

Financial Insights

From The Richards Group

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Strategies for Building Your Financial Security

Market Recap for 2nd Quarter 2011

A rally in the final week of June wasn't enough to pull stock prices back into positive territory for the quarter, as mixed news about the U.S. recovery and the threat of a Greek sovereign-debt default led to losses for all three major U.S. equity market indexes. Shortly after Memorial Day, weaker-than-expected reports on U.S. manufacturing and private-sector job growth sent share prices lower. The news lifted Treasuries, however, and the yield on the benchmark 10-year note fell below 3% for the first time this year. Equities were also dragged down by

Federal Reserve Chairman Bernanke's comment that the economic rebound is "frustratingly slow" as well as by mixed messages contained in the Fed's most recent Beige Book. As the quarter progressed, weak European industrial production data, renewed worries about Greece, and lower Chinese exports suggested the global economy is slowing, sending stock prices - and Treasury yields - lower still. Data through April (released June 28, S&P/Case-Shiller) showed a monthly increase in home prices for both the 10- and 20-city indexes for the first time in eight months.



Based on the events of last 6 months, it is likely that the markets will experience continued volatility for the second half of 2011.

Source: Standard & Poor's. The S&P 500, Dow Jones Industrials, and Nasdaq Composite are unmanaged indexes. It is not possible to invest directly in an index. Past performance is no guarantee of future results.

Three Steps to Help Save for Short-Term Goals

Pursuing short-term financial goals - those that you'd like to achieve within one to five years, such as a down payment on a home or car -- can require a different strategy than pursuing long-term goals. Here are some steps to help you save and invest when you're going to need your money sooner rather than later.

Step 1: Be specific about your goal. Setting a specific short-term goal will help you to evaluate your progress toward meeting it. For instance, the vague

objective "I want to save money to buy a house" becomes "I want to save \$25,000 over five years to put toward the down payment of a house."

Step 2: Take steps to free up extra cash. How will you save the money that you need? Eating out less often, canceling a gym membership that you don't use, or downgrading your cable from a premium to a basic plan could easily free up \$100 per month or more toward your goal. There are probably many areas where you can save

a few bucks. Make a detailed list of what you spend in an average month and see where you could afford to trim.

Step 3: Match your investments or savings vehicles with your goal. Safety and liquidity will be priorities if you need the money within a few years. Stocks can experience extreme fluctuations over short-term periods. You don't want to be forced to sell your assets when the value of your investment has dropped. More appropriate (continued p 3)

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Common Retirement Planning Mistakes - And How to Avoid Them

Only 13% of American workers say they are "very confident" they will have enough money to live comfortably throughout retirement.¹ To help reduce such uncertainty from your life, consider these five common investment pitfalls -- and how to avoid them.

By starting early, you allow more time for your contributions - and potential earnings - to compound, or build upon themselves, on a tax-deferred basis.

Waiting to Maximize Your Contributions

The sooner you start contributing to your employer-sponsored retirement plan, the better your chances for building a significant savings cushion. By starting early, you allow more time for your contributions - and potential earnings - to compound, or build upon themselves, on a tax-deferred basis. For 2011, the maximum you can contribute to your plan is \$16,500. If you are age 50 or older, you can sock away an additional \$5,500. If you can't contribute the maximum, consider contributing enough to take full advantage of any company matching contributions.

Ignoring Specific Financial Goals

It is difficult to create an effective investment plan without first targeting a specific dollar amount and recognizing how much time you have to pursue that goal. To enjoy the same quality of life in retirement that you have become accustomed to during your prime earning years, you may need the equivalent of up to 80% of your final working year's salary for each year of retirement.

Timing the Market

Some investors try to base investment decisions on daily price swings. But unless you have a crystal ball, "timing the market" could be very risky. A better idea might be to buy and hold investments for several years.

Fearing Stock Volatility

It is true that stock investments face a greater risk of short-term price swings than fixed-income investments. However, stocks have historically produced stronger earnings over the long term.² In general, the longer your investment time horizon, the more you might want to rely on stock funds.

Failing to Diversify



Investing in just one fund or asset class could subject your investment portfolio to unnecessary risk. Spreading your money over a well-chosen mix of investments may help reduce the potential for loss during periods of market volatility. Diversification may offset losses in any one investment or asset category by taking advantage of possible gains elsewhere.



Now that you are aware of these five common investment errors, consider what you can do to avoid making the same mistakes.

¹Source: Employee Benefit Research Institute, 2011 Retirement Confidence Survey, March 2011.

²Source: Standard & Poor's. Stocks are represented by total returns from Standard & Poor's Composite Index of 500 Stocks, an unmanaged index generally considered representative of the U.S. stock market. Bonds are represented by annual total returns of long-term (10+ years) Treasury Bonds. Indexes do not take into account the fees and expenses associated with investing, and individuals cannot invest in any index. Past performance is no guarantee of future results. With any investment, it is possible to lose money.

Three Steps to Help Save for Short-Term Goals (continued from p 1)

choices for short-term needs may be conservative instruments that offer a more stable return, such as short-term bond funds, money market funds and CDs.

