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Special points of interest:

- Markets closed—Columbus Day (10/11– Bond Market) Veteran’s Day (11/11), Thanksgiving (11/25) and Christmas (12/24).
- 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.

Market Commentary

As I begin to write this 3rd quarter review there is one trading hour left in the quarter and one hour to the close of the best September for the indexes since September of 1939. Surprisingly, this month has been one for the record books and thankfully so, because September’s gain redeemed the troubled market action of April through August.

Several trends revealed themselves as we ground our way through Q3 and the markets reacted, well, rationally. We could sense that the U.S. economy hit a wall in April and as the GDP numbers filtered in we put a number to it: from a +5% GDP gain in Q4 2009, we had slipped to a sub par recovery gain of only +1.6% by Q2 2010. And based on the numbers I’ve seen along the way, I believe we’ll also see Q3 2010 GDP come in at around the same tepid pace as Q2. So, in hindsight, we were a bit ahead of ourselves when we hit post recovery highs this April, surfing a 5% GDP wave just as that wave was about to hit the shore of sub par under 2% growth.

The Q3 market bottom came at the start of the quarter and then re-emerged in a dismal August, although at a slightly higher level. To my surprise, rather than set us up for a tough September, the markets rallied for the aforementioned best September in 70 years. I believe the positive reaction was the increasing conviction that began to emerge during the late summer that the political winds were shifting and that the markets could look forward to at least a grid locked Federal House and Senate—a

prospect that to the capital markets is welcome. The markets discount the future and 2011 began to look a bit clearer.

Another milestone was reached when about a week ago the recession watchdog National Bureau of Economic Research (NBER) officially announced what we kind of already knew—the Great Recession that began in December 2007 had officially ended in June of 2009 after a terror filled ride of 18 months. This was, by the way, the longest recession on record since the 43 month long downturn of the Great Depression.

Over arching all of this, if you will allow me a personal compilation of the “market mood”, was the almost daily struggle over the summer months between the forces of inflation and deflation. It seemed to me that every economist, pundit, market letter, and even the Federal Reserve espoused a pro or con view of the matter and even (as I sensed from the Fed) a fear that vacillated between the two on a weekly basis. If the deflation/inflation debate were a teeter totter, picture it evenly balanced with a



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Third Quarter 2010 Market Wrap

Market Indexes	% Change in Q3
S&P 500	+10.7%
DJIA	+10.4%
NASDAQ Comp	+12.3%
MSCI EAFE	+15.8%
Russell 2000	+11.3%

Mutual Fund Yardsticks	% Change in Q3
Equity Income	+11.6%
Large Cap Growth	+12.6%
Balanced	+8.5%
Gen US Taxable	+3.8%
Intermediate Bond	+3.2%



Social Security and Your Retirement

With every year we see more and more of our clients beginning to grapple with the decisions of retirement. One of the traditional legs of the retirement stool has been Social Security (the others are pension / retirement plans and personal savings). Whether you believe Social Security will exist in the future or not, it is important to understand some of the key provisions of this benefit and how it may affect this leg of your retirement.

First, I recommend carefully reviewing your Social Security Benefit Statements. If you are married, review both that of the husband and the wife. You should receive a statement annually about 3 months prior to your birth month. Page 2 contains an estimate of your benefits at age 62, at full retirement age (which now varies based on your date of birth) and at age 70. It is important to verify the earnings information on page 3 and correct any errors that you may find.

Read the assumptions on “How Your Benefits are Estimated”. Not all employers fall under the Social Security umbrella. If you or your spouse worked in the military, the railroad, or other public employers (such as police, fire, and public school sys-

tems) that opted out of Social Security, your benefits may be negatively affected. There are 2 offsets—the Windfall Elimination Provision and the Government Pension Offset— that, if applicable, can reduce or totally eliminate your Social Security benefits. The problem is the Social Security Administration has no record of this “uncovered” employment when preparing your statement. Hence, the estimated benefits can be grossly overstated. Research indicates that about 3% of all workers will have their Social Security offset in this way.

