

Financial Insights From The Richards Group



INSURANCE & FINANCIAL SERVICES

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4th Qtr 2011

Strategies for Building Your Financial Security

Market Recap for 3rd Quarter 2011

U.S. equities declined in the third quarter, with more than 10% of their value affected by the same anxieties that have been plaguing investors for most of the year, including concerns about domestic economic growth and the ongoing sovereign debt crises in Europe. The market went on a roller-coaster ride in July, finishing up the tumultuous month slightly below where it started. Federal lawmakers' inability to resolve the U.S. debt limit crisis weighed heavily on sentiment, although prices increased a few times during the month when investors

believed a solution was imminent. A rally on July 20 gave the Dow its biggest one-day point gain of the year, fueled by stronger-than-expected earnings news from IBM, Coca-Cola, and Harley-Davidson. But investor angst returned in force in August, following the government impasse over extending the debt limit and Standard & Poor's downgrade of the U.S. government's credit rating on August 5. Severe volatility ensued, and investors unnerved by seesawing stock prices poured assets back into bonds and cash. September experi-



enced a mid-month mini-rally, but that was sandwiched between sell-offs that ensured another losing month.

Source: Standard & Poor's. Past performance is no guarantee of future results.

Four Steps to Help Reduce Debt

With continued concerns about the falling value of homes, rising health care costs, and an uncertain outlook for the economy, now more than ever, Americans need to set a new course with regard to managing their household finances.

If you are ready to face up to your own financial realities and set a plan of action, the time to act is now. The following four-part strategy may help you control your cash flow, pay off debt, and encourage saving so you can better

handle the expenses that may have gotten you into debt in the first place.

Step 1: Track Your Spending

As a first step, keep track of your typical monthly expenses for three months to find out where your money is going. Also try to estimate unexpected expenses for a year's time -- auto and home repairs, gifts, vacations, etc. -- and divide that number by 12. Once you have a record of your spending, compare your monthly outlay with your monthly income. If

you have a surplus, this is the amount you can apply each month to paying down debt and building savings. If you have a shortfall, you'll need to examine your expenses more closely to see what you can potentially cut back or cut out.

Step 2: Build Your Savings

A key to establishing good saving habits is to make saving even easier than spending. One tip is to set up separate savings accounts with separate goals attached to them. If you open them (cont. p 2)

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Four Steps to Help Reduce Debt (continued from p 1)

with the same bank or credit union, you can easily transfer money back and forth. Suggested account purposes:

- "Emergency Account" to pay for unexpected life events. Your goal for this account should be to build up at least three to six months of living expenses. This way, if you lose your job or need a lump sum to pay for a significant expense (i.e. medical), you may not have to tap into your other savings or ring up more debt. If you can direct 5% of your pay each month to this account, you'll build up a nice cushion in about three to four years.
- "Family Account" to help fund your children's school expenses (such as class trips and team uniforms) or family vacations. Let's face it: If you have children, you are always paying for something. Even if you don't have kids, putting away money for a specific short-term goal, like a vacation, is a worthy savings strategy.
- "Investment Account" to be put toward general or long-term saving goals, like home repairs or a new car. Hopefully, you already have a retirement savings account (either through your workplace or on your own) and perhaps a college savings plan. But having another account to save for other longer-term goals -- maybe a nest egg to start your own business -- can be a smart move.

Step 3: Stop Abusing Your Credit Cards

If you've accumulated significant credit card debt, you've first got to stop the spending beyond your means. Paying off debt is easier once you stop using your credit cards. Pay off your highest interest credit card debt first, making sure you avoid the "minimum balance trap." Paying more than the minimum can make a big difference. Then work on consolidating your debt by transferring outstanding balances to lower-rate cards. If you don't want to transfer your balances, you may be able to get your current credit card company to match the interest rate of a competitor. Additionally, it's advisable to cancel all cards except for the one that offers the lowest interest rate.

Finally, set up a realistic payment timetable and stick with it. If you need to readjust your timetable, do so. If you have trouble, talk to a professional. The counselors at the nonprofit National Foundation for Credit Counseling can develop a more structured plan for you, if needed. To find the nearest location, call 800-388-2227 or visit www.nfcc.org.

Step 4: Put Time on Your Side

You may not be able to solve your debt problem overnight, but you can solve it over time. Not only will a combined debt reduction and saving strategy begin to lighten the load now, it will help you feel better about your future.

Source: Standard & Poor's.



Keys to Surviving Market Turbulence



Most stock market investors are looking for the same result: strong and steady gains of their investments. Dealing with a period of sustained falling stock prices is not easy. All too often, investors react to a sharp drop in prices by panic selling or digging in their heels despite deteriorating fundamentals. But more thoughtful investors see a correction or downturn as an opportunity to review the risks in their portfolios and make adjustments where necessary.

