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YOUR FINANCIAL FUTURE

Giving You The Financial Information You Need

April 2013

Welcome to the April '13 edition of The Financial Formula! Enjoy this issue, and let me know if you have any questions - thank you!

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In This Issue

What to Know About Annuities

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Are you retiring soon and looking into your options to start drawing down your savings from your employer-sponsored plan? Are you also concerned about making sure your money lasts as long as you do? If so, annuities may make sense for you. Annuities, simply put, reduce the risk that you will outlive your savings. Here is how to decide whether an annuity is right for you.

Understanding Annuities

Annuities are contracts offered by insurance companies that pay a stream of monthly payments in exchange for a premium. An immediate annuity is one in which you receive payments right away. A deferred annuity is one where you purchase a contract, but don't receive payments until after a set period of time.

While annuities reduce the risk that you will outlive your savings (and suffer a drop in your standard of living), they do so at a cost. They reduce the amount of money you have available for precautionary savings and bequests. Additionally, they are not liquid -- once you have purchased one, it can be expensive or impossible to change your mind later. For this reason, using a portion of your savings to purchase an annuity may be most attractive when:

- You (and your spouse) expect to live for many more years.
- You have relatively low income from other annuities (e.g., from defined benefit pension plans).
- You are relatively more averse to risk.

Which One Is Right for You?

Whether the amount of the annuity is right for you -- or even if you should annuitize -- involves a lot of issues, such as your other assets, savings, income, and taxes. If you're only taking care of yourself, the lifetime payment option might be a good choice. If there are other people counting on the income, you'll want to look into the other options.

Another issue for you to think about is today's low interest rates. One way to deal with this is to "ladder" smaller investments in immediate annuities over several years to take advantage of potentially higher interest rates.

Regardless of your decision, here are three key factors to keep in mind.

1. **Comparison shop.** Payment rates will differ significantly from insurer to insurer. Look carefully at the fees and expenses. Examine the rates and terms they offer.
2. **Find a reputable company.** Investigate the stability and financial strength of the companies you are thinking of purchasing an annuity from. You expect them -- and need them -- to be in business for a long time.
3. **Watch for additional costs.** At their core, immediate annuities are a very simple product, but extra features come with additional costs. Be sure to read through the fine print.

Is Increased Inflation on the Horizon?

Economists and market watchers have been warning investors about the prospect of increased inflation since the housing bubble burst in 2007.

Worries about inflation have been cropping up more frequently lately, largely due to escalating commodity prices, which are pushing up consumer prices, both in the United States and abroad. With an improving economy and soaring federal deficits, many experts feel that prices in the United States will inevitably pick up their pace.

Although many economists project overall U.S. inflation to remain modest in the near future, most see an uptick down the road.

Inflation Rates Around the World (as of November 30, 2012)[2]

Country	Rate
Brazil	5.78%
Canada	0.8%
China	2.0%
France	1.4%
Germany	2.1%
Greece	1.0%
India	7.2%
Italy	2.5%
Japan	-0.2%
Mexico	4.2%
Russia	6.5%
United Kingdom	2.7%
United States	1.8%
Venezuela	18.0%

Staying Ahead

For investors, staying ahead of inflation means choosing investments that are most likely to provide returns that outpace it. Here's a look at how a climbing inflation rate could impact various investment types and asset classes.