When should you begin taking benefits? Financially speaking there are 2 factors to consider. First, you want to maximize the present value of your projected benefits. In other words, get the most money over your lifetime. Monthly benefits are reduced by 20-30% if taken at age 62. Conversely, benefits are increased by 8% per year for every year over your normal retirement age that you delay retirement to age 70. In this regard the government has done a good job of calculating this for you. For individuals who live to average life expectancies and who are not earning income, the benefits are approximately equal no matter when they begin from

age 62 through age 70. Of course, we are not all average. People with health issues reducing their life expectancy would benefit from the early inception of benefits (age 62) while those with a long life expectancy would benefit from delaying benefits (to age 70). Your family history may help you gauge where you fall on this continuum.

For those of you who want to keep your options open, there is a relatively obscure strategy known as the “do-over”. An individual can begin benefits at age 62, investing the proceeds conservatively (for example in Treasuries or CD’s). Then, when he/she turns 70, they repay the benefits, keep the interest and start benefits at the greatly increased age 70 benefits level.

The second factor to consider is minimizing the longevity risk—the risk of not having sufficient funds throughout your lifespan. Clearly, the longer we delay benefits, the greater those monthly benefits will be. This issue becomes even more complex when we look at a couple in retirement. A spouse has 2 entitlements to benefits and can elect either 100% of their own benefit or 50% of their spouse’s benefit. This allows for several



interesting strategies. A couple may use a technique called “file and suspend” whereby the breadwinner files for benefits, the spouse files for the 50% spousal benefit and then the breadwinner immediately suspends his/her own benefit. In this scenario the benefit continues to grow until such time as the breadwinner begins to take benefits.

Conversely, suppose that the wife retires but the husband is still working. The working husband (at full retirement age) can elect to start receiving spousal benefits based on the wife’s benefit amount (50%) while still allowing his own benefits to accrue. At age 70, the husband would stop the spousal benefit and file for full Social Security benefits.

For some people careful use of these strategies can mean the difference of thousands of dollars a year in retirement.



“Life seldom offers
a do-over option,
but the Social
Security
Administration
does...”

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MARKET TALK

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Wealth Management
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sumo wrestler type at each end. While neither hyper inflation nor deflation are on the stock markets wish list, both the Fed and the markets will go apoplectic at the thought of a real bout of deflation. (Low single digit inflation is the preferred direction—the Fed’s ideal target rate is in the 2+% per year range.) As the summer wore on and evidence began to appear that supported a deflationary viewpoint, nervousness grew as did the reluctance to put on the “risk trade” and buy stocks.

Perhaps the single most important market event this year occurred very late in the quarter when the Federal Reserve’s commentary of their September meeting announced the arrival of “QE2”. Quantitative Easing 2 essentially reaffirms that the Fed will not stand for deflation and will instead flood the markets with dollars to create inflation. Suddenly, the biggest player in the game got on the teeter totter and we all realized that rather than two sumo wrestlers, we had instead only one sumo with an elephant on the other end. This really boils down to the markets preference for dealing with the devil it knows; we will now worry about the Fed creating inflation that gets out of control, but at least we know it’s a Fed guaranteed inflation rather than the ugly twin of deflation. As one prominent hedge fund manager put it: if the economy gets better, stocks go up; if the economy gets worse the Fed steps in with liquidity and the market goes up (short-term).

Warning: There will be a Quiz!

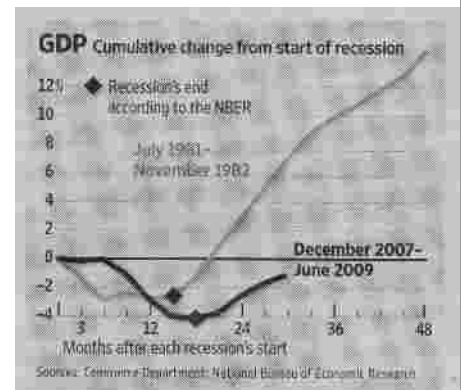
1. “Uncertainty rules the tax situation, the labor situation, the monetary situation, and practically every legal condition under which industry must operate.”
2. “But frankly, we have become somewhat troubled by a growing disconnect between Washington and the business community that is harming our ability to expand the economy and grow private-sector jobs in the U.S. ... By reaching into virtually every sector of economic life, government is injecting uncertainty into the market-place and making it harder to raise capital and create new businesses.”

