DJIA	+15%
NASDAQ Comp	+15.7%
MSCI EAFE	+18.8%
Russell 2000	+18.9%

<u>Mutual Fund Yardsticks</u>	<u>% Change in Q3</u>
Equity Income	+14.9%
Large Cap Growth	+14.1%
Balanced	+11.9%
Gen US Taxable	+6.0%
Intermediate Bond	+5.9%



## Longevity Planning

We used to speak of Retirement Planning as a fixed point goal. Conversations usually began with a date (“I would like to retire at age 62”) and included a spending amount (“I would like to spend \$100,000 per year”). The great recession has changed this conversation. In a recent study by the Pew Research Center fully half of all working adults aged 50-64 say that they may delay retirement and another 16% say that they never expect to stop working. Many people are fearful that the retirement that they have worked so hard for is unattainable. While our clients have fared better than most, this recession has taken its toll on all investors.

The first step in dealing with this new reality is to evaluate where you are. The markets have come back substantially off the lows of March 09. Let us help you analyze how your portfolios are doing and how this fits into your overall plan.

Next, consider a *range of outcomes* instead of a single point for retirement. I would suggest, for example, that you consider your ideal goals but also identify “acceptable goals”. Retirement at age 60 may be ideal, but age 63, 65 or 67 may be acceptable options. You might wish to maintain your current lifestyle in retirement, but may find that a smaller, less expensive home

(perhaps in a more affordable state) is acceptable. The key here is focusing on what you can do, not what your limitations are.

Another longevity option might be a different career. If job burn-out is an issue, perhaps a career that you enjoy more can form an economic bridge. What are your hobbies, your interests, your talents? This is an opportunity to retrain and to think about what you really want to do. Check out websites such as [www.RetirementJobs.com](http://www.RetirementJobs.com), [www.retiredbrains.com](http://www.retiredbrains.com) or [www.aarp.Org](http://www.aarp.Org) to get some ideas. Alternatively, you might consider working part-time to



bridge the gap between career and retirement. Continued employment can help take the pressure off of your retirement assets and it provides mental stimulation and purpose and longevity.

Flexibility and creativity will be key to successful longevity planning going forward.

▶ ▶ ▶

*“Retirement at 65 is ridiculous. When I was 65 I still had pimples.”*

▶ ▶ ▶

*George Burns,  
actor /comedian*

▶ ▶ ▶

*“The question isn’t at what age I want to retire, it’s at what income.”*

*George Foreman,  
boxer / grill guru*

## Make the Move

**There’s never been a better time for your friends and family to “Make the Move”.**

Our firm welcomes client referrals and with a special limited-time offer from Charles Schwab & Co., Inc. (“Schwab”), your friends and family can make the transition to our firm seamlessly and cost effectively. Schwab is helping reduce the cost of transferring assets to our firm’s management by reimbursing transfer fees and waiving commissions on electronic equity trades through June 30, 2010 for new-to-Schwab clients who open an account by December 31, 2009. We can apply the commission-free equity trades to invest cash or more economically rebalance the portfolio if needed.

If you know of someone who may benefit from our firm’s services, please have them give us a call at 802-985-8400.

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MARKET TALK

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Wealth Management  
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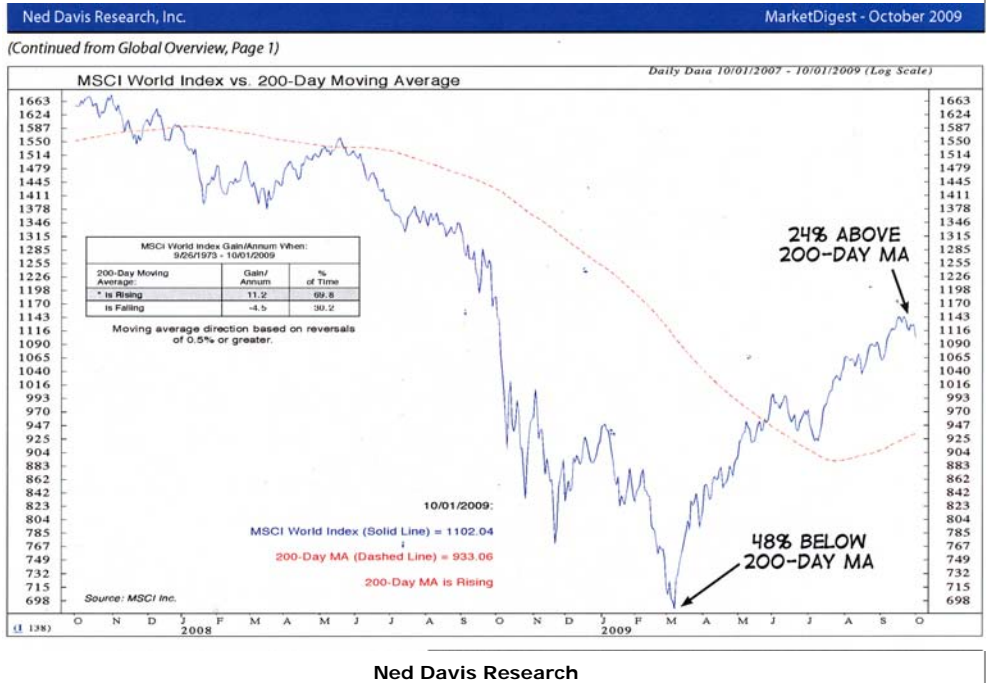
The greatest compliment we can receive is a personal referral of a friend or family member.

