Financial Services Advisory Incorporated

Fourth Quarter 2010 www.fsainvest.com (800) 235-4567

Cheap Thrills: 10 Recession-Proof Ways To Enjoy Life

Americans are officially saving more these days, with the personal savings rate rising from near zero to almost 6% in late 2010, according to the U.S. Bureau of Economic Analysis. Long addicted to conspicuous consumption—and prodigious borrowing—we've relearned the value of deferred gratification, and whether we're motivated by necessity or prudence, this is probably a good thing. But the downside is that being frugal often isn't much fun. Sitting home in front of the television can get kind of boring (and doesn't do much for the waistline, either). Here, then, are 10 cheap thrills, fun ways to get your juices flowing again while spending little or nothing.

1. Get passionate about local sports. The cost of taking your family to a single professional football or baseball game can run to several hundred dollars. So consider attending high school, college, or even minor league pro events. Go often, get to know the players, and pick out tomorrow's stars. And don't forget women's teams, and less familiar sports such as lacrosse, rowing, and skiing.

2. Look for the arts close to home. The same principle applies to dance, theater, and classical music. But if watching a high school orchestra saw its way through Beethoven isn't your idea of high culture, find out whether there's a nearby conservatory or professional arts school that opens performances to the public for free or a nominal ticket price. The Juilliard School in New York, for example, offers a calendar packed with the best and brightest students strutting their stuff in wide-ranging artistic disciplines.

3. Organize your life. Everyone has a spare room, basement workshop, garage, or junk drawer that calls out in reproach whenever you walk by the mess. Imagine how much better you'll feel if you finally tackle the job, which will require much more in the way of sweat equity than cash outlays. Buying a few shelves, pegboards, and organizer gadgetry may be all you need to transform a wasted space.

4. Cut your cable bill with Netflix and Roku. If you're paying through the nose for HBO and Showtime mostly for the movies, consider this alternative. For as little as $10 a month, Netflix lets you order a DVD online, keep it as long as you like, then send it back in a postpaid mailer and receive the next choice on your list. And though turnaround takes only a couple of days, in the meantime you can choose from thousands of films streamed instantly—at no additional charge—to your computer and thence to your TV. All you need are a wireless internet router and a receiver like the one Roku (roku.com) sells for $80 that lets you watch movies and TV classics from Netflix, Amazon, and more.

(Continued on page 4)

More New Faces Here At FSA

You might have noticed that our family tree has grown quite a bit. Ashley Sauers joined us in April to assist you with account questions and required minimum distribution requests. In May, we were introduced to Jamie Leggieri, who now helps answer client questions and schedules appointments. Both women have been terrific finds for FSA and we're so happy to have them on board.

This summer, I reconnected with Jon Gruber, an old colleague from my days at Charles Schwab over 10 years ago. I'm happy to announce that Jon has returned to this area from Connecticut and is the newest member of FSA! He now lives in Northern Virginia with his wife and three kids.

Jon has nearly 15 years of experience in finance and holds the Accredited Asset Management Specialist (AAMS) designation. Over the years, he's helped clients with everything from investments and retirement to tax and education planning. He looks forward to chatting with you the next time he can be of service.

In this issue, enjoy articles ranging from insurance to retirement: Life insurance, health insurance, or home insurance, we want to make sure that you're covered. This goes the same for retirement—we want to help you do what's right today to make sure you're comfortable tomorrow. Please call us if you have any questions.

Happy Holidays!!

Jim Joseph, CFP®
Vice President

Whole Life Or Term? It's A Tough Choice

If you're shopping for life insurance, you'll find myriad policies with innumerable options and riders. But individuals often face a choice between two common types of life insurance: whole life or term. While whole life provides permanent coverage and some cash value, it's normally much more expensive than a term policy that merely promises a death benefit if you die within a specified length of time. After years of steadily declining, the premiums for some term insurance policies have recently started to creep up. That could lead you to rethink your options.

Consider these differences between the two types of policies.

Whole life insurance. This is the traditional form of permanent life insurance. (Variations include "universal" life insurance and other cash-value policies.) The annual premiums are generally fixed when you buy the policy, which remains in effect for as long as you live if you continue to pay the premiums. In addition to providing a death benefit, the policy builds up a cash value on a tax-free basis. Typically, you're able to borrow against that value, or take the cash with you if you surrender the policy. If you decide to surrender the policy, you will receive the accumulated cash value less any surrender charges or fees. But the premiums for whole life insurance are sharply higher than those of a term policy, particularly when you're younger and term insurance is relatively cheap.

Term life insurance. As the name implies, you can buy term insurance covering a specified term, usually 10 years or longer. You could tailor the length of a policy to the amount of time you project that you will need coverage, perhaps choosing to have it expire at your expected retirement date, when replacing your income becomes less of an issue. Most term policies let you continue coverage at a higher rate. One main reason why term premiums are lower than those for whole life policies with the same death benefit is that term insurance doesn't have to divert part of what you pay to fund a cash build-up.

