



# Bartholomew & Company

MANAGING WEALTH WITH WISDOM SINCE 1994

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## IMPORTANT REMINDER

**The deadline for making 2010 IRA contributions is April 15, 2011.**

**2010 IRA & Roth IRA Contribution Limit:**  
\$5,000

**2010 IRA & Roth IRA Catch-Up Limit:** \$1,000  
(Age 50+)

If you have any questions, please call our office at 1-800-440-8807.

Thank you,

Tom

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## Saving for Retirement and a Child's Education at the Same Time

You want to retire comfortably when the time comes. You also want to help your child go to college. So how do you juggle the two?

### Know what your financial needs are

The first step is to determine what your financial needs are for each goal. Answering the following questions can help you get started:

#### For retirement:

- How many years until you retire?
- Does your company offer an employer-sponsored retirement plan or a pension plan? Do you participate? If so, what's your balance? Can you estimate what your balance will be when you retire?
- How much do you expect to receive in Social Security benefits?
- What kind of lifestyle do you hope to have in retirement? For example, do you want to travel extensively, or will you be happy to stay in one place and live more simply?
- Do you or your spouse expect to work part-time in retirement?

#### For college:

- How many years away is college?
- Will your child attend a public or private college? What's the expected cost?
- Do you have more than one child?
- Does your child have any special skills that could lead to a scholarship?
- Do you expect your child to qualify for financial aid?

### Figure out what you can afford to put aside each month

After you know what your financial needs are, the next step is to determine what you can afford to put aside each month. To do so, you'll need to prepare a detailed family budget that lists all of your income and expenses. Once you've come up with a dollar amount, you'll

need to decide how to divvy up your funds.

### Retirement takes priority

Though college is certainly an important goal, you should probably focus on your retirement if you have limited funds. With generous corporate pensions mostly a thing of the past, the burden is primarily on you to fund your retirement. But if you wait until your child is in college to start saving, you'll miss out on years of tax-deferred growth and compounding of your money. Remember, your child can always attend college by taking out loans (or maybe even with scholarships), but there's no such thing as a retirement loan!



### Help! I can't meet both goals

If the numbers say that you can't afford to educate your child or retire with the lifestyle you expected, you'll have to make some sacrifices. Here are some things you can consider.

**Defer retirement:** The longer you work, the more money you'll earn and the later you'll need to dip into your retirement savings. Or, consider working part-time during retirement.

**Make changes to your lifestyle now or in retirement:** You might be able to adjust your spending habits now, or you may consider cutting back in retirement.

**Increase your earnings now:** Consider increasing your hours at your current job, finding a new job with better pay, taking a second job, or having a previously stay-at-home spouse return to the workforce.

**Invest more aggressively:** But remember that aggressive investments mean a greater risk of loss.

**Send your child to a less expensive school:** Don't feel guilty--a lesser-known liberal arts college or a state university may provide your child with a similar quality education at a far lower cost.



***The best time to start a conversation with your parents about their future needs and wishes is when they are still relatively healthy and active. Otherwise, you may find yourself making critical decisions on their behalf in the midst of a crisis--without a road map.***



## Important Questions to Ask Aging Parents

Remember "the talk" your parents initiated (maybe) with you many years ago? Well, now it's your turn to sit on the opposite side of the table. If you're the adult child of aging parents, it's important to open up a conversation about their future needs and wishes. The best time to do so is when your parents are relatively healthy and active. Otherwise, you may find yourself making critical decisions on their behalf in the midst of a crisis--without a road map.

The reality, though, is that many adult children would rather avoid such a discussion, because it can create feelings of fear and loss on both sides, and adult children want to avoid getting too personal by asking about financial or other matters. Here are some questions in the areas of finances, health, living situation, and memorial wishes that can help you start a conversation.

### Finances

- What institutions hold your assets? Ask your parents to create a list of their bank, brokerage, and retirement accounts, including account numbers and online user names and passwords, if applicable. You should also know where to find their insurance policies (life, home, auto, disability, long-term care), Social Security cards, titles to their house and vehicles, outstanding loan documents, and past tax returns. If your parents have a safe-deposit box or home safe, make sure you can access the key or combination.
- Do you currently work with any financial, legal, or tax advisors? If so, get a list of names with contact information.
- How often do you meet with your financial advisor? Do you think it would be helpful to do so soon? Would you like me to come?
- Do you need help paying monthly bills or reviewing items like credit card statements, medical receipts, or property tax bills?
- Do you have a durable power of attorney? A durable power of attorney is a legal document that allows a named individual (such as an adult child) to manage all aspects of a parent's financial life if he or she becomes disabled or incompetent.
- Do you have a will? If so, find out where it's located and who is named as executor. If it's more than five years old, your parents may want to review it to make sure their current wishes are represented. Ask if they have any specific personal property disposition requests that they want to discuss now (e.g., Aunt Agnes should get the china set).

