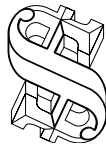


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A Few Thoughts About Inflation

Commentary by
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When most people use the word “inflation”, they are referring to how much more things cost than they used to. When the government refers to inflation, it is referring to various mathematical models used to measure “the cost of living”. There can be and is a disconnect between those two definitions.

For instance, the government tells us that the Consumer Price Index (CPI) indicates that inflation is under control, while the devaluation of the dollar, both here and overseas, says otherwise. The table below indicates that we have had a steady increase

of inflation with the current rate (as calculated by the government) being triple what it was in 2001. There are many others who feel that this number is conservative and the true rate of the cost of living may be as much as double what the CPI suggests. Perhaps your personal experience can confirm this position.

Recently I started to take my mother grocery shopping. She has pointed out that many products have reduced the size on the amounts, but kept the prices the same. It seems everything is shrinking. From ice

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“... less for
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inflation.”

Consumer Price Index: June 2008 Annual Information By Component								
	2001	2002	2003	2004	2005	2006	2007	6 months, Ending June 2008
All items.....	1.6	2.4	1.9	3.3	3.4	2.5	4.1	5.5
Food and beverages	2.8	1.5	3.5	2.6	2.3	2.2	4.8	6.6
Housing.....	2.9	2.4	2.2	3.0	4.0	3.3	3.0	4.3
Apparel.....	-3.2	-1.8	-2.1	-.2	-1.1	.9	-.3	-1.9
Transportation....	-3.8	3.8	.3	6.5	4.8	1.6	8.3	11.9
Medical care.....	4.7	5.0	3.7	4.2	4.3	3.6	5.2	2.7
Recreation.....	1.5	1.1	1.1	.7	1.1	1.0	.8	1.5
Education and Communication....	3.2	2.2	1.6	1.5	2.4	2.3	3.0	4.1
Other goods and Services.....	4.5	3.3	1.5	2.5	3.1	3.0	3.3	4.8
Special indexes:								
Energy.....	-13.0	10.7	6.9	16.6	17.1	2.9	17.4	29.1
Energy commodities	-24.5	23.7	6.9	26.7	16.7	6.1	29.4	34.7
Energy services...	-1.5	.4	6.9	6.8	17.6	-.6	3.4	20.1
All items less Energy.....	2.8	1.8	1.5	2.2	2.2	2.5	2.8	3.0
Food.....	2.8	1.5	3.6	2.7	2.3	2.1	4.9	6.8
All items less food and energy.....	2.7	1.9	1.1	2.2	2.2	2.6	2.4	2.3

Source: JUNE 2008 CPI Report, Bureau of Labor Statistics of the U.S. Department of Labor

cream to potato chips, the bag/box contains less. Translate: less for the same money equals inflation. There is also the simple idea of an increase in pricing (think fuel costs). Here we just pay more for the same amount - again, this equals inflation.

Another measure of inflation is to follow currency exchange rates. There is no news here. Almost every foreign currency has devalued the dollar. This can also be said of the price of gold in dollars, which has risen.

