



Nicholson Financial Services

Did You Know...?

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The first 3 1/2 months of 2014 have gone more as expected with more volatility and less clear direction than last year. I have been saying to clients over the past few months that after a strong year, I would expect more volatility and a "sideways" pattern for the equity markets for at least the first half of the year. So far, it looks as if that is what we are getting. Still, due to improving economic data and earnings, I believe this year will be another positive year for equities. However, it will be hard to match last year. As discussed in the first article, the Fed has begun its "tapering" process. Regardless of how the media brands this event, I continue to believe it is positive for the economy that the Fed no longer needs to buy bonds to support the bond market. Tapering, and rising interest rates, does potentially mean trouble for intermediate to long-term bonds. Now is definitely the time to "know what you own."

Nicholson Financial Services, Inc. is an independent firm.

Spring 2014

The Fed's Great Unwind and Your Portfolio
Saving for the Future: Start Now or Start Later?

Spring Cleaning Your Debt

My parents can't manage alone anymore.
What should I do?

The Fed's Great Unwind and Your Portfolio

After more than five years of unprecedented support for the economy, the Federal Reserve Board has begun to reduce its purchases of bonds. And though the Fed has said interest rates may stay low even after unemployment has fallen to 6.5%, higher rates increasingly seem to be a question of timing. Both of those actions can affect your portfolio.

Bond purchases: the tale of the taper

In the wake of the 2008 credit crisis, the Fed's purchases of Treasury and mortgage-backed bonds helped keep the bond market afloat, supplying demand for debt instruments when other buyers were hesitant. Fewer purchases by one of the bond markets' biggest customers in recent years could mean lower total overall demand for debt instruments. Since reduced demand for anything often leads to lower prices, that could hurt the value of your bond holdings.

On the other hand, retiring baby boomers will need to start generating more income from their portfolios, and they're unlikely to abandon income-producing investments completely. Those boomers could help replace some of the lost demand from the Fed. Also, the Fed's planned retreat from the bond-buying business has roiled overseas markets in recent months; when that kind of uncertainty hits, global investors often seek refuge in U.S. debt.

Rising interest rates

When interest rates begin to rise, investors will face falling bond prices, and longer-term bonds typically feel the impact the most. Bond buyers become reluctant to tie up their money for longer periods because they foresee higher yields in the future. The later a bond's maturity date, the greater the risk that its yield will eventually be superseded by that of newer bonds. As demand drops and yields increase to attract purchasers, prices fall.

There are various ways to manage that impact. You can hold individual bonds to maturity; you would suffer no loss of principal unless the borrower defaults. Bond investments also can be laddered. This involves buying a portfolio of bonds with varying maturities; for example, a

five-bond portfolio might be structured so that one of the five matures each year for the next five years. As each bond matures, it can be reinvested in an instrument that carries a higher yield.

If you own a bond fund, you can check the average maturity of the fund's holdings, or the fund's average duration, which takes into account the value of interest payments and will generally be shorter than the average maturity. The longer a fund's duration, the more sensitive it may be to interest rate changes. **Note:** *All investing involves risk, including the loss of principal, and your shares may be worth more or less than you paid for them when you sell. Before investing in a mutual fund, carefully consider its investment objective, risks, fees, and expenses, which are outlined in the prospectus available from the fund. Read it carefully before investing.*

For those who've been diligent about saving, or who have kept a substantial portion of their investments in cash equivalents such as savings accounts or certificates of deposit, higher interest rates could be a boon, as rising rates would increase their potential income. The downside, of course, is that if higher rates are accompanied by inflation, such cash alternatives might not keep pace with rising prices.

Balancing competing risks

Bonds may be affected most directly by Fed action, but equities aren't necessarily immune to the impact of rate increases. Companies that didn't take advantage of low rates by issuing bonds may see their borrowing costs increase, and even companies that squirreled away cash could be hit when they return to the bond markets. Also, if interest rates become competitive with the return on stocks, that could reduce demand for equities. On the other hand, declining bond values could send many investors into equities that offer both growth potential and a healthy dividend.

Figuring out how future Fed decisions may affect your portfolio and how to anticipate and respond to them isn't an easy challenge. Don't hesitate to get expert help.

Saving for the Future: Start Now or Start Later?



No matter how you save to reach a future goal, there is an advantage to putting your savings and earnings to work for you as early as possible.

All examples are hypothetical and are not guaranteed. Fees and taxes are not shown and could reduce the amount available.

**All investment involves risk, including the possible loss of principal.*

There are many ways to try to reach a future goal. You can save now, or you can save later (or perhaps do both). But there is an advantage to putting your savings and earnings to work for you as early as possible.