The bottom line. The standard financial advice on life insurance has been to buy a term policy and invest the difference between that cost and what you would pay for a whole life policy. Of course, every situation is different.

Major life events such as the birth of a child or grandchild, the start of a new business venture, or a change in your personal health are important times to review your life insurance coverage. We are happy to help you evaluate the right mix of insurance for your unique situation. Please feel free to give us a call. ●

Beware Of Homeowner's Insurance Gaps

Disaster may strike your home when you least expect it. There could be damage from flooding, an earthquake, termites, or even mold—just to name a few possibilities. And though you probably assume repairs will be covered by your homeowner's insurance policy, they may not be. Your policy may exclude more events than you realize. Even when you are covered—for, say, flood damage—there may be "gaps" in your coverage that limit the amount you can recover.

The good news is that a typical homeowner's policy covers losses resulting from fires, tornadoes, and severe storms. But the list of what it normally doesn't cover may surprise you. For instance, coverage may not extend to floods and earthquakes, although you can usually add a policy rider for such events. The rider's cost will vary based on whether you reside in a high-risk area.

Similarly, if you have to clean up a mess created by a water or sewage backup, the expense won't be covered by standard homeowner's insurance. But here, too, you can purchase a special rider to avoid this headache, often for less than $100 a year.

The list of other types of damage that usually aren't covered range from mold to insect and termite infestations to acts of terrorism, war, and nuclear attack. Dig your policy out of your files and take a few minutes to assess your risk exposure for these events.

Even if you're covered for damage—through standard insurance or a rider—payments from the insurance company are based on the property's replacement cost, not its fair market value. Also, if your home is destroyed and it's insured for less than the replacement value, you'll have to pay some of the rebuilding cost. In addition, deductibles and maximum dollar caps may affect reimbursements for possessions that are destroyed or stolen.

Survey: Many Worried About Retirement

It takes a clear plan of action to reach a goal—or so countless self-help books and motivational seminars have told us. Yet when it comes to reaching financial objectives, the message doesn't seem to be getting through.

In the 2009 National Consumer Survey, conducted by the Certified Financial Planner Board of Standards, 1,742 consumers were asked in May and June about their major financial concerns and the steps they've taken to address them. A majority of respondents, about half of whom have more than $1 million in investable assets, said they are worried about managing retirement income, keeping their health care insurance, handling debt, and building a retirement fund. Yet 64% have never had a written financial plan, 11% had one once but not now, and 8% have a plan that needs to be updated. Only 17% have a current, written plan.ï€†Among those who have a financial plan and work with a financial advisor, 65% said they have benefited from the process. Among those with a written plan but no advisor, just under half said the plan has been helpful. "Clearly, consumers who have a financial plan are more confident that their finances are in order and that they can reach their financial goals," says Kevin R. Keller, CEO of the CFP Board.

Those without a written plan cited a number of reasons for not having one:

- 42% said their financial affairs weren't complicated
- 42% said it was too costly to hire a financial planner and develop a plan
- 41% said they do their own informal planning
- 40% said they get along fine without a plan
- 30% said it's hard to know who provides the best planning services
- 24% said they don't really know what is in a financial plan and how it benefits people
- 20% said they couldn't trust the recommendations of financial professionals

The survey notes that 36% of respondents who work with an advisor said they've turned to the advisor more often during the global economic crisis that began in October 2008.

The higher the respondents' income, education level, and asset level, the more likely they are to employ a financial advisor and follow a financial plan, the survey shows. For instance, about one in four with a high school education has a written and updated plan in place, compared with 49% of college graduates. Just 26% of those with household income below $50,000 a year have an updated plan, compared with 53% of those with income exceeding $150,000 a year. In terms of asset levels, a quarter of those with assets of less than $100,000 have an updated plan, compared with 53% of those who have from $100,000 to $1 million in assets, and 67% of those with $1 million or more.

"Americans of every type of background and income level think carefully about their assets and how to improve their financial state," says Eleanor Blayney, a consumer advocate for the CFP Board. "Yet many don't realize that anyone, regardless of wealth or social status, can benefit from having a financial plan."

Among all respondents, 59% listed generating current income as a top financial concern. Other top concerns included:

- Providing health insurance coverage (55%)
- Managing or reducing current debt (53%)
- Building a retirement fund (51%)
- Building an emergency fund (47%)
- Preparing for future family medical needs (42%)
- Managing retirement income (40%)
- Providing life insurance coverage (35%)

These answers varied widely according to respondents' levels of education, income, and assets. For instance, 56% of those with a high school education cited "managing or reducing current debt" as a major concern, compared with 48% of college graduates. That worry was also cited by 58% of those earning $50,000 or less and 41% of those earning $100,000 or more, and by 61% of those with assets of less than $100,000 and 45% of those with assets between $100,000 and $1 million.

