In This Issue...

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The Bulldog Bulletin

1st Quarter 2013

Drawing a Road Map

Would you go on a vacation without planning it? Of course not, so why would you head for retirement without planning for it? Unfortunately, that's exactly what many people do. In early 2012, a study sponsored by the Consumer Federation of America and the Certified Financial Planner Board of Standards found that:

- 34% of Americans say they can retire at age 65, down from 50% in 1997.
- 48% of Americans with college-bound children are saving money for their education, compared to 56% 15 years ago.
- About 50% have fallen behind on their retirement savings, compared to 38% in 1997.

Not surprisingly, the study also found that less than one-third of all Americans — just 31% — have a financial road map. That's the same number as in 1997.

What Is a Financial Road Map?

Planning for your future is about more than planning for your retirement. Done properly, it's a blueprint for using all of your financial resources and earning power to meet your financial needs, now and in the future, *in the most efficient way possible.*

What do we mean by the efficient use of money? We mean making sure that you cover all of your needs to the greatest extent possible given how much money you have and, if there's any left over, maximizing your potential wealth while staying within your comfort zone for risk-taking. A financial road map determines whether you are spending too much in one area of life to the neglect of another.

4 Steps in Building a Plan for Your Future

1. The first step in making a financial road map is taking a snapshot of who you are. It's like a household census: how many are in your immediate family and how many outside your immediate family that you may want to provide for in some way, like parents or grandchildren.

2. The second step is to take a financial inventory: how much total income does your household bring in every year; what are your expenses, including taxes; what is the value of all your assets; how much debt do you have; and what is your net worth (assets minus liabilities). Knowing your net worth is important, because it's the foundation for financing your entire life, and a sign of how long you could cover your

Continued on page 2

Is Saving 10% Annually Enough?

A common rule of thumb when planning for retirement is to save 10% of your gross income during your working years. Since this rule of thumb has been around for a long time, it's logical to question whether it's still an appropriate guideline. Several trends suggest that it is probably on the low side:

- **Fewer individuals are covered by defined-benefit plans.** The 10% guideline anticipated that a retiree would receive a defined-benefit pension as well as Social Security benefits. But a substantial portion of the work force is no longer covered by a defined-benefit pension.
- **The Social Security system will face increasing pressure in the future.** Due to the unprecedented number of baby boomers who

Continued on page 3

FR2012-1114-0002

Road Map

Continued from page 1

basic needs and lifestyle if you were never to receive another dollar of income.

3. The third step is to define all of your financial goals. For most people, this means:

- ❍ Creating a "rainy day" fund to pay for expenses in case you become too ill to work or lose your job.
- ❍ Obtaining life insurance to cover your spouse's and children's needs in case you pass away prematurely.
- ❍ Securing disability insurance coverage in case you can't work for an extended period of time because of an illness or injury.
- ❍ Paying for your children's educations.
- ❍ Financing your retirement.
- ❍ Minimizing your taxes.
- ❍ Providing long-term care for you and/or your spouse.
- ❍ Providing an inheritance for your heirs or a legacy to a charitable cause or institution.

4. The fourth step is to develop a savings and investment plan to meet all of those goals. This is a multistep process. First, it's important to determine what kind of investor you are: are you comfortable with taking risk to obtain a high rate of return or are you more conservative and willing to accept a lower rate of return for greater safety? How you score on a test of your "investor personality" will help determine an asset allocation strategy that balances risk and return, while meeting your objectives. The final step is to select the types of accounts you'll need, fund them, and select the investments.

Completing a financial road map can make all the difference between having the future you want or settling for one you can afford. It's never too early to start planning. If you haven't completed a financial road map or feel like it's time to review the one you prepared years ago, please call. ❍❍❍

Looking at Financial Rules of Thumb

Financial rules of thumb are designed to provide quick guidelines for your finances. However, you shouldn't blindly follow them without giving thought to your personal circumstances. Some of the more common financial rules of thumb include:

Save 10% of your gross income. While this will give you a good start, it's typically the minimum, not the maximum, you should be saving. See the article, "Is Saving 10% Annually Enough?" for more details.

Plan on spending 80% of your preretirement income during retirement. This may be true if you don't plan to be very active during retirement, but more and more people expect retirement to include extensive travel and expensive hobbies. On the other hand, if you've paid off your mortgage and your children have finished college, you may need less than this. Review your individual situation and desires for retirement to determine how much you'll need.

Set the percentage of stocks in your portfolio to 100 minus your age. With increased life expectancies, this can result in a portfolio that is too heavily weighted in income investments. Set your asset allocation based on your risk tolerance and time horizon for investing. Stocks should be considered for long-term financial goals of 10 years or more. Even after retirement, stocks may comprise a significant portion of your portfolio.

