

505 South Third St.
Suite 300
Louisville, KY 40202
(502) 589-1772
www.lifetimesolution.com



Living Life Purposefully

A sense of mission adds essence and quality to life.

A mission that reflects deeply held values and passions will have staying power. Documenting your mission with a written statement can help serve as a valuable tool for motivation, planning and decision making.

WHEN INDIVIDUALS set goals that are especially meaningful to them, they will experience a sense of mission.

Along with a well defined mission comes enthusiasm for what they want to accomplish and commitment to the tasks that lie ahead.

In addition, a mission gives these individuals a reason to live each day purposefully, a reason to bounce back from setbacks, and a reason to stretch their comfort zones and explore their potential. A sense of mission adds an essence and quality to life, the value of which is beyond measure.

When defining your mission, remember that it should reflect your most deeply held values and compelling interests. It should also give opportunity for those values and interests to be expressed in many ways.

Your mission statement should also be

such a powerful influence in your life that, on both a conscious and subconscious level, it will guide your day-to-day decisions as well as nurture the personal and professional growth you desire.

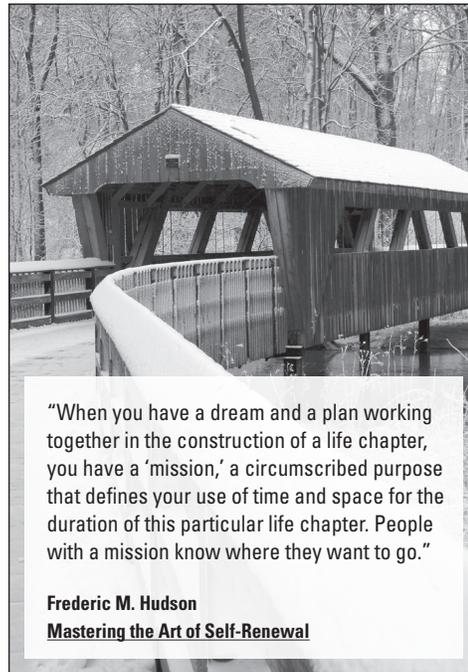
Taking the time to create a mission statement that is unique and meaningful to you is well worth the investment of your thought, energy, and focus.

Here are two resources that can help you get started and guide the entire process:

1. A quick and easy approach is to log on to www.franklincovey.com and then click on "Library & Resources."

Next, click on "Mission Statement Builder," a web-based, interactive tool.

2. For a more in-depth experience, get a hold of a copy of *The Path: Creating Your Mission Statement for Work & Life* by Laurie Beth Jones. ■



"When you have a dream and a plan working together in the construction of a life chapter, you have a 'mission,' a circumscribed purpose that defines your use of time and space for the duration of this particular life chapter. People with a mission know where they want to go."

Frederic M. Hudson
Mastering the Art of Self-Renewal

MONEY & LIFE

LINKING FINANCIAL PLANNING & LIFE PLANNING



A New View of Retirement

THE GOAL OF TRADITIONAL retirement planning has been to build a “nest egg” of personal savings and investments that will supplement Social Security and pension benefits. Together, these three sources of retirement income have long been referred to as the proverbial “three legged stool”—a solid and well balanced foundation for building financial security in old age.

However, Social Security benefits are less generous than they once were, and the solvency of future benefits is in question. In addition, employers are also reducing retirement benefits and switching to pension plans that transfer accountability for investment selection and performance to employees.

Because these two legs of the retirement income stool are shrinking, more responsibility for financial security has shifted to personal savings and investments. Nevertheless, for most pre-retirees, this third leg of the retirement income stool is seriously under funded as well!

Therefore, Baby Boomers and adults of all ages need a new framework to guide their preparation for retirement. To add stability to the retirement income stool, the new retirement realities call for adding a fourth leg comprised of income and benefits derived from post-retirement work. In this scenario, “retirees” will be either:

- (1) older at full retirement,
- (2) have part-time or part-year jobs,
- (3) move into new careers, or
- (4) gradually phase out of their current positions to avoid an abrupt departure.

In addition to income, post-retirement work also provides benefits that most Baby Boomers find liberating and compelling. That is because they view retirement not as a respite from work, but as an opportunity to explore new arenas, stretch their comfort zones, and find unique ways to contribute to their families and communities.

Many adults today view life after 50 as a second chance to grab the brass ring on the merry-go-round of life! ■

Baby Boomers need a new framework to guide their preparation for retirement. Post-retirement work can add financial stability and bring a higher meaning to their lives.