Compound earnings

If you save \$1,000 now and invest it at an assumed 6% annual rate of return, in 1 year you would have \$1,060, in 2 years about \$1,124, and in 10 years about \$1,791. Your earnings compound as you earn returns on your earnings. Your \$1,000 initial investment increases through compounding to \$1,791.*

Compounding at work

For example, let's say you start saving now. You save \$5,000 at the beginning of each year in years 1 to 20 and put it into an investment that earns a hypothetical 6% annually. At the end of 30 years, you will have accumulated about \$349,150.

Alternatively, let's say you start 10 years later. You save \$5,000 at the beginning of each year in years 11 to 30. Once again, you earn an assumed 6% annually on that money. At the end of 30 years, you will have accumulated about \$183,928.

In each of these examples, you've put aside a total of \$100,000. However, by starting now, you accumulate about \$165,222 more than if you start later, and all of that is from earnings. By starting now, rather than putting it off, you have put your money and the power of compound earnings to work for you.

Years	Start Now	Start Later
1 - 10	\$5,000	
11 - 20	\$5,000	\$5,000
21 - 30		\$5,000
Saved	\$100,000	\$100,000
Earnings	\$249,150	\$89,928
Total	\$349,150	\$183,928

Now, let's look at a different situation. Let's say you would like to start later but accumulate the same amount as if you had started putting money aside now. In this case, you would need to save more, about \$8,954 at the beginning of each year in years 11 to 30, in order to accumulate \$349,150 after 30 years.

In this example, you would need to save a total of about \$179,085. That's \$79,085 more than if you had started earlier, when compounding could have helped make up that difference. Compound earnings don't have as much time to

work for you when you postpone getting started.

Years	Start Now	Start Later
1 - 10	\$5,000	
11 - 20	\$5,000	\$8,954
21 - 30		\$8,954
Saved	\$100,000	\$179,085
Earnings	\$249,150	\$170,065
Total	\$349,150	\$349,150

Strike a balance

Of course, you could accumulate even more if you do both. For example, if you set aside and invest \$5,000 at the beginning of each year in years 1 to 30 and earn an assumed 6% annually on that money, at the end of 30 years, you will have accumulated about \$419,008. This is substantially greater than the \$183,928 accumulated if you invest \$5,000 in years 11 to 30, while somewhat greater than the \$349,150 accumulated if you invest \$5,000 in years 1 to 20.

But maybe you can't afford to set aside \$5,000 now. Could you manage \$3,000 this year, increase that amount for next year by 3% to \$3,090, and continue to increase the amount set aside by 3% each year? If that money earns an assumed 6% annually, you will have accumulated about \$351,520 at the end of 30 years, slightly more than the \$349,150 accumulated if you save \$5,000 each year in years 1 to 20.

Compared to saving \$5,000 a year for 30 years, you've contributed almost as much here (\$142,726 compared to \$150,000), but your earnings are substantially less (\$208,794 compared to \$269,008) because your largest contributions came in later years and had less time to work for you.

Year	Constant	Increasing
1	\$5,000	\$3,000
2	\$5,000	\$3,090
...		
29	\$5,000	\$6,864
30	\$5,000	\$7,070
Saved	\$150,000	\$142,726
Earnings	\$269,008	\$208,794
Total	\$419,008	\$351,520

Spring Cleaning Your Debt



Making more than the required minimum payment is especially important when it comes to credit card debt. If you only make the minimum payment on a credit card, you'll continue to carry the bulk of your credit card balance forward for many years without actually reducing your overall balance.

It's springtime--time for you to take stock of your surroundings and get rid of the dirt and clutter that you've accumulated during this past year.

In addition to typical spring cleaning tasks, you may want to take this time to focus on your finances. In particular, now may be as good a time as ever to evaluate your debt situation and try to reduce and/or eliminate any debt obligations you may have. The following are some tips to get you started.

Determine whether it makes sense to refinance

If you currently have consumer loans, such as a mortgage or an auto loan, take a look at your interest rates. If you find that you are paying higher-than-average interest rates, you may want to consider refinancing. Refinancing to a lower interest rate can result in lower monthly payments on a loan and potentially less interest paid over the loan's term.

Keep in mind that refinancing often involves its own costs (e.g., points and closing costs for mortgage loans), and you should factor them into your calculations of how much refinancing might save you.

Consider loan consolidation

Loan consolidation involves rolling small individual loans into one larger loan, allowing you to make only one monthly payment instead of many.

Consolidating your loans into one single loan has several advantages, including making it easier to focus on paying down your debt. In addition, you may be able to get a lower interest rate or extend the loan term on a consolidated loan. Keep in mind, however, that if you do extend the repayment term on a consolidated loan, it could take you longer to get out of debt and ultimately you may end up paying more in interest charges over the life of the loan.

Look into taking out a home equity loan

If you own a home and have enough equity, you may be able to use a home equity loan to pay off your debt. The interest on home equity loans is often lower compared to other types of loans (e.g., credit cards) and is usually tax deductible.