- Are your beneficiary designations up-to-date? Designated beneficiaries on insurance policies, pensions, IRAs, and investments trump any instructions in your parents' wills.
- Do you have an overall estate plan? A trust? A living trust can help manage an estate while your parents are still living.

### Health

- What doctors do you currently see? Do they have experience treating seniors? Are you happy with the care you're getting? If your parents begin to need multiple medical specialists and/or home health services, you might consider hiring a geriatric care manager, especially if you don't live close by.
- What medications are you currently taking?
- What health insurance do you have? In addition to Medicare, which kicks in at age 65, find out if your parents have or should consider Medigap insurance--a private policy that covers many costs and services not covered by Medicare--and long-term care insurance, which covers the need for extended medical care.
- Do you have an advanced medical directive? This document includes your parents' wishes regarding life-support measures and the name of the person who will communicate on their behalf with health-care professionals. If your parents do not want heroic life-saving measures to be taken on their behalf, this document is a must.

### Living situation

- Do you plan to stay in your current home, or have you thought about downsizing to a condominium or townhouse?
- Is there anything I can do now to make your home more comfortable? This might include smaller projects like installing hand rails and night lights in the bathroom to bigger projects like moving the washing machine out of the basement, installing a stair climber, or moving a bedroom to the first floor.
- Do you employ certain people or companies for home maintenance projects (i.e., heating contractor, plumber, electrician, fall cleanup)?

### Memorial wishes

- Do you want to be buried or cremated? Do you have a burial plot picked out?
- Do you have any specific music or reading requests, or other wishes for your memorial service?

## Are We in a Bond Bubble?

Investors have been pouring money into bonds. Investment Company Institute statistics show that since January 2007, average net new money going into bond mutual funds each month has been roughly four times greater than net *outflows* from equity funds.\* So does that mean we're in the bond market's equivalent of the late-1990s tech bubble?

### What's been driving interest in bonds?

There are several reasons why bond funds have been attracting investor interest. First, in the wake of both the tech crash of 2000-2002 and the 2008 financial crisis, the Federal Reserve felt it needed to make credit more available by lowering interest rates. Over the last 10 years, the yield on the 10-year Treasury bond has fallen from 5% to well under 3% at the end of 2010.\*\* And for the first time ever, 5-year Treasury Inflation-Protected Securities (TIPS) actually paid a negative yield when they were auctioned last October.\*\*\* Because bond prices rise as interest rates fall, that has increased bond prices generally.

As a result, bonds have outperformed stocks in recent years. For the last 20-year period, total returns from stocks and bonds have been equal: 8.2%.\*\*\*\* And during the decade between January 2000 and the end of 2009, bonds actually outperformed stocks; the S&P 500 saw a total return of -0.9%, while long-term government bonds returned 7.7%.\*\*\*\* That outperformance has lured investors who may have forgotten that past performance doesn't guarantee future results, and invest in an asset class based on its recent history rather than its prospects for the future.

Demographics also have played a role. Many aging baby boomers who became accustomed to investing much of their IRAs and 401(k)s in stocks are beginning to realize that their time horizon for retirement isn't as long as it used to be, and that they should consider allocating an increasing percentage of their retirement portfolios to income-producing assets. The financial crisis also sent many frightened investors scurrying to put their money anywhere besides stocks.

Finally, diminished dividends from stocks have encouraged many investors to look elsewhere for income. During the tech boom, companies preferred to reinvest in growth or buy back stock rather than increase dividends, and according to Standard and Poor's, 2009 was the worst year on record for dividend payments. Though there has been some reversal of that trend in recent months, stingy dividends helped make bonds and their income more attractive.

### What to watch out for

No investing trend lasts forever without interruption. Here are some factors that could affect bond prices:

- Signs that inflation is picking up: Higher inflation means fixed income payments will have less purchasing power in the future, diminishing bonds' appeal as income vehicles.
- Fed reversal on interest rates: As the economy recovers, the Federal Reserve will need to withdraw the support it has given the bond markets. As it gradually ratchets up interest rates, bonds will begin to reverse their pattern of the last decade. Depending on the pace of the Fed action, that reversal could be swift. Rising interest rates typically mean falling bond prices, and longer-term bonds often feel the most impact because bond buyers are reluctant to tie up their money long-term if a better rate lies ahead.
- Lack of overseas interest in U.S. debt: Foreign buyers have been large purchasers of U.S. government debt. If foreign buyers show signs of turning away from U.S. debt, it could send shivers through the bond markets.
- Muni bond troubles: Some experts worry that defaults by cash-strapped state and local governments could become a problem.