3. “The relations between the leaders of business and the Administration were uneasy, and this uneasiness accentuated the unwillingness of private enterprise to embark on further projects of capital expenditure which might have helped to sustain the economy.”

Now that you’ve read the 3 quotes above, the quiz is this: from what year was each quote taken? The possible answers are 1937, 1939 and 2010. The answers are listed below—how did you do?

It is empirically evident that we are in the midst of a sub par recovery from a severe recession, that unemployment is stubbornly high, and that corporations (rather than investing in plant and equipment and new hires) are sitting on a record amount of cash. When I came across these quotes I was struck (as I’m sure you were) at their similarity. They are separated in time by 70 years but represent very similar eras of below average post recovery GDP growth and persistent high unemployment.

Let me add a fourth quote to my list, “those who do not learn from history are doomed to repeat it, “ - George Santayana.



Source: Wall Street Journal 9/21/10

Answers:

1. Textile Innovator Lammont du Pont in 1937.
2. Verizon CEO Ivan Seidenberg in 2010.
3. League of Nations 1939 World Economic Survey.

Including Digital Assets in Your Estate Plan

by Adam Bartsch

Aside from your filing cabinet, where do you keep most of your important information? Probably on your computer and various online accounts. And what will happen to that information when you die? Your survivors could spend months seeking permission from online service providers to obtain access and authority to manage and close down these accounts. If your survivors don't have access to your email accounts, they may not even know that some financial accounts exist if you have signed up for paperless statements, i.e. monthly statements delivered by email.

The fact is, digital media has evolved beyond being just a tool. For many of us, digital media has become a necessity that impacts our daily finances, recordkeeping, communications and social lives. The problem, from an estate planning perspective, is that these resources have gates that we must get through to access this important information.

Because more and more information is migrating from paper to computers, there is an increasing need to plan ahead for the proper handling of our digital assets. The keys to unlock these assets include account usernames and passwords, and a roadmap for locating where the digital assets are located. Without this information, your executor or trustee will probably not have timely access to your email accounts, online financial accounts, and online retailers and service providers that hold

credit card information. Additionally, assets such as digital photos, Facebook pages, and other information stored online or on your computer may never be retrieved.

How do you plan ahead as to who should have access and who may review your important documents and online accounts? Much like you do today with regular assets: identify what you own; select a capable person to

The keys to unlock these assets include account usernames and passwords and a roadmap for locating (them)...

manage these assets if you become incapacitated or die, and ideally, provide instructions on what to look for and where to look.

Identifying your digital assets. Start with a list of your hardware, including computers, backup hard drives, and any thumb drives or compact disks used to store important information, which should be labeled. If possible, provide a brief overview of the contents of these items, including if you use a financial management program such as Quicken or keep the books of a family business on a personal computer.

You will want to list your online accounts, such as bank and brokerage accounts, and personal accounts including email addresses and social networking pages. For all of these online accounts, you should keep a running list of the username,

password and other information needed to log on. While security experts warn against writing any of this information down, the reality is that your survivors will need this information upon your incapacity or death. You will need to not only write it down, but keep this information in a safe but accessible place, in other words not in a file on your computer if your computer requires a password when logging in.

Selecting a digital assets agent. Next, identify who is the right person to access and review all of your important online information. If you have created a clear roadmap of your digital assets and where they can be found, the digital assets agent need not be highly computer savvy, and could likely be your agent under the power of attorney, your executor or your trustee. If you choose someone outside of these roles, you will need to provide authority for them to act during your incapacity and after your death. Thus, your agent under your power of attorney, executor or trustee should be empowered to bring in the digital assets agent and hire additional professional assistance if required.

Completing a set of instructions. A brief set of instructions can go a long way toward making this entire plan work. If

possible, provide any additional information that will pull everything together, again with an eye toward what exists and where it can be found. Additionally, you may want to provide direction for your digital assets agent to notify certain members of your online community about your death, for instance email acquaintances and possibly others that you communicate with regularly via email or social networks.

Organization is as important today as it has always been, but the tools required today can be quite different than even ten years ago. Recognize that the types of information your survivors will need after your death has not changed, but locating and accessing the information is a whole new ballgame, thus the need for planning ahead for your digital assets.

We are pleased to have repeat guest columnist, estate attorney Adam Bartsch provide this article on Including Digital Assets in Your Estate Plan.

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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