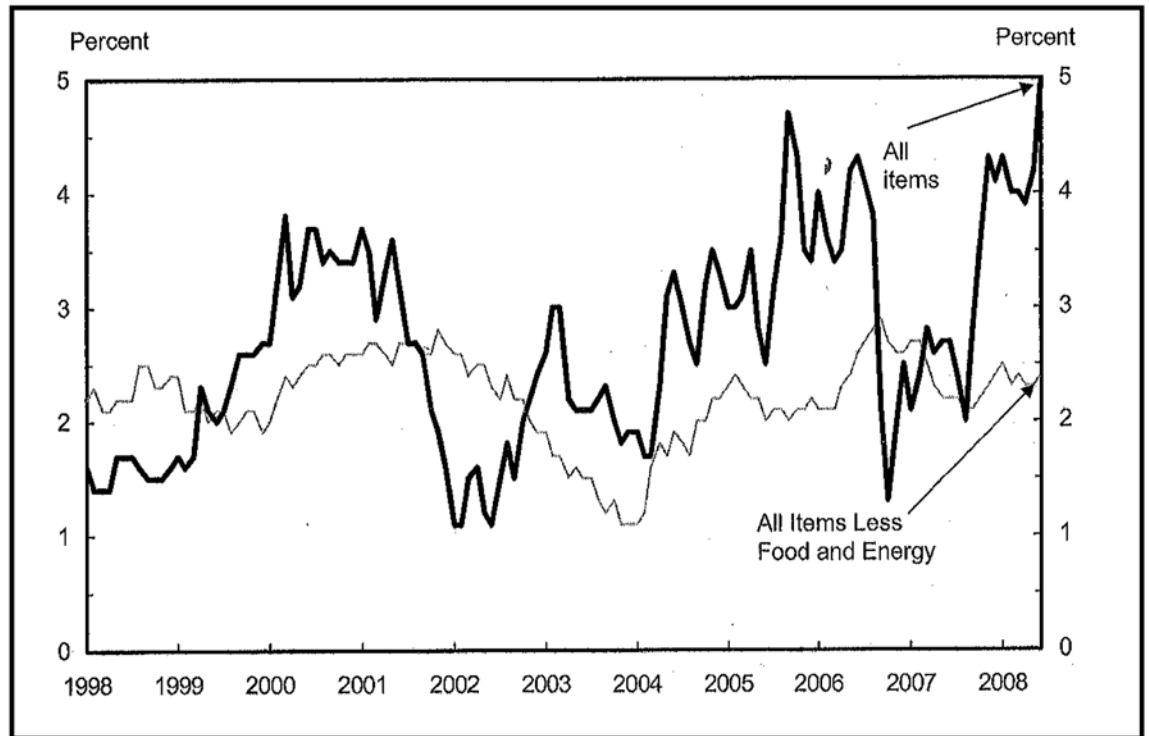
The chart below shows what an impact food and energy have on the CPI. In fact, the government has changed the method of the calculation process a number of times and each time that change has resulted in reducing the number.

The short take on this is that it seems, contrary to what the government says, inflation is NOT under control. In an election year, when discussion of such things is taboo, it is all the more important to demand accountability for one of government's most important duties: currency stability.

As you can see there has been a sharp increase in most items. This does not take into effect the "hidden" inflation discussed above. Regardless of the outcome of our national elections, the Federal Reserve will be forced to address this issue soon. In the meantime, I suggest that you brace yourself for higher prices and an aggressive FED (read "interest rate increases"). This ride will get bumpier before it levels off.

**"I suggest
that you
brace
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for higher
prices ..."**

Consumer Price Index 12-Month, 1998 to Present



Source: June 2008 CPI Report, U.S. Department of Labor

RESILIENCE & TRANSITION

Resiliency is a personal characteristic that can help you navigate life in the uncertain sea of change. It is a trait and a skill that will help you to overcome challenges and grab hold of the opportunities that you encounter along your life's journey.

Resiliency also describes your ability to “bounce back” from loss, disappointment, or other difficult circumstances. Those who are resilient don't give up and have a positive outlook even when experiencing trials and tribulations.

Here are more characteristics of resilient people:

1. They feel good about themselves, and their self-esteem is rarely affected by criticism or negative opinions of others.
2. They are emotionally stable and are not easily “rattled” in stressful situations.

3. Even in difficult situations, they never give up.
4. They stay in control of the direction their lives are taking.

It is also important to understand that making successful transitions requires resilience. We all encounter both expected and unexpected changes in every area of life. However, those who possess both practical strategies and emotional fortitude will adapt more easily and make the most of new situations and circumstances.

In the world of music, the “passing note” is a note that is not part of a particular chord, but is placed between two chords to provide a smooth melodic transition from one to the other. Likewise, it is important to recognize ways that you as an individual can act as a “passing note” in your own life by nurturing your resilience and facilitating successful life transitions.

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Tax-Wise Gifting Strategies for Seniors

You've spent most of your life building your wealth. Now, your concern may have shifted to reducing your estate and saving taxes. Making gifts is one way to reduce your estate. But because gifting can trigger federal gift tax, as well as federal generation-skipping transfer tax (GSTT) if the gift is to someone who is more than one generation below you (e.g., grandchildren), you'll want to consider making gifts in ways that will minimize tax. Here are some tax-wise gifting strategies to consider.

Take full advantage of the federal annual gift tax exclusion and lifetime exemption

For 2008, you can give tax free up to \$12,000 per recipient (\$24,000 if the gift is from both you and your spouse) under the annual gift tax exclusion. Gifts over that amount are tax free to the extent of your \$1 million lifetime gift tax exemption (\$2 million lifetime GSTT exemption).

Contribute to 529 plans

If you fund a 529 plan for your grandchild's college education,

you can contribute up to five years' worth of gifts at once; that's \$60,000 per child, or \$120,000 per child if you and your spouse elect to make the gift.