Home equity loans can be an effective way to pay off debt. However, there are some disadvantages to consider. If you end up having an available line of credit with a home equity loan, you'll need to be careful not to incur any new debt. In addition, when you take out a home equity loan, your home is potentially at

risk since it serves as collateral for the loan.

Evaluate whether you should invest your money or pay off your debt

Another effective way to reduce your debt load is to take cash that you normally would put toward certain investment vehicles and use it to pay down your debt. In order to determine whether this is a good option, you'll have to compare the current and anticipated rate of return on your investments with interest you would pay on your debt. In general, if you would earn less on your investments than you would pay in interest on your debts, using your extra cash to pay off your debt may be the smarter choice.

For example, assume that you have \$1,000 in a savings account that earns an annual rate of return of 3%. Meanwhile, you have a credit card balance of \$1,000 that incurs annual interest at a rate of 19%. Over the course of a year, your savings account earns \$30 interest while your credit card costs you \$190 in interest. In this case, it might be best to use your extra cash to pay down your high-interest credit card debt.

Come up with a payment strategy to eliminate credit card debt

If you have a significant amount of credit card debt, you'll need to come up with a payment strategy in order to help eliminate it. Some options include:

- Making lump-sum payments using available funds such as an inheritance or employment bonus
- Prioritizing repayments toward cards with the highest interest rates
- Utilizing balance transfers

Whenever possible, make additional payments

Making payments in addition to your regular loan payments or the minimum payment due can reduce the length of the loan and the total interest paid over the life of a loan. Additional payments can be made periodically and at a time of your choosing (e.g., monthly, quarterly, or annually).

Making more than the required minimum payment is especially important when it comes to credit card debt. If you only make the minimum payment on a credit card, you'll continue to carry the bulk of your balance forward for many years without actually reducing your overall balance.

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My parents can't manage alone anymore. What should I do?

Are one or both of your parents having health problems, suffering mental lapses, or just slowing down with age? Do you find they can't manage on their own anymore? If so, you'll want to consider the various living arrangements that are available to older individuals. Before you begin, however, you'll want to talk to your parents and siblings.

Sometimes the best option is to have your parents move in with (or closer to) you. That way, you avoid having to use your parents' assets (or your own) to pay for a nursing home or other facility. You won't have to worry about your parents potentially receiving inadequate care from strangers. And your parents will probably appreciate the gesture of love and self-sacrifice on your part. However, the cost of feeding, clothing, and caring for your parents can be high, especially if you're forced to give up a job to be home with your parents. And don't underestimate the emotional and psychological impact.

What if your parents' care is more than you can handle? You may then wish to consider some

type of assisted-living arrangement. The broad term "assisted living" encompasses a range of facilities and services designed to help seniors who can't live independently. The assistance provided may be short- or long-term and may focus on social services, medical care, or some combination of the two. Depending on your parents' conditions and needs, one or more of the following assisted-living arrangements may be worth considering:

- Nursing homes
- Assisted-living communities
- Continuing care retirement communities
- Alzheimer's/dementia care specialty facilities
- Retirement communities
- Active senior communities
- Home health care
- Hospice care
- Adult day-care services

And don't be afraid to talk to a social worker, your parents' physicians, or other professionals. They can offer you support, and recommend solutions that best meet your parents' needs.



What is an assisted-living facility, and how do I choose one?

What is an assisted-living facility? The wide number of options available makes defining the term difficult.

Generally, however, assisted-living facilities primarily serve senior citizens who need more help than those who live in independent living communities.

These facilities typically offer rental rooms or apartments, housekeeping services, meals, social activities, and transportation. Their primary focus is social, not medical, but some do provide limited medical care. Other terms used to describe assisted-living arrangements are board and care homes, rest homes, and community residences. Continuing care retirement communities (CCRCs), also called life care communities, fit loosely into this category as well, although they provide what other assisted-living facilities do not: long-term nursing care and guaranteed lifetime services.

How do you choose an assisted-living facility? Definitely plan on touring the facility beforehand. Some facilities are large, caring for over a thousand people. Others are small, caring for fewer than five people. Consider

whether the facility meets your needs:

- Do you have enough privacy?
- How much personal care is provided? What happens if you get sick?
- Can you be asked to leave the facility if your physical or mental health deteriorates?
- Is the facility licensed or unlicensed?
- Who is in charge of health and safety?

And read the contract carefully--this may save you time and money later if any conflict over services or care arises.

As for the cost, a wide range of prices is available at a wide range of prices. If you have long-term care insurance, check your policy. These contracts normally pay a specified dollar amount per day (typically \$40 to \$150) for certain skilled, intermediate, or custodial care in assisted-living facilities, for some specified period of time (usually two to five years). Medicare probably will not cover your expenses at these facilities, unless those expenses are health-care related and the facility is licensed to provide medical care.