



The Strategic Advisor

Strategies for Success

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Strategic Wealth Advisors LLC

Richard C. Hanseen, CPA,
PFS
Founder
7881 West Charleston
Blvd.
Suite 220
Las Vegas, NV 89117
702-362-3123
richard@wealthadvising.com
www.wealthadvising.com

It is my pleasure to be able to provide information that can aid you in building your financial future. I hope you enjoy the content and find it helpful.

If I can be of assistance please feel free to call. We can discuss any of your concerns without obligation.

We wish you well as you travel the road to financial independence.

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Why We Invest in Equity Markets

I began writing this on June 5th when the Dow Jones Industrial Average had just gone up approximately 200 points. Today as I write June 11th, the Dow Jones Industrial average is down 200 points. After chiding myself that I had 'missed it' and should have finished the article last week, I realized that this was actually the point I am trying to make with this article ?..you can't time market ups and downs. That is one of the reasons we structure portfolios the way we do and why we wait for markets to come to us rather than chase after them.

Market Timing:

Did you know that during the 10-year period from 1997-2006 there were 20 days that made up the total return out of the 2,516 trading days? What does that mean to the investor? If you invested \$10,000 for that 10-year period it would have increased in value to \$22,444. That is an average rate of return of 8.4% as measured by the S&P 500. If you missed 5 of those biggest gain days, your return would have dropped to 5.7%. If you missed 10 of those days, your return would have dropped to 3.4% and, if you missed those 20 big days, your return would have been a negative .04%.

Too often, you read in the financial press that market timing is the specialty of large brokerage houses, with their huge computers and a brain trust that can magically devise portfolios that spin off the greatest returns. They will miraculously pick out those 20 days and avoid the rest. Guess what? The leading timing gurus averaged a success rate in forecasting of .167 since Smartmoney began tracking them in 1997.

So why invest in the equity markets anyway?

Did you know the Standard and Poor's 500 index (S&P 500) stood at 16.66 January 3, 1950. Today it stands at 1,335. So in 68 years the index has increased in value over 80 times. Did you know that during that time there have been 11 major corrections in the equity markets?

Did you know that during the period 1926-2006, the 5-year average rolling period returns were positive 87.5% of the time, 10-year average rolling periods were positive 96.5% of the time, and 15-year average rolling period returns were positive 99.7% of the time. As Nick Murray says in his book Simple Wealth Inevitable Wealth ?"-it's never stayed down."

That is why we invest in the equity markets; that is why we stay invested and do not try to time markets.



Changing consumption patterns can have implications for a variety of companies and industries, and create investing opportunities.

Coping with a Slower Economy

Economics isn't called the "dismal science" for nothing. There's an old joke that accuses economists of having predicted 9 of the last 5 recessions (and yes, those figures are in the correct order). However, forecasting the direction of the economy can seem easy compared with trying to figure out how to weatherproof your finances. It can help to understand some of the questions that many investors ask themselves if they're concerned about the potential impact of slower growth.

Is it time to check my portfolio?

Changing consumption patterns can have implications for a variety of companies and industries, and create investing opportunities. Some investing sectors might be especially economically sensitive and might therefore suffer from any economic downturn. On the other hand, some industries or companies may actually benefit from a slower economy. For example, companies that produce high-end goods might be relatively immune from economic pressures--or maybe not. Shifts in spending patterns could also mean that consumers continue to spend money but choose less expensive alternatives, or focus more on getting the greatest value from each dollar.

If you rely on your investments for income, you may want to review how sensitive your portfolio might be to changes in interest rates. If the Federal Reserve Board sees greater danger from a slowing economy than from the possibility of higher inflation, lower interest rates could cut into your income. Conversely, if the Fed becomes increasingly concerned about inflation, rates could go up. It might be a good time to see whether the yields you're receiving are competitive, and what kind of impact on your monthly income you might expect from any changes in rates.

Should I review my asset allocation?

Now might also be a good time to reexamine how your assets are divided among various types of investments. If you decide you need to shift a portion of your portfolio, those changes don't necessarily have to be made all at once. Consider:

- Adjusting only a portion of your bond or stock holdings
- Using systematic investing to shift allocations over time
- Investing any new money differently to

increase your exposure to asset classes you may have neglected

How close am I to the edge financially?