WHAT'S YOUR NUMBER?

HOW MUCH MONEY do you need to secure the rest of your life? Do you know how to think about it? What do you want to do with the rest of your life and how much will it cost?

Lee Eisenberg challenges his readers with these questions and more in his book, [The Number: A Completely Different Way to Think about the Rest of Your Life](#). As Eisenberg himself proclaims, “This book is about money, but ultimately it’s about the life you want, the life you don’t, and the costs of each.”

In particular, these are burning issues for the 76 million Baby Boomers who are nearing retirement age. In the past, this transition has been viewed solely as an economic event—one in which the focus is on building a retirement nest egg. But more and more in our society, the nagging question is creeping in, “What is the money for?”

Continued on back

“The Market”

The popular view may not offer much insight.

THE MEDIA give hourly reports on the market. Analysts talk about the market’s strength or mood. But what exactly is “the market”? Most people would struggle to provide a detailed answer.

No market index or benchmark offers a comprehensive view of stock performance—and building an exact proxy of a market, sector or style is an impractical goal for many reasons, including high trading costs and illiquidity of smaller company stocks. So, various entities attempt to maintain a representative sample without holding the entire stock universe.

Of course, some market indicators are more descriptive than others. Here are the ones most commonly cited:

- **Dow Jones Industrial Average (DJIA).** This is the oldest and most often-quoted indicator. It is also the narrowest, reflecting only 30 major U.S. industrial stocks. The DJIA has three major flaws.⁽¹⁾ First, the Dow is a price-weighted average, which allows a stock’s price level to have a greater influence on the index’s calculation than the size of a stock’s market capitalization. Second, the average only calculates 30 stocks, which is a shallow sampling to describe the broad market. Third, the DJIA is not a total return index because it excludes dividends, which typically make up a large part of a stock’s return. The longer the time period, the larger the gap between the price index and actual performance.

- **Standard & Poors 500 Index.** It consists of 500 stocks chosen for market size and industry representation.⁽²⁾ This results in about 70% coverage of the total stock universe. It is market value-weighted (share price times shares outstanding) so that returns of the largest stocks have a proportionally greater impact on the index value—just as they do in the to-

tal market. It is not unusual for the largest 10 stocks to drive over 25% of the index’s value—or for one or two advancing sectors (eg, energy or technology) to account for 30% of the index in a given time frame.

The index’s main virtue is a thorough representation of U.S. large company growth stocks. One main drawback is that the value-weighted nature enables the largest companies to move the index drastically. Also, the index offers low exposure to small company stocks and value stocks—two main asset classes that offer above-market expected returns for the higher risk assumed.

- **Russell 2000 Index.** Contains the smallest 2,000 stocks which make up only about 7% of the

U.S. stock market’s value, but represent a major asset class.

The index is more evenly weighted, so there is a smaller gap between the largest and smallest stock in the index. This results in an index that is less top heavy, with the top 10 stocks representing about 2% of the overall value. The Russell 2000 is considered the most popular benchmark of small cap performance.

- **Wilshire 5000 Index.** Reflecting a universe of about 6,700 stocks, it offers the broadest sampling of the total market. Critics claim that the Wilshire 5000’s diversity makes it hard to determine what sectors or asset classes (small, large, value, growth) are moving the market.

Considerations

Many other indexes attempt to represent various subgroupings in the market, such as global stocks, country-specific or regional stocks, industry sectors, and asset classes reflecting market risk factors, such as value.⁽³⁾

All benchmarks share certain traits

that investors should understand and accommodate. These include:

- **Index drift.** Unequal performance among industries, sectors and styles can alter the attributes of a cap-weighted index. This is an issue if you are using indexes to model asset classes—such as small cap or value—or to maintain industry sector weightings in your portfolio.

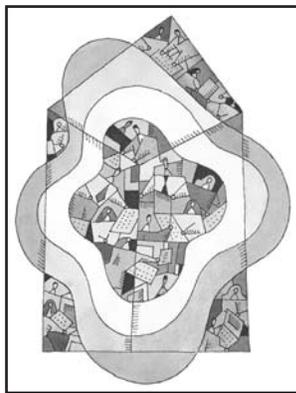
- **Market impact.** Most indexes adjust stock composition monthly or quarterly. When the benchmarks announce the stocks to be added and dropped, professional managers buy and sell to adjust their portfolios. The activity incurs transaction costs and possible capital gains taxes on portfolios.