Creating and maintaining a financial plan can be an effective way to get and stay on track to reach your life goals. If you don't have a written, updated, and comprehensive plan to guide you to financial success, we can help you in this vital area. ●

In terms of liability exposure, one way to avoid dire consequences is to supplement your current coverage with an umbrella liability policy. As the name implies, the umbrella policy sits on top of your homeowner's and auto insurance policies to provide additional protection. For instance, if a neighbor slips and is injured on your icy sidewalk or a tree topples onto a car parked in front of your home, an umbrella policy may pick up the slack.

Just like other forms of insurance, you'll need to shop around for the best umbrella policy. And keep in mind that umbrella coverage kicks in only after other insurance is exhausted, and umbrella policies usually carry deductibles equal to the required underlying limits for the auto and homeowners policies. Still, the cost of umbrella coverage usually isn't prohibitively expensive. You may be able to obtain $1 million in liability coverage for $200 to $300 a year. And you may get a discount for using the same carrier. That could prove a small price to pay for plugging the gaps in policies. ●

Do You Know Your Health Care Facts?

Reforming the nation's health care system was the biggest single political issue of the past two years, prompting an unprecedented level of interest and debate. Unfortunately, the level of misunderstanding, on both sides, remains nearly as high as the level of passion.

How informed are you when it comes to health care? Take this quiz to find out:

1) Where does the U.S. rank worldwide in terms of health care, according to the World Health Organization?*
a) 1st c) 37th
b) 5th d) 56th

2) What percentage of the U.S. gross domestic product consists of health care expenditures?
a) 8% c) 24%
b) 16% d) 39%

3) Federal spending on Medicare and Medicaid is what percentage of U.S. gross domestic product?
a) 4% c) 12%
b) 8% d) 18%

4) What percentage of Americans under age 65 has health care insurance through their employer?
a) 34% c) 76%
b) 63% d) 88%

5) What percentage of Americans under age 65 purchases health care insurance privately, directly from an insurer?
a) 1% c) 8%
b) 4% d) 16%

6) What percentage of national health expenditures comes directly out of the consumers' pockets, through deductibles, co-payments, and payments for services not covered by insurance?
a) 2% c) 13%
b) 7% d) 18%

7) Which of the following statements about Health Savings Accounts is true?
a) Contributions are made on a pre-tax basis.
b) The funds roll over and accumulate year over year if not spent.
c) The funds can be invested, similar to funds in an individual retirement account.
d) All of the above
e) None of the above

8) The Medicare Trustees recently announced that the Medicare system is likely to start running out of money in what year?
a) 2012 c) 2025
b) 2017 d) 2038

If you have questions about health care insurance, Medicare, or any other health-related issue, please give us a call. We can work with you and your attorney to make sure all of your needs are met.

***The World Health Organization rankings are from 2000, when the group stopped compiling the data, citing the complexity of the task.**

Answers: 1-c; 2-b; 3-a; 4-b; 5-b; 6-c; 7-d; 8-b.

Ways To Enjoy Life

(Continued from page 1)

5. Cook with friends and neighbors. If your town doesn't have a gourmet club, you could start one. Typically you'll create one course for a monthly feast enjoyed in the home of a club member. For the cost of the food and a few hours in the kitchen, you get a cheap night out and have a chance to meet or reconnect with a local crowd.

6. Get in shape (but cancel the gym membership). Local recreational groups often sponsor adult basketball leagues and clubs for rowing and running. For minimal cost, you get camaraderie and regular exercise doing something you enjoy.

7. Go to the library. "Free public library" may be right in its title, and your local branch exists to let you borrow not just books but also magazines, music, and movies. It may have online resources, too, and libraries have spent the recession finding ways to help their constituents, providing everything from money-saving tips to job search networking.

8. Make a charitable contribution of time, not money. It may be gratifying to write that year-end check, but rolling up your sleeves to take an active role—whether by volunteering a few hours a week or taking a seat on a nonprofit board—can be even better (and cheaper).

9. Rediscover a dream. Youthful visions of grand endeavors—as a writer, inventor, chef, or adventurer—very often get sacrificed as you start a family and heed the call to earn, earn, earn. But it's almost never too late to rekindle long-dormant passions, particularly if you find yourself between jobs.

10. Reconnect with old friends. If you join Facebook, LinkedIn, or other social networks, you're bound to hear from people you knew in high school, work colleagues from long ago, or even an old flame or two. Take the plunge, get back in touch, and see what happens. ●

Financial Services Advisory One Church Street, Suite 901, Rockville, Maryland 20850 (301) 949-7300 Fax: (301) 949-7034