



# Financial Matters

We help clients to maximize their financial well-being through education, communication and service that exceeds expectations.

Fall 2009

## Special points of interest:

- 401(k) contribution limits stay the same in 2010
- Roth Conversion rules made more flexible in 2010
- First Time Home-buyer Credit ends December 1, 2009
- Required Minimum Distributions from IRAs and Qualified Plans are waived in

## Inside this issue:

Seven Compelling Reasons to Spend Less and Save More 1

Spend Time Planning for Financial Future 1

Water on the Moon Quiz 2

## Seven Compelling Reasons to Spend Less and Save More

We can't control bond yields, stock prices, or inflation. But, there's much we can control, including how much investment risk we take, how much we pay in investment costs, how we react to the market's ups and downs, and how much we spend and save.

Jonathan Clements, author of the new book, *The Little Book of Main Street Money*, believes we should stop worrying about the things we can't control and focus on the things we can. This is a more humble approach to managing money – and yet one that's often more rewarding.

Making conscious choices rather than haphazardly doling out hard-earned dollars is important. "We can live beyond our means in the short term, by tapping our home's equity, racking up the credit cards, or borrowing in other ways. But, that isn't sustainable over the long haul; we are constrained by our income," says Clements, who spent 18 years at the *Wall Street Journal* as the personal finance columnist.

Americans have a history of not saving nearly enough money. Clements believes we need self-control, a quality becoming scarce.

Many of us eat too much, exercise too little, and spend too freely. Most of us know we need to save more money, but lack motivation. Clements offers seven compelling reasons to spend less and save more.

1. **The earlier we start saving, the easier it will be.** The required monthly savings will be smaller simply because we can spread the effort over more months.



Also, by starting sooner we will likely get more help from the financial markets, thus further trimming the required monthly savings rate.

2. **Spending today doesn't seem to buy lasting happiness.** Studies show the thrill we get from our purchases often fades quickly. Tempted to buy a new car? Before you spend or borrow the money, try a cooling-off period of a week or two. That will give you time to consider whether the money spent will provide commensurate pleasure.

(Continued on page 3)

## Spend Time Now Planning for Your Financial Future

Are you "thinking" about retirement?

As early as 1968, the co-authors of the book, *Social Security: Perspectives for Reform*, observed: "There is a widespread myopia with respect to retirement needs. Empirical evidence shows that most people fail to save enough to prevent catastrophic drops in post-retirement income. Not only do people fail to plan ahead carefully for retirement,

even in the later years of their working life, many remain unaware of impending retirement needs."

Twenty years later in 1988, author Venita Vancaspel discussed financial literacy in the United States in her book, *Money Dynamics for the 1990s*. She wrote: "There is an educational void in our nation and unfortu-

(Continued on page 2)

## Spend Time Now Planning for Your Financial Future (cont'd.)

nately, we are raising a generation of financial illiterates. Even many college graduates cannot figure simple percentages. They are not teaching the one subject that they will need to live well in our free enterprise system – how to manage money. This vacuum is so great that the average couple cannot begin to confront the financial uncertainties and the multitude of choices they face in our complex society.”

All stages of life require us to make financial decisions and plan for economic security. No other life stage, however, is likely to create "the financial uncertainties and multitude of choices" as does retirement.

In 1998, author Robert Stoneman noted in his book, *High Finance, Hard Sell*, that millions of Americans were finally starting to understand that they must take more responsibility for their long-term financial security. He wrote that many individuals were turning to financial planning books, magazines, and television programs for money management and investment knowledge.

Inarguably, many individuals today would be in much stronger financial positions had they focused earlier on building future wealth.

A 1991 study by researcher, consultant, and President of Money Quotient, Carol Anderson, investigated factors that either enhance or hinder resource management and asset accumulation for retirement planning. Resource management in this context means using our personal resources (time, energy, skills, money) to achieve our goals efficiently and purposefully.

A surprising result of the study was that the variable "thinking about retirement" proved to be a stronger predictor of pre-retirement resource management than any other variable tested, including whether one was expecting a pension, the level of family income, and age. In addition, "extent of thinking about retirement" proved to be nearly as powerful a predictor of retirement asset accumulation as did family income and was decidedly more influential than education level, occupation level, proximity to retirement, and pension expectations.



Engaging in reflective and productive thinking about our future retirement can influence our financial planning for it and help to counteract potential negative influences such as lower income, lower occupation status, and lower education levels. The study also indicates the importance of how cognitive processes – thinking – can influence financial behaviors, motivate planning activities, and initiate positive change.

What was written more than forty years ago remains true today. It is important to spend time now planning for your future.

