VOLUME 12 • ISSUE 2

Write On The Money

Published for the friends of
Kensington Financial Services
"Your Planning Partner"

Can Your House Fund Your Retirement?

When the turmoil of the subprime mortgage lending market began spilling into the larger housing market, it had many negative effects, such as lower home sales and higher foreclosure rates.[1,2] The subprime situation caused many people to reevaluate the way they view their homes.

Despite these recent woes, homeowners aged 62 and older are sitting on $4.3 trillion of home equity.[3] Many retirees still see their homes as a source of retirement income. In fact, 68% of affluent baby boomers report that they are counting on their personal residences as retirement assets.[4] Of those, 24% said their homes constituted at least half of their overall retirement savings.[5]

(continued on page 3)

The World Is Your Oyster

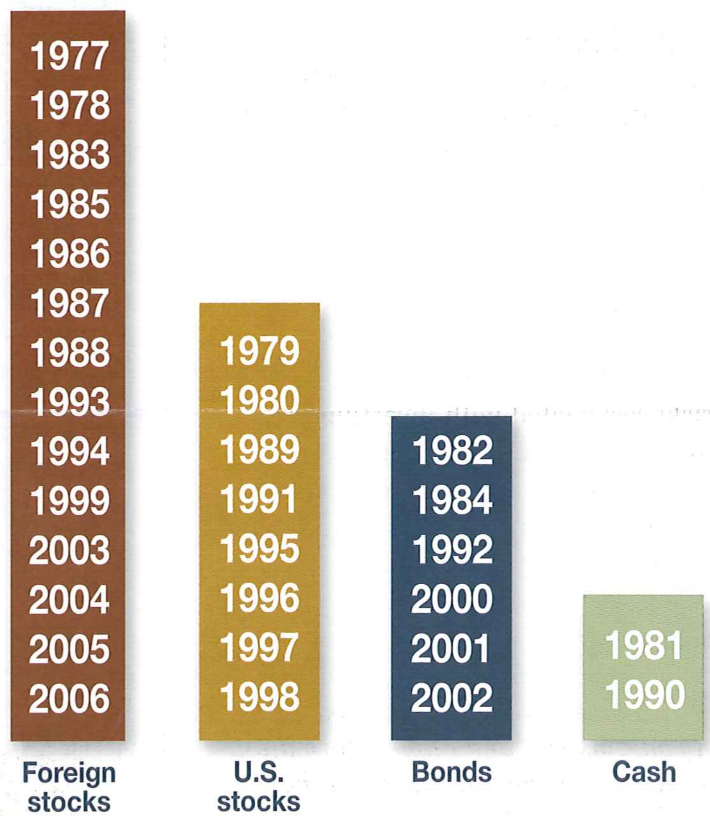
Investors from around the world look to the United States as the center of the financial world. Our stable legal and monetary systems and our free markets attract billions of dollars in foreign capital every year. However, it would be a mistake to let your search for investment opportunities end at our shores.

In 14 of the last 30 years (ending in 2006), foreign stocks were the top-performing asset class, compared with domestic stocks, bonds, and cash equivalents (see chart below). If you had invested only in domestic equities during this period, you would have missed out on owning an asset class that outperformed the other three in almost one out of every two years since 1977. Past performance does not guarantee future results.

If you want to expand your portfolio's geographic boundaries, international

STAY HOME, MISS OUT

The top-performing asset class in each of the past 30 years



Source: Thomson Financial, 2007. Foreign stocks are represented by the Morgan Stanley MSCI EAFE Index (Europe, Australasia, and Far East). U.S. stocks are represented by the S&P 500 Composite Index (total return). Bonds are represented by the Citigroup Corporate Bond Composite Index. Cash equivalents are represented by the T-Bill 3-Month Yield Index. These indexes are considered representative of the asset classes shown. The performance of an unmanaged index is not indicative of the performance of any particular investment. Individuals cannot invest directly in an index. Past performance is no guarantee of future results.

mutual funds may be a good option. By investing in companies outside the United States, international funds invest not only across industry sectors and securities, but across national boundaries as well. International mutual funds also offer many of the same benefits as domestic mutual funds, including professional management and convenience.

Multinational Diversity

International mutual funds can help you diversify your portfolio by spreading investments across different markets outside the United States. Because markets move in their own cycles, losses in one market may be offset by gains in another. Of course, diversification does not guarantee against loss; it is a method used to help manage investment risk.