When confronted with any adverse market event -- whether it is a one-day blip, a more lengthy market correction (a decline of between 10% to 20%), or a prolonged bear market (a decline of more than 20%) -- take time to review your portfolio. Dealing with volatility can be difficult. Here are three suggestions to help you and your portfolio survive market turbulence.

Talk with your advisor. A financial professional can help you separate emotionally driven decisions from those based on your goals, time horizon, and risk tolerance. Researchers in the field of behavioral finance have found that emotions often lead (cont. p 3)

Keys to Surviving Market Turbulence (continued from p 2)

investors to read too much into recent events even though those events may not reflect long-term realities. With the aid of a financial professional, you can sort through these distinctions, and you'll likely find that if your investment strategy made sense before the crisis, it will still make sense afterward.

Organize and review your financial records. Crisis events highlight the importance of knowing where your assets are and maintaining organized financial records. Following the September 11, 2001 terrorist attacks, markets closed for several days and many records in the heart of New York City's financial district were destroyed. Yet the nation's financial systems were up and running in a matter of days, and your securities accounts were safe even when the stock exchanges were closed. While you cannot trade investments or access your assets during a market shutdown, securities firms maintain backup facilities and have contingency plans to

help them service customers when trading resumes. You should follow their lead by staying organized and keeping track of all important documents.

Keep a long-term perspective. The only certainty about the stock market is this: It will always experience ups and downs. That's why it's important to keep emotions in check and stay focused on your financial goals. A buy-and-hold strategy -- making an investment and then holding on to it despite short-term market moves -- can help. The opposite of buy-and-hold investing is market timing -- buying and selling investments based on what you think the



market will do next. Market timing, as most investment professionals will tell you, is risky. If your predictions are wrong, you could invest when the market is on its way down or sell when it's on its way up. In other words, you risk locking in a loss or missing the market's best days.

It's important to remember that periods of falling prices are a natural part of investing in the stock market. While some investors will use a variety of trading tools, including individual stock and stock index options, to hedge their portfolios against a sudden drop in the market, perhaps the best move you can make is reevaluating and limiting your overall risk position to reflect your personal risk tolerance.

Source: Standard & Poor's.

How to be a Good Financial Role Model to Your Child

Parents overwhelmingly believe that they -- not the schools, the government, or any other third party -- should provide financial education to their children. Yet most don't practice what they preach.¹

Less than one-third of parents (29%) believe they are "excellent" financial role models for their minor children. The ability to communicate about money appears to be a major obstacle to education within the family: A greater number of parents say they are more prepared to talk about drugs and alcohol (32%) or sex and dating (28%) than money and finances (26%).²

Teaching the Basics and Beyond

The benefits of teaching your children about money early on can pay dividends both immediately and longer term. In the short term, children may develop strong saving habits, learn how to make smart purchases, begin to understand the true meaning of "investment," and perhaps even learn why they can't immediately get everything they want. In the long term, educating children about money now can help them avoid debt as adults. And by teaching children the value of saving for the future at a young age, you can help them establish the groundwork for a lifetime of financial security.

Tips to Help You and Your Child

Even very young children can begin to understand the concept of earning money. (Cont. on p 4)



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How to be a Good Financial Role Model to Your Child

(Cont. from p 3) Here are some tips:

- Explain to your children that money is earned by working, and that you can only spend what you earn.
- Bring them shopping with you and point out the differences in prices for various necessities, such as food and clothing.
- Begin paying them an allowance for chores completed to help them understand what it's like to get paid on a fixed schedule for doing regular work.
- Help them set goals for how they spend and save their allowance. It's important, however, to make sure that you stick to the payment schedule; otherwise the lesson may be lost.
- Open a savings account in their name and make a point to sit down with them to review their account balance every month.



Regardless of their age, encourage your children to set aside a portion of their allowance or earnings for their financial goals. As they save money, you might reward them with a small additional amount, just like a bank pays interest. At the end of each month, calculate how much they have saved and then chip in a certain percentage as interest.

As your children get older, their savings will likely amass at a quicker rate. That presents an ideal opportunity to review the lesson of compounding, or the ability of earnings to build upon themselves. Explain how compounding can be more dramatic over time. The longer money is left alone, the greater the effect may be. This can lead into a discussion about investing and how certain investments can have a greater ability to compound over time.

Teaching your children about money may seem daunting, but it can help put them on the right track by encouraging smart habits.

¹Source: T. Rowe Price, "Parents, Kids and Money Survey," April 2011.

²Source: ING Direct, April 2011.

Source: Standard & Poor's.

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