The benefits of reducing debt should be pretty obvious, given the recent credit crisis. Troubles in the mortgage industry have driven home the importance of managing debt wisely. The last thing you need if you're worried about uncertain economic times is to lock yourself into spending patterns that push you beyond your means.

Whether the economy is in robust health or seems to be catching the flu, it's never a bad idea to have a cushion against unexpected financial stress. An unanticipated medical emergency--and is there any other kind?--a sudden job loss, or anything else that affects your income stream can bring the effects of a slower economy home in a dramatic way.

If you're employed in a highly cyclical industry or one that's undergoing substantial changes, having a financial reserve becomes even more important. And if a lot of your retirement plan savings are invested in your employer's stock, think about whether your long-term finances might potentially face a double whammy. Serious financial trouble at your company could mean the possibility of layoffs, a drop in the value of your holdings--or both.

Have I planned for the unexpected?

If you're planning to retire in the next few years, consider the potential impact if you were to be "retired" prematurely. It's easy to assume you'll work until a certain date or earn income after retirement, but health concerns and the job market don't always permit that. Doing some "what if?" calculations with an earlier retirement date than you might otherwise choose could prepare you for what might happen if you were laid off and had difficulty finding new employment, or were unable to work for health reasons.

A transition to a post-retirement career is likely to be easier if you plan thoroughly. For example, launching a small business can be challenging under the best of circumstances; try to have as much of the groundwork laid as possible before relying on it for your entire income. Sales estimates that are more conservative than they might otherwise be may help minimize cash flow problems.

Asking questions such as these lets you hope for the best while preparing for the worst.

Can I Get Life Insurance After a Serious Illness?

Many Americans lack sufficient life insurance to provide financial security for their families. If you're in good health, you can probably get the life insurance you want at a relatively affordable cost. But what if you have an existing medical or health-related condition? What if you've had a heart attack or cancer? Can you still get life insurance? The answer in most instances is "yes," but it may be at a higher cost.



But I've been turned down before

The fact that you've been turned down before doesn't mean you can't get life insurance now. Life insurance for people with prior health conditions has become more available and affordable because people are living longer, resulting in more liberal insurer underwriting. Life insurance underwriting is the process used by the company's underwriter to decide whether to insure you and at what rate or cost, based on your medical history and sometimes other factors as well. In general, the longer your life expectancy as determined by the underwriter, the more likely you will qualify for life insurance, and the more affordable the cost.

What kind of information will insurers need?

Insurance companies generally request medical information from your primary care physician and any other doctors or hospitals that treated you for your illness. The insurer will also want to know the type and severity of your illness, the length of time since you were treated for the illness, and your prognosis.

The company may ask you to submit to an independent medical examination. Finally, the life insurance application will solicit information about the health history of your family, including your parents and siblings.

Will it cost more?

Possibly. Insurance companies commonly view your health history differently than your physician does. For instance, if you've had a heart attack, but now are active and leading a normal life, your doctor may say you're doing fine. But an insurance company's underwriter will review volumes of actuarial statistics and may conclude that, given your heart attack,

your life expectancy is shorter than that of a person of the same age and gender who hasn't had a heart attack. Because it expects to have to pay the death benefit sooner, the company expects to have less time to collect premiums. The insurer then assesses a higher premium cost to you to compensate for the anticipated shorter premium-paying period.

Some helpful tips:

Discuss your situation with your doctor.

You will then have some idea of the medical opinion your physician will give to the insurer concerning your prognosis.

Shop for life insurance. Different insurance companies often take significantly different views of various illnesses. While one company may deny coverage entirely or charge a much higher premium due to a specific ailment, another insurer may offer coverage for the same illness at a lower cost.

Get help. Some companies offer insurance to higher-risk applicants because they share the cost with another insurance company. Companies that work with other companies (called "reinsurance") are more likely to insure you if you have health issues. Consider using special-risk advocates or impaired-risk specialists who help find impaired-risk life insurance coverage.