Buck the System

Your return can also be affected by currency fluctuations. Investments denominated in a foreign currency are influenced by the exchange rate with the U.S. dollar.

Mutual fund shares fluctuate with market conditions and, when redeemed, may be worth more or less than their original cost. Before investing overseas, consider your risk profile carefully. The risks associated with investing on a worldwide basis include differences in financial reporting, currency exchange risk, as well as economic and political risks unique to the specific country.

Mutual funds are sold only by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

International investing can offer investors a chance to participate in foreign markets. Call today to discuss whether to take your portfolio global.

Can Your House Fund Your Retirement?

(CONTINUED FROM PAGE 1)

However, there is evidence to suggest that this may not be the most realistic way to approach retirement funding. Only 2% of current retirees receive the largest portion of their retirement incomes from the sale or refinancing of their homes.[6]

One of the big problems with counting on home equity from the sale of a home to pay for retirement expenses is that you have to move out. In this case, you could be forced to sell when market conditions are less than optimal and end up with less cash than you were expecting. In some cases, you may have trouble selling your home at all. Any of these snags could force you to alter your retirement strategy.

Some people consider a reverse mortgage to help fund their retirements. Reverse mortgages allow homeowners aged 62 and older to borrow against the value of their homes without having to pay back the loans as long as they continue to live there. The loan is paid off by the sale of the home after death or by the beneficiaries. However, the amount that typically can be borrowed with a reverse mortgage is much lower than the actual value of the home. And this strategy may prevent the borrower from passing the home on to his or her children.

Your home may have considerable value, but don't discount the sentimental value it may have for you and your family. Call today if you are looking for strategies to increase your retirement income.

1–2) CNNMoney, October 2, 2007, and June 14, 2007
3) *Kiplinger's,* October 2007
4–5) *InvestmentNews,* September 3, 2007
6) 2007 Retirement Confidence Survey, Employee Benefit Research Institute

AMONG THE WORLD'S RICHEST

Owning a home that's worth $500,000 with no outstanding liabilities puts you in the top 1% of the world's wealthiest people.

Source: *Financial Times,* December 5, 2006

The Consumer Price Index and You

Inflation is a long-term, sustained rise in the general level of prices, as measured by the Consumer Price Index (CPI). Writer and humorist Sam Ewing once described inflation this way: "Inflation is when you pay $15 for the $10 haircut you used to get for $5 when you had hair."[1]

Calculated monthly by the Bureau of Labor Statistics, the CPI tracks prices for a set basket of goods (such as food, clothing, shelter, and transportation) throughout the nation to measure inflation at the consumer level. Over the past 30 years, the CPI reveals that the prices paid by most urban consumers rose by about 4.2% per year.[2]

Although the CPI helps indicate inflation at the broad consumer level, it becomes less relevant as people grow older and change their spending patterns. For example, in 2007, health-care costs increased 7.5% from the previous year, and similar increases are expected for the foreseeable future.[3]

To calculate your personal inflation rate, based on your individual spending patterns, use the accompanying worksheet. Understanding your personal inflation rate may help you overcome some challenges during retirement.

1) BrainyQuote.com, 2007
2) Thomson Financial, 2007 (CPI for the period 12/31/1976 to 12/31/2006)
3) CNNMoney, March 27, 2007

WHAT IS YOUR PERSONAL INFLATION RATE?

Estimate the percentage of your adjusted gross income that you spend in each of the categories (column 3), then multiply by the CPI inflation factor in column 2 and write the answer in column 4. Add the figures in the last column to arrive at your personal inflation rate.

	CPI inflation rate		Percent of spending		Your inflation rate
Food & beverages	0.039	x	_____	=	______%
Housing	0.044	x	_____	=	______%
Clothing	0.014	x	_____	=	______%
Transportation	0.040	x	_____	=	______%
Medical care	0.060	x	_____	=	______%
Entertainment	0.014	x	_____	=	______%
Other	0.059	x	_____	=	______%
TOTAL			100%	=	______%

Source: Bureau of Labor Statistics, 2007; Haver Analytics, 2007. Inflation rates are for the 30-year period ending in September 2007, except for Entertainment (for which inflation rates are for the 14-year period ending in September 2007).