I offer up this simple analogy by way of getting to the issue of value and volatility in the markets. If one accepts the notion that there is generally a long-term elastic relationship between earnings and price, it is ironic that while one component (earnings) is based upon mathematical and quantitative measures, we actually price the market more on a collective emotional basis. That being said, "value" in the stock markets can be sensed in the relationship between what we can reasonably know in terms of actual earnings (or reasonable math based assumptions of earnings) and the current "price" of the market. To go back to our elastic string analogy—is the string being pulled by price above or below the theoretical trend line? If the band is stretched above the trend line, one must be aware that there is most likely a question to be asked about market or stock valuation. Also, just like the elastic band, if the upward pressure becomes too great (the difference between earnings and price becomes too wide) the band may snap back way below theoretical steady state and create value, but it will also create a great deal of volatility along the way and induce fear or panic as well.

As you can imagine, there will be times in the process when prices seem to stray far from our best cold hearted mathematical estimates of earnings potential. In the short-term, there may

appear to be profits to be made (irrational exuberance?) and we ask ourselves whether we too should jump on the band wagon. If we are aware of only the increasing price we are tempted to buy, and we are no longer investors (because we don't know the **value**, only the price); we become momentum gamblers trusting only that someone else will simply pay more than we did. If on the other hand, we do pay attention to earnings and compare that to price we can not only get a handle on value but perhaps also develop a sense of how stretched the elastic band may be. We may be dissuaded from buying because valuations are stretched and we may understand that our risk tolerance is not great enough for the volatile "snap back" that can occur when overvaluation is corrected.

**I believe that my job on your behalf is to invest for the long-run by making investments that tie us to long-term uptrends in earnings and price.** If I buy growth at a reasonable price I can create value for you and profits over time. If I can understand when the markets get ahead of themselves and follow a valuation based methodology with your portfolios I can help to control volatility and greatly increase the odds of long-term success.



## Talking to Your Parents about Finances and Estate Planning

by Adam Bartsch

There will come a time, if it hasn't already, when you will be talking to your parents about their finances and estate planning. Too often, this conversation occurs only after a crisis. Until then, neither parents nor adult children have found the right moment to raise the difficult issues of what happens if a parent becomes seriously ill, whether long-term care insurance or Medicaid planning are necessary, and what the parents have done regarding estate planning.

Unfortunately, if a crisis has occurred you probably have fewer options available now than you did before the crisis, and furthermore, your family probably has less control, because others, including social workers, doctors, and even the courts may be involved in the decision making process going forward.

The ideal time to discuss sensitive issues with your parents is long before a crisis occurs, so that thoughtful and reasoned solutions can be discussed before options are precluded and control is diminished. It's never easy to raise these issues, particularly if in the past your parents have indicated that their finances are not a topic for family discussion. However, even where financial discussions were taboo before, when your parents were in full control, you might find that your parents' attitudes have softened in the intervening

years. Aging invariably raises issues of maintaining control. Some parents would welcome your assistance, when offered in a non-threatening manner, especially when your assistance enables them to maintain some degree of control and decision making over issues important to them.

How do you test the waters and go about raising these issues with your parents? Often, awareness and receptivity are heightened when a person you and your parents know has faced a life-changing event, such as moving into a long-term care facility or is enduring serious medical issues. If a friend or colleague has recently passed on, the time is ripe for discussing estate planning. Conversations can begin by addressing what issues the person (or their survivors) has dealt with, and what the rest of us can learn from it.

In a similar vein, if you have done your own estate planning or discussed long-term care issues with a financial advisor or insurance broker, you might discuss what you learned in the process. It's more natural to discuss these topics if you have just been working with an attorney or financial advisor and want to share what you learned. Having engaged in the process also demonstrates that you take the issue seriously. Don't forget, however, that the focus is on what your parents want, and

what will work for them. Provided your parents remain capable of thoughtful deliberation, it's important to respect their right to make decisions.

Consider also not only what topics to raise, but when to raise them. If holidays are a stressful time, it's probably not a good time to raise difficult issues. But on the other hand, holidays are the only time some families are able to get together, which may make it the best available time for some. To the extent the only good time is less than ideal, try to arrange a quiet time to talk, such as during a long walk or other escape from the normal circumstances.

Consider making all siblings aware of the need for a conversation even if only one or two children take the lead. That way, your brothers and sisters do not view your conversation as an attempt at angling for an outsized share of your parents' estate. Additionally, it allows you to mention that it is an issue that you and your sibling have expressed concerns about.

If your parents appear uncomfortable talking with family members about financial and estate planning matters, consider recommending that they talk to a financial advisor or attorney who has an independent view and is detached from any family politics.

While it may sometimes take

weeks or months for the idea to take root and become a priority of your parents, you may find that they are not only willing to engage in the conversation, but appreciate your assistance in getting the ball rolling.

It's hard to argue that planning in the midst of a crisis makes more sense than deliberative and thoughtful planning, but too often crisis planning is the norm. While many families are not inclined to discussions of this sort, the investment of time can generate financial and emotional dividends, particularly for parents who can sleep better at night knowing that they are laying the groundwork for a solid plan to move forward.

*We are pleased to have guest columnist, estate attorney Adam Bartsch provide this article on Talking to Your Parents.*

*Adam is a fellow professional working in Shelburne and the founder of NorthEast Estates and Trusts, PLLC (NEET), a law firm focusing solely on estate planning for residents of Vermont, New York and Massachusetts since 2004.*

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