Start with your employer. Many offer life insurance to all employees, regardless of their health histories. Some alumni associations and professional organizations also offer life insurance on a group basis without requiring a physical.

Show the insurer you're doing better.

Demonstrate that you're taking steps to control or improve your health. Proof that you exercise and have a healthy diet increase the chances of living a longer life, making you a better insurance risk.

Weighing the risk

Insurance companies use several categories of risk, including preferred risk, standard risk, and substandard risk. Depending on the insurer, some use subcategories within each risk class. Based on your health history, you'll likely fall within a certain risk class which will determine how much life insurance you can get and the cost.

A special- or impaired-risk advocate is a specialist who works with the insurance underwriters to try to get you life insurance at an affordable price in spite of your medical history.



**Strategic Wealth
Advisors LLC**

Richard C. Hanseen, CPA,
PFS
Founder
7881 West Charleston
Blvd.
Suite 220
Las Vegas, NV 89117
702-362-3123
richard@wealthadvising.com
www.wealthadvising.com

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Ask the Experts



Can I enroll in Medicare at age 65, even if I'm not yet eligible for full Social Security benefits?

Yes. Although full retirement age for Social Security is increasing, 65 remains the age at which most Americans become eligible for Medicare. You don't have to be retired to enroll in Medicare, so you should still consider signing up for Medicare Part A (hospital insurance) and Medicare Part B (medical insurance) at age 65, even if you plan on working longer. Make sure to contact the Social Security Administration approximately 3 months before your 65th birthday to discuss your options, because enrollment rules are relatively complicated, and there may be consequences if you wait until later to sign up.

For example, when you become eligible for Medicare Part A at age 65, you have a certain period, called your initial enrollment period, in which to sign up for Medicare Part B. Most people won't pay a premium for Part A, but you'll always pay a premium for Part B. Your initial enrollment period is a seven-month

period that begins three months before your 65th birthday, includes the month you turn age 65, and ends three months after your 65th birthday. If you don't sign up for Part B during your initial enrollment period, you can't sign up until the next general enrollment period that runs from January 1 through March 31 of each year, and you'll generally pay a higher premium for Part B coverage. Your monthly premium will increase by 10% for each 12-month period you were eligible for, but did not enroll in, Medicare Part B, unless you were covered by group health insurance through your employer or your spouse's employer. In that case, you may qualify for a special enrollment period, and you may not have to pay a premium penalty.

For more information about enrollment requirements and other factors you should consider when deciding when to sign up for Medicare, contact the Social Security Administration at (800) 772-1213 or visit the Medicare website at www.medicare.gov.

What are Medicare Advantage plans?

Most people who are covered by Medicare are enrolled in original Medicare. Original Medicare includes Part A, which helps cover inpatient hospital care, skilled nursing care, hospice care, and some home health care, and Part B, which covers medically necessary services, including doctor's visits, outpatient care, and some preventative services.

As an alternative to original Medicare, you may opt to enroll in a Medicare Advantage (MA) plan when you first become eligible for Medicare (and have already enrolled in Parts A and B), or during certain enrollment periods. MA plans are also called Part C plans, and although they are part of the Medicare program, they are managed by private companies. MA plans provide all the benefits and cover all of the services that original Medicare provides. However, they may also offer benefits and services that are not covered under original Medicare (but which may be covered under an optional supplemental policy), including prescription drug coverage, vision care, dental services, and hearing aids, although coverages vary.

But while original Medicare allows you to visit any health-care provider or facility that accepts Medicare, most MA plans are managed care plans—either HMOs or PPOs—that have provider networks. This means that you'll usually need to see a health-care provider who belongs to the plan or receive health-care services through a facility included in the network. This may limit your choice of health-care providers. Other MA plan types may be available, including private fee-for-service plans, but these are less common.

You can generally join an MA plan if you live in the service area covered by the plan, and you have Medicare Parts A and B. But before choosing an MA plan, make sure it suits your needs. Review the benefits provided and coverage limits, and the provider network (if any). You should also make sure you understand what out-of-pocket costs may apply. These may include premiums, deductibles, and copayments that are different than those in original Medicare or a supplemental policy.