Pay tuition and medical expenses

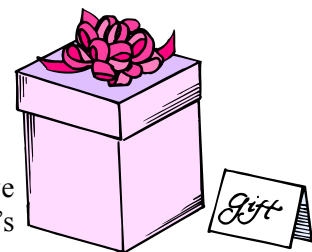
You can make unlimited tax-free gifts by paying medical bills or college tuition on behalf of a recipient. Payments must be made directly to the medical care provider or college.

Make charitable donations

Donations to charity are completely free from gift tax and are also generally deductible for income tax purposes, subject to certain limitations.

Make gifts and pay the gift tax

This may seem counterintuitive, but sometimes making gifts and paying the gift tax can be advantageous. The reason is that gift tax paid is removed from your estate. So, gift taxes



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paid on lifetime gifts can significantly reduce overall federal gift and estate taxes.

Types of property to gift

Selecting the type of property to gift can be very important. Here are some things to consider:

- Gift property that may grow substantially in value over time, such as common stock, antiques, art, and real estate. This strategy removes any future appreciation of this property from your estate.
- Be careful when gifting appreciated property. Because a property's basis (generally its cost) is carried over to the recipient, gifts of appreciated property can be good in some circumstances but not in others. You may not want to give highly appreciated property if the recipient will recognize a substantial capital gain when the property is sold. On the other hand, you may want to make that gift if the sale of the property is imminent anyway and the recipient would owe less tax than you upon the sale.
- You should avoid giving property that is likely to lose value after the gift has been made. Also, it's not generally a good idea to give away depreciated property. The recipient's basis for recognizing a loss is the lower of your basis (carryover basis) or the current fair market value. The recipient may be unable to recognize the loss on the property. Both you and the recipient may lose the loss deduction.
- Gift assets that yield higher amounts of income instead of those that yield lower amounts. This will prevent the buildup of income in your estate. Similarly, gift assets that produce taxable income instead of those that produce less taxable income, such as municipal bonds.
- It may be possible to reduce your ownership interest in a closely held business (or an interest in real estate) so that it may be valued at a discount. For example, if you have a minority interest (49% or less) in the stock of a closely held business, you may qualify for a discount. Also, a fractional interest in real property may be valued at a discount. It may be beneficial to make a gift of stock or an interest in real estate to qualify for the discount.
- Be careful when giving S corp stock to a trust, as the business may lose S corp status.

In My Opinion . . .

Robert J. Cole, Jr., CLU, ChFC, CASL, CFP®

Lessons . . .

When I visited with you last time, I was preparing to leave our home for the "burbs" to relocate while we had an extensive home remodeling job done. I am happy to report that we are now just days away from returning to our newly renovated residence and it turned out just as we planned. I mentioned that I wanted to treat the experience as a learning one and I thought it would be a good idea to share some of those lessons.

The first thing I learned is that planning pays off. It took us three years to agree on design, pick our contractor, and buy all of the accessories. My wife purchased most of the lights and fixtures over the internet, and having that wonderful tool helped us find just the right pieces. As time went by, our vision became more focused and that concentration produced a wonderful reality.

I learned that involvement is critical. You can have the best strategic partners, but without good communication, constant feedback and review, the end result is not likely to be one you are happy with. In other words, it's not just the blueprint, but an ongoing process that requires energy and attention, two items that are in short supply in today's culture. If you *really* want to plan, you *must* invest your energy and attention.

Another lesson is that humor is a good remedy for frustration. I read several Woody Allen books and listened to the comedy channel on the radio. We tend to take things too seriously and we should remember that there are few things in life that warrant constant seriousness. Whenever I found myself feeling out of sorts, I just made myself laugh.

I found out that there *really* is no place like home. Though the place we lived in was in a luxury patio home community, I missed the bustle of my old neighborhood. I missed our oriental garden as a space for quiet time. I also found out what "commuting" means, since our temporary residence was some thirty minutes more of a drive (and gas) than my usual ten minute drive. As energy prices continue to soar, I think more of us will have to deal with that lesson.

Finally, I experienced what it feels like to save money for a project and then to see that project come to reality. I can't wait to be reenergized by our new/old home. I want to also say that my respect and confidence in my wife's skills in designing and implementing took a giant leap and that the after effects of that will last quite sometime.

All things that start as a dream become reality through patience, commitment, and planning. Take control of your future today or tomorrow may turn out as something less than you want.

Until next time, that's my opinion.

Robert J. Cole, Jr., CLU, ChFC, CASL, CFP®
President