However, balance those factors against the possibility of further sovereign debt problems abroad. Several European nations are still struggling to deal with their debt problems; another bout of global jitters like the one in spring 2009 could remind investors that the United States has never defaulted on its debt. Also, if the potential for deflation that the Fed is so concerned about turns into an actual decline in wages and prices, that could be a positive for bonds, since the income they pay would be more valuable as prices fall. Either way, now is an especially good time to keep an eye on your bond investments.

\*Average of monthly net new cash flows from January 2007 through September 2010 as reported in Investment Company Institute's "Long-Term Mutual Fund Flows Historical Data" as of Nov. 20, 2010.

\*\*Source: U.S. Treasury historical data on daily Treasury yield curve rates.

\*\*\*Source: "Record Setting Auction Data," [www.treasurydirect.gov](http://www.treasurydirect.gov).

\*\*\*\*10- and 20-year returns based on data on the Standard and Poor's 500 and long-term government bonds from *Ibbotson SBI 2010*.



***Bond outperformance has lured investors who may have forgotten that past performance doesn't guarantee future results.***



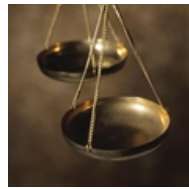
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## Ask the Experts



### What is dollar cost averaging?

Dollar cost averaging is a popular technique for investing a fixed dollar amount in a security at regular intervals. Although the strategy can't protect you

from loss in a declining market or guarantee that your investment will gain, it does eliminate the need to decide when to invest, thus requiring no effort to "time" the market.

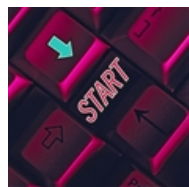
To be effective, dollar cost averaging requires you to invest the same amount in a particular security on a regular basis, even through periods of market decline. By doing so, your money will automatically buy more shares when the price of the security is low and fewer shares when the price is high, thus potentially decreasing your average price per share.

The table illustrates how price fluctuations can yield a lower average cost per share when you invest the same dollar amount regularly. The average market price per share over the five-month purchasing period is \$20 per share ( $\$25 + \$20 + \$10 + \$20 + \$25 = \$100$ , divided by  $5 = \$20$ ). However, because the regular amount of the monthly investment buys more

shares at the lower share prices, the average purchase price per share is \$17.85 ( $\$1,000$  divided by  $56$  shares purchased =  $\$17.85$ ).

Regular investment	Price per share	Shares purchased
\$200	\$25	8
\$200	\$20	10
\$200	\$10	20
\$200	\$20	10
\$200	\$25	8
\$1,000 total	Average market price: \$20	56 total shares

**Note:** This example is for illustrative purposes only, and does not represent any particular investment. Since dollar cost averaging involves continuous investment in securities regardless of fluctuating price levels of such securities, you should consider your financial ability to continue purchases through periods of low price levels.



### What is systematic investing?

As its name implies, systematic investing is the process of investing a portion of income on a regular basis. A systematic investing plan allows you to

take advantage of periodic investment techniques, such as dollar cost averaging. Automatic investing plans are useful because the transactions are made by others and the temptation to divert funds (out of sight, out of mind) is reduced.

An employer-sponsored retirement plan like a 401(k) or 403(b) is one of the most common examples of a systematic investing plan. However, some employers also allow employees to take advantage of the convenience of regular payroll deductions to contribute to an IRA or another type of account, or to purchase company stock. Check with your employer to see what options are available to you.

An automatic investment plan (AIP) is a system in which you authorize a fixed number of shares of stock or mutual funds to be purchased, or a fixed number of dollars invested, at set

intervals. You can set this up through a broker, who can help you decide how many shares to buy or how much money to invest, how often, and in what stock(s) or fund(s), or you can establish the plan yourself. You can arrange to have your investment money automatically deducted from your paycheck or transferred from your bank or other cash account monthly, quarterly, or however often you choose. AIPs can be especially effective if you want to make regular contributions to an IRA.

A dividend reinvestment plan (DRIP) is the automatic reinvestment of shareholder dividends into more shares of the company's stock. Some companies absorb most or all of the applicable brokerage fees, and some also discount the stock price.