- **Domestic Stocks --** Although past performance is no guarantee of future returns, historically, stocks have provided the best potential for long-term returns that exceed inflation. An analysis of holding periods between 1926 and December 31, 2011, found that the annualized return for a portfolio composed exclusively of stocks in Standard & Poor's Composite Index of 500 Stocks was 9.83% -- well above the average inflation rate of 2.99% for the same period. However, over shorter time periods the results are not as appealing. For the 10 years ended December 31, 2011, the S&P 500 returned an average of only 2.92%, compared with an average inflation rate of 2.50%.[3]
- **International Stocks --** During the same 10-year span that ended December 31, 2011, the Morgan Stanley Capital International (MSCI) EAFE, which is composed of established economies such as Germany and Japan, outpaced U.S. inflation with an average return of 5.12%. The MSCI Emerging Markets index, which tracks developing world economies such as Brazil and China, was even more stellar, returning an average of 14.2%.[4]
- **Bonds --** Historically, investors have turned to shorter-term corporate and high-yield bonds for protection in rising-rate environments.[5] There are two types of bonds that receive a lot of investor interest when inflation starts to rise: Treasury Inflation-Protected Securities (TIPS) and I Savings Bonds. Both TIPS and I bonds are types of fixed-interest rate bonds whose value rises as inflation rates rise.
- **CDs and Other Cash Instruments --** The Federal Reserve is still keeping a tight lid on interest rates, forcing investors who hope to keep pace with inflation by investing in cash instruments facing a harsh reality. The rates on a one-year CD are averaging under 1%, while a five-year CD is yielding an average of under 2%, according to *Bankrate.com*. Money market and other bank savings accounts are also averaging well under 1%.[6]

Although many economists project overall U.S. inflation to remain modest in the near future, most see an uptick down the road. For investors, a well-rounded portfolio may be your best weapon. The key is to consider your time frame, your anticipated income needs, and how much volatility you are willing to accept, and then construct a portfolio with the mix investments with which you are comfortable. Consult your financial professional to discuss your specific needs and options.

[1]*Source: U.S. Bureau of Labor Statistics, January 2012.*

[2]*Sources: TradingEconomics.com; U.S. Bureau of Labor Statistics, January 2013.*

[3]Sources: Standard & Poor's; U.S. Bureau of Labor Statistics. The S&P 500 is a unmanaged index. It is not possible to invest directly in an index. Past performance is no guarantee of future results.

[4]Source: Morgan Stanley. The MSCI EAFE and MSCI EM are unmanaged indexes. It is not possible to invest directly in an index. Past performance is no guarantee of future results.

[5]Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and are subject to availability and change in price.

[6]Source: *Bankrate.com*, January 20, 2012.

How to Protect Your Parents

Consider speaking to their primary care physician, or bring in a geriatric care manager, who can help you assess the mental clarity of your loved ones.

Senior citizens are routinely targeted by disreputable telemarketers, investment brokers, and charitable agencies, among others. One study estimated the financial losses by victims of elder abuse at $2.9 billion annually.[1] Another estimated the average senior victim of financial abuse loses $140,500.[2]

So what can you do to help your parents or other elderly loved ones avoid becoming the victim of a scam or losing control of their finances? Below are some tips.

- **Look for clues.** Are your parents having a hard time managing their finances? Have they stopped paying their bills? Are they overextending themselves with purchases or charitable contributions? Talk to your parents about their situation. Let them know that you are willing to help them maintain a certain level of independence, but that they may need assistance.
- **Get a second opinion.** Consider speaking to their primary care physician, or bring in a geriatric care manager, who can help you assess the mental clarity of your loved ones. You can find a local care manager at www.caremanager.org or at www.eldercare.gov.
- **Assess their finances.** Go through your parents' tax records, bank and investment statements, and credit card accounts. Be sure you have their account numbers and online passwords and keep a record. If they have a financial advisor, set up a meeting. Check over their investments. Are they suitable for them or do they need rebalancing?
- **Bring in additional family members, if necessary, and set up a plan.** Consider getting a durable power of attorney, which would allow you (or someone else) to make financial decisions for them if they can no longer do so. Check to see that your parents have a will and that it has been updated to meet all of their wishes. Also determine if they have a health care proxy or life insurance policies.

If you do take over your parents' finances, be aware of the following:

- If you co-sign for a loan or credit card, you become responsible for paying it off if your parents cannot or if they die. Instead, ask your parents to grant you third-party access to their accounts. You could even arrange to have an alert sent to you if their charges go above a certain amount.
- Instead of opening a joint bank account, consider having a joint signature on the account instead. This way you'll be able to sign checks to pay their bills, but the account remains in their names. You can also request to have alerts sent to you if there are any lapses in payments.

[1]*Source: MetLife, "The MetLife Study of Elder Financial Abuse," June 2011.*

[2]*Source: Certified Financial Planner Board of Standards, "2012 Senior Americans Financial Exploitation Study," August 2012.*