## Water on the Moon Quiz

Did you know that scientists recently discovered water on the moon? It turns out that the moon is wetter than anyone thought, although it's still drier than the Sahara. By some estimates, one ton of moon dirt would yield about 32 ounces of water.

1. What caused scientists to think there was H<sub>2</sub>O on the moon? A.) The Moon Mineralogy Mapper orbiting the moon on India's Chandrayaan-1 spacecraft picked up wavelengths that are only produced by water. B.) Samples collected by Japanese astronauts and analyzed on the International Space Station contained tiny bits of ice. C.) A Centaur robot developed by NASA collected samples of rock and ice. D.) NASA photographs showed deposits in two gullies on the moon that suggest water carried sediment through the gullies thousands of years ago.
2. Why were scientists surprised to find indications of water on the moon? A.) The rocks brought to earth by Apollo astronauts were thought to be completely dry. B.) There is no apparent source for water on the moon. C.) The moon's atmosphere is too thin to prevent water from evaporating. D.) There is no life on the moon.
3. Which of the following statements is true? Water on the moon:

(Continued on Page 3)

## Seven Compelling Reasons to Spend Less and Save More (cont'd.)

### 3. Saving regularly can give us peace of mind.

If we know we're living within our means, we are more likely to feel financially content.

### 4. Saving is a bargain compared with spending.

Every dollar we earn and spend will be taxed, so we may end up with 60 or 70 cents worth of merchandise. If you stash that dollar in your 401(k) plan, you get to keep the money and leave it to grow tax-deferred. Any matching contribution from your employer will increase the return.

### 5. The tax code is stacked in favor of savers.

A slew of tax-favored accounts exist – 401(k) plans, Roth IRAs, 529 college savings plans, and more. If we are investing through a regular taxable account, we can take advantage of the low federal tax rate on qualified dividends and long-term capital gains.

### 6. Becoming a top-notch saver doesn't take huge sacrifices.

Suppose we step up our savings rate from five to 10% of our paycheck, thus doubling the amount we save. To achieve this, all that's required is trimming our spending from 95% of our paycheck to 90%, a drop of just over 5%

### 7. Diligent savers need smaller retirement nest eggs.

If we're big-time savers, we won't just accumulate our desired portfolios more quickly, we also will need less money to retire because we are accustomed to living less expensively.

Clements' book offers other helpful hints. We might create oddball rules for ourselves, such as insisting we will save all tax refunds, year-end bonuses, overtime pay, insurance reimbursements, and money from a second job.

To ensure we don't dip into our savings, we could try "mental accounting" – allowing ourselves to spend from our checking accounts while deciding that our savings, brokerage, mutual fund and retirement accounts are off limits. However, be careful to avoid the illusion of saving; simultaneously piling up credit card debt is counterproductive.



Finally, Clements acknowledges, "Budgeting doesn't work for most people. When we budget, the idea is to analyze our monthly expenditures, figure out ways to cut

back, restrain our spending, and then save whatever remains at the end of the month. The problem is we often get to the end of the month and there's no money to save. Along the way, we gave into temptation, spent impulsively, blew our budget, and finished the month feeling badly about our spendthrift ways."

Instead, he recommends simply socking away money as soon as we get our paycheck – the old "pay-yourself-first" strategy.

Everything's a tradeoff.

*"Kind words can be short and easy to speak, but their echoes are truly endless."*

*—Mother Teresa*

## Moon Quiz (cont'd.)

A.) May be present as ice in shadowed craters which are some of the coldest places in the solar system. B.) Looks as though it is most abundant near the poles of the moon. C.) May be produced as solar wind hydrogen interacts with rock on the moon's surface. D.) All of the above.

4. How do scientists plan to learn more about water on the moon? A.) They plan to use NASA's Lunar Crater Observation and Sensing Satellite to blast a crater in the

moon's surface and gather data. B.) The next NASA space shuttle will drill for samples and return them to earth. C.) The Indian Research Space Organization will send a Moon Surface Robotic Penetrator to gather additional information. D.) The ICES at mission will provide data about the moon's ice sheet.



Answers:  
1. A.  
2. A.  
3. D.  
4. A.

*“If football taught me anything about happiness, it is that you win the game one play at a time.”*

*—Fran Tarkenton*



## Client Corner

- Katherine Mellen Charron's book [Freedom's Teacher: The Life of Septima Clark](#) was just published. Get a copy at [www.amazon.com](http://www.amazon.com).

If you have any announcements you would like to include, send them to us at [emelia@omearafinancial.com](mailto:emelia@omearafinancial.com).

*The O'Meara Financial Group, Inc. is committed to maximizing our clients' financial well-being through education, communication and service that exceeds expectations. We provide personalized wealth planning and investment management services for individual investors and corporate retirement plans.*



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