Short-term bond funds primarily invest in U.S. government or corporate debt with maturities that range from one to three years. Money market funds pool investors' dollars to buy money market instruments. These types of securities aim to produce current income, offer liquidity (how quickly you can sell an asset), and usually aren't subject to the dramatic ups and downs of stocks. Certificates of deposit are interest-bearing debt instruments with a wide range of maturities. In exchange for purchasing a certificate of deposit, the investor will receive the return of principal plus interest at the maturity date.

Although money market funds seek to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in these funds. It's important to remember that an investment in money market funds is neither insured nor guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. Bonds are subject to interest and market rate risk if sold prior to maturity. Bond values will decline as interest rates rise and are subject to availability and change in price. Federally insured savings vehicles, such as certificates of deposit, could also play a role in short-term saving. Certificates of deposit offer a guaranteed rate of return, guaranteed principal and interest and are generally insured by the FDIC (see <http://www.fdic.gov/consumers/consumer/information/fdiciorn.html> for additional information). Early withdrawal of certificates of deposit may be subject to penalty.



Finally, remember that short-term financial objectives should not take away from investing for long-term goals. Investors should carefully consider the fund's investment objectives, risks, charges and expenses before investing. To obtain a prospectus, or if available, a summary prospectus containing this and other information, contact the appropriate fund company or view the fund prospectus on the Web site of the appropriate fund company. Please carefully read the prospectus or the summary prospectus before investing.

Your investment may not be insured nor guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Current performance maybe higher or lower than the past, which cannot guarantee future results. Share price, principal value, yield, and return will vary and you may have a gain or loss when you sell your shares. Source: Standard & Poor's.

Rollover IRAs Offer a Wide Range of Benefits

As compared with employer-sponsored retirement accounts, a rollover IRA can provide you with the broadest range of investment choices and the greatest flexibility for distribution planning. Also, a rollover IRA can typically be operated with fewer restrictions. This brief overview highlights some of the key benefits of a rollover IRA compared with an employer-sponsored plan.

More control: As the IRA account owner, you make the key decisions that affect management and administrative costs, overall level of service, investment direction, and asset allocation. You can develop the precise mixture of investments that best reflects your own personal risk tolerance, investment philosophy, and financial goals. You can create IRAs that access the investment expertise of any available fund complex, and can hire and fire your investment managers by buying or selling their funds. You also control account administration through your choice of IRA custodians.

More flexibility: IRAs can be more useful in estate planning than employer-sponsored plans. IRA assets can generally be divided among multiple beneficiaries in an estate plan. Each of those beneficiaries can make use of planning structures such as the Stretch IRA concept to maintain tax-advantaged investment management during their lifetimes. Beneficiary distributions from employer-sponsored plans, in contrast, are generally taken in lump sums as cash payments. Also, except in states with explicit community property laws, IRA account holders have sole control over their beneficiary designations. (continued p 4)

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Rollover IRAs Offer a Range of Benefits (continued from p 3)

Efficient Rollovers Require Careful Planning

One common goal of planning for a lump-sum distribution is averting unnecessary tax withholding. Under federal tax rules, any lump-sum distribution that is not transferred directly from one retirement account to another is subject to a special withholding of 20%. This withholding will apply as long as the employer's check is made out to you — even if you plan to place equivalent cash in an IRA immediately. To avert the withholding, you must first create your rollover IRA, and then request that your employer transfer your assets directly to the custodian of that IRA.

Keep in mind that the 20% withholding is not your ultimate tax liability. If you spend the lump-sum distribution rather than reinvest it in another tax-qualified retirement account, you'll have to declare the full value of the lump sum as income and pay the full tax at filing time. In addition, the IRS generally imposes a 10% penalty tax on withdrawals taken before age 59 1/2.

Also, if you plan to roll over the entire sum, but have the check made out to you rather than your new IRA custodian, your employer will be required to withhold the 20%. In that event, you can get the 20% refunded if you complete the rollover within 60 days. You must deposit the full amount of your distribution in your new IRA, making up the withheld 20% out of other resources. When you file your tax return for the year, you can then include a request for refund of the lump-sum withholding.

If you have after-tax contributions in your employer plan, you may opt to withdraw them without penalty when you roll over your assets. However, if you wish to leave those funds in your retirement account in order to continue tax deferral, you can include them in your rollover. When you begin regular distributions from your IRA, a prorated portion will be deemed nontaxable to reimburse you for the after-tax contributions.

Potential Downsides of IRA Rollovers

While there are many advantages to consolidated IRA rollovers, there are some potential drawbacks to keep in mind. Assets greater than \$1 million in an IRA may be taken to satisfy your debts in certain personal bankruptcy scenarios. Assets in an employer-sponsored plan cannot be readily taken in many circumstances. Also, you must begin taking distributions from an IRA by April 1 of the year after you reach 70 1/2 whether or not you continue working, but employer-sponsored plans do not require distributions if you continue working past that age.

Remember, the laws governing retirement assets and taxation are complex. In addition, there are many exceptions and limitations that may apply to your situation. Therefore, you should obtain qualified professional advice before taking any action.

Source: Standard & Poor's.



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