The stocks being added or deleted may experience upward and downward pressure driven by index demand rather than fundamentals. In fact, index reconstitution may result in acquiring high-priced stocks and selling lower-priced stocks. Money managers who closely model their portfolios around the market attempt to avoid this impact by delaying the rebalancing until the effects of market impact have subsided.

- **Gauging portfolio performance.** Diversification requires advanced strategies to capture risk/return dimensions of various asset groups and to maintain an accurate portfolio mix. Since benchmarks describe only segments of the market, no single one will describe performance of a globally diversified portfolio.

The most relevant benchmark is one that accurately reflects the various asset group weightings in your portfolio. You can gain little insight from comparing a large-cap value or balanced strategy to a large-cap growth index. If your portfolio is diversified according to company size, investment style, industries and countries in the stock universe—and holds bonds and other asset groups as well—the evaluation will have to match this complexity by weighting various benchmark returns of domestic and foreign indexes in accurate proportions.

A truly diversified portfolio will hold many markets, while the most accurate and useful market indicator will reflect this complexity. Remember this the next time you hear the “market report”. ■



(1) Shoven, John. B. and Clemens Sialm. “The Dow Jones Industrial Average: The Impact of Fixing Its Flaws”, The Journal of Wealth Management, Winter 2000. (2) You cannot invest directly in an index. (3) There’s no assurance or certainty that future performance will model historical returns.

What's Your Number?

(Continued)

In *The Late-Start Investor*, author John Wasik recommends rejecting the traditional way of planning for retirement and choosing instead a “flexible life plan that provides for financial, vocational, physical, emotional, and spiritual needs.” He explains, “Unless you look at your future holistically, merely saving up a pile of money will be a meaningless act.”

With this in mind, the first step to investing in your future is to think about and clarify what is most important to you. This is a time to listen to your own heart and to focus on what you value most in life. Whatever you identify will become the foundation for your life goals.

The next step is to think about the role that money can play in helping you to achieve each life goal.

- Will having sufficient financial resources give you more options for realizing your goals?
- Will financial independence in your retirement years allow you to pursue those activities that will give your life a sense of meaning and purpose?

Answering these questions will help you to determine “your number” and to understand how your money is integrated into all areas of your life—not as an end in itself, but as an instrument for creating the life you want—now and in future. ■

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In My Opinion . . .

Robert J. Cole, Jr., CLU, ChFC, CFP®

Living the “On Purpose” Life

Recently the news carried the story of the death of Steve Erwin, the 44-year-old Australian naturalist. In case you missed it, Steve Erwin was filming an underwater documentary called *The Ocean's Deadliest* when he swam too close to a large stingray. The normally shy and evasive creature lashed out reflexively, sending its sharp, serrated tail-stinger directly into Steve's heart. He was dead by the time they got him out of the water.

The abrupt end of a life is something that gives everyone a pause. The first reaction is that it seems like a tragedy for someone to die who is so full of life and at such a young age. But perhaps the story here is that he died doing what he loved.

Many of us don't have to be reminded that life can change in an instant. There are many examples. Recently we lost two clients in a tragic airplane accident that took forty-nine lives. They were on their way to celebrate a wedding anniversary. We also had a number of people who had their lives changed by a medical diagnosis. The point is you are only a moment away from that point, an instant we will all reach. Will you be ready?

Time, one of the five dimensions of wealth, is the hardest of all resources to manage. We “spend” much of it without thought. We also have no way to plan how much of it we have. In this issue, there is an article about Living Life Purposefully, which to me seems to be the only defense against being caught short by a sudden demise. In our practice, we are constantly reminding our clients to focus on how they are using all of their resources to support living a life “on purpose”.

Perhaps, if you are lucky, you will meet that moment like Steve Irwin, following your bliss. I can assure you this won't happen by accident. It is up to you to define your path and keep on it. The end of the path is already defined; it is the journey that separates each of us. These choices are some of the most difficult to make, which is probably why many of us choose to delegate them to “outside forces”. After all, if we can blame the world for our outcome, then we are relieved of the responsibility for our journey. This is not the path of heroes, but rather the course of least accountability.

In our society, we have often been encouraged to define our life in terms of the material things we accumulate. Witness our obsession with wealth (the Lottery) and fame (American Idol). To me the true treasures in life are friends, family, health and legacy. Each of these takes a substantial commitment of time. Before you embark on the path of life's decisions, make sure that you have your priorities straight, then stick to them. It's the best insurance policy to have your “moment” arrive.

Until next time, that's my opinion.

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