THE RED HILLS REVIEW

THE RED HILLS CAPITAL NEWSLETTER

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RED HILLS CAPITAL

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Aahh, summer!
The sun, the heat, the graduations, the weddings, the European Monetary Crisis...

We are more optomistic this year than last as America has its best economic opportunity in decades.

Here in the office, Ross Obley & Richard O'Leary cut through the market noise to generate effective strategies for the current economy. Craig Townsend is here working with our friends at Shearson Financial. William Lamb is making a name for himself in the art/clothing/dinnerware world -- and doing a little consulting for us on the side!

Any questions about your account? Please call or email. Know someone we should be talking to? Let us know and share the expertise and safety that define Red Hills Capital.

IN THIS ISSUE

INTEREST RATES AND YOU

Summer marches merrily onward and we hope that you have found some time in there to relax, maybe spend some time with friends or family.

This issue is dedicated to addressing a risk facing 401(k) plans as well as individual portfolios – Interest Rates. Since 1981, interest rates have been falling. In September of 1981, the 10-year US Treasury bond had a yield of over 15%. Today, the yield is near 1.5%. Without boring everyone with a bunch of math, the prices of bonds move inverse to the direction of interest rates. Thus, when interest rates fall, the prices of bonds increase. Conversely, should interest rates rise, the prices of bonds fall.

Now, since the popularity of 401(k)s soared in the 80's and 90's, individual investors have had to determine their own allocations within their plans. Employees had to pick from a variety of various stock mutual funds, some bond mutual funds, maybe a CD-like fund, sometimes company stock. During the last 30 years we have all been taught the same lesson: stock funds are aggressive and bond funds are conservative. This generalization is linked to the historically lower volatility of bonds when compared to stocks. For 30 years, this wisdom has been spot on however we should always be aware that since 1981 was the peak in interest rates going back to the 50's, bond prices have benefitted from the decline in interest rates over the last three decades.

Why is this important to you (and your friends, your family, your co-workers …)? Should interest rates move back to say 5% on the 10-year Treasury, it is conceivable that a medium term bond fund could drop as much as 35% in value.

To a generation of investors schooled on the notion (somewhat erroneously) that bond funds are the