Keep three to six months of income in an emergency fund. While an emergency fund is a good idea, how much you keep in that fund will depend on your circumstances. You may need a larger fund if you are the sole wage earner in the family, work at a seasonal job, own your own business, or rely on commissions or bonuses. A smaller fund may be required if you have more than one source of income, can borrow large sums quickly, or carry insurance to cover many emergencies.

Pay no more than 20% of your take-home pay toward short-term debt. Once considered a firm rule by lenders, you may now be able to obtain loans even if you exceed this amount. However, don't become complacent if you meet this rule of thumb, since a large percentage of your income is still going to pay debt. Try to reduce your debt or at least reduce the interest rates on your debt.

Keep your mortgage or rent payment to no more than 30% of your gross income. While you can obtain a mortgage for more than that, staying within this rule will help ensure you have money to devote to other financial goals.

Refinance your mortgage if interest rates decline by 2%. This rule of thumb assumes you'll pay significant refinancing costs, including points, title insurance, appraisal fees, and other fees. However, many lenders now offer refinancing deals with significantly lower costs. Thus, you should assess whether it makes sense to refinance when mortgage rates decline by as little as half a percent.

Obtain life insurance equal to six times your annual income. Different individuals require vastly different amounts of insurance, depending on whether one or both spouses work, minor children are part of the family, or insurance is being obtained for other needs, such as to fund a buy/sell agreement or to help pay estate taxes. Thus, you should determine your precise needs before purchasing insurance.

Please call if you'd like to address your needs in any of these areas. ❍❍❍

Is Saving 10%?

Continued from page 1

will be retiring in the near future, there will be fewer workers to pay the benefits for each retiree.

- ❍ **Life expectancies are continuing to increase.** Average retirement ages have been decreasing while life expectancies have been increasing. Currently, the average life expectancy is 76 years for a man and 81 years for a woman. Thus, the average retiree has fewer years to accumulate savings, but those savings must last for a longer period of time.
- ❍ **Plans for retirement have changed.** Another common retirement planning rule of thumb is that you'll need 70% of preretirement income during retirement. However, that guideline assumed a relatively inactive retirement lifestyle. Increasingly, retirees view retirement as a time to travel extensively or engage in expensive, new hobbies. Thus, more and more retirees are finding little change in their income needs after retirement.

All these trends point to the fact that future retirees will be responsible for providing more of their income for a longer period of time. Thus, you should consider higher, not lower, savings rates. While 10% of income may sound like a lot of money, consider how many years you expect to work compared to how many years will be spent in retirement. Assume you start working at age 22, work until age 62, and then die at age 82. Thus, you work 40 years and are retired for 20 years — for every two years you work, you need to support yourself for one year in retirement. If your retirement expenses don't go down and you don't have a defined-benefit pension, you'll need to save significant sums to support yourself for that length of time.

Contrast the current situation with a typical scenario in 1950. At that time, the average retiree worked 47 years before retiring for nine years. Thus, that person worked over five years to support one year of retirement.

For many people, the answer may be to extend their working years. In the above example, if you wait until age 70 instead of age 62 to retire, you will work for 48 years and be retired for 12 years. Thus, you will work four years for every year of retirement. While preretirees may not have the mathematics down pat, many realize that working longer rather than retiring earlier may be the only way to ensure that they don't run out of retirement funds. Almost all recent surveys of baby boomers indicate that the majority expect to work at least part-time during retirement.

These stark realities don't mean that you can't retire, just that you need to plan carefully. Thus, you should start saving as much as possible, as soon as possible. Waiting even a few years to start saving can substantially increase the annual amount you need to save.

Trying to gauge whether your retirement savings are on track? While there's nothing like going through a thorough analysis, you can take a quick look by adding up all your retirement assets and multiplying that balance by 3% or 4%. This withdrawal percentage should ensure that your retirement assets last for several decades. Please call if you'd like to discuss this in more detail. ❍❍❍

Estate Planning and Roth IRAs

Roth individual retirement accounts (IRAs) are typically thought of as retirement planning tools. However, if you don't need the entire balance during your lifetime, a Roth IRA offers estate-planning advantages not available with a traditional IRA. Those advantages relate primarily to the following features of a Roth IRA:

- ❍ **The account owner is not required to take withdrawals after age 70½.** With a traditional IRA, minimum required distributions must be made after the latter of age 70½ or retirement, based on the account owner's life expectancy. With a Roth IRA, you can leave the funds in the Roth IRA to continue accumulating on a tax-free basis.
- ❍ **Withdrawals made by beneficiaries are received income-tax free.** With both Roth and traditional IRAs, the IRA's value at the date of your death is included in your taxable estate and may be subject to estate taxes. However, the income tax treatment is substantially different. Withdrawals from traditional IRAs are subject to ordinary income taxes, while qualified withdrawals from Roth IRAs can be taken income-tax free. If beneficiaries elect to take withdrawals over their life expectancy, the funds in the Roth IRA will continue to grow on a tax-free basis, and withdrawals will be free of federal income taxes. Beneficiaries must start taking withdrawals by December 31 of the year following your death to be able to withdraw funds over their life expectancy. If they wait, the entire balance must be cashed out by the end of the fifth year following your death. Be aware that different rules apply to beneficiaries who are spouses. ❍❍❍

Financial Data

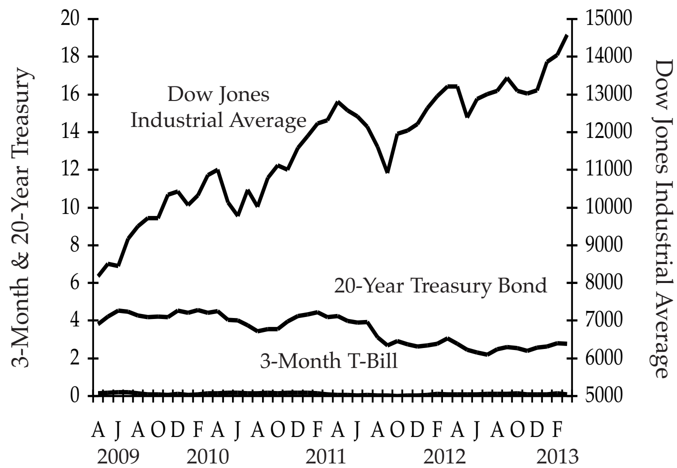
Indicator	Month-end Jan-13	Feb-13	Mar-13	Dec-12	Mar-12
Prime rate	3.25	3.25	3.25	3.25	3.25
Money market rate	0.50	0.48	0.50	0.51	0.47
3-month T-bill yield	0.08	0.13	0.08	0.09	0.09
20-year T-bond yield	2.63	2.81	2.77	2.56	3.07
Dow Jones Corp.	2.55	2.61	2.58	2.70	3.28
30-year fixed mortgage	3.05	3.15	3.16	2.81	3.58
GDP (adj. annual rate)#	+1.30	+3.10	+0.40	+1.30	+3.00

Indicator	Month-end Jan-13	Feb-13	Mar-13	% Change YTD	12 Mon.
Dow Jones Industrials	13860.58	14054.49	14578.54	11.3%	10.3%
Standard & Poor's 500	1498.11	1514.68	1569.19	10.0%	11.4%
Nasdaq Composite	3142.13	3160.19	3267.52	8.2%	5.7%
Gold	1664.75	1588.50	1598.25	-3.8%	-3.9%
Consumer price index@	229.60	230.30	232.20	0.9%	2.0%
Unemployment rate@	7.80	7.90	7.70	-1.3%	-7.2%
Index of leading ind.@	93.90	94.30	94.80	1.5%	-0.6%

— 2nd, 3rd, 4th quarter @ — Dec, Jan, Feb Sources: *Barron's, Wall Street Journal*

4-Year Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield

April 2009 to March 2013



Past performance is not a guarantee of future results.

News and Announcements

Caught in the Middle

At a time when middle-aged couples should be saving for their own retirement, many find themselves caught in the middle of competing needs from two generations. Having started families later than past generations, their children may just now be entering college or could still be living at home. At the same time, aging parents may require financial assistance.

While you may have to allocate some resources to the needs of your parents and children, don't forget your own retirement. At a minimum, consider the following:

❍ Calculate how much you need for retirement and how much to save on an annual basis to reach that goal. Don't give up if that amount is beyond what you're able to save now. Start out saving what you can, resolving to significantly increase your savings once your parents' or children's needs have passed. Also consider changing your retirement plan, perhaps delaying your retirement date or reducing your financial needs.

❍ Take advantage of all retirement plans. Enroll in your company's 401(k), 403(b), or other defined-contribution plan as soon as you're eligible. Also consider investing in individual retirement accounts, either traditional or Roth. All provide a tax-advantaged way to save for retirement.

❍ Reconsider your views about retirement. Instead of a time of total leisure, consider working part-time at a less stressful job, starting your own business, or turning hobbies into paying jobs.

Don't feel guilty thinking about your own retirement when your parents and children still need your help. One of the best gifts you can give your children is the knowledge that you will be financially independent during retirement. Please call if you'd like help with your retirement plans. ❍❍❍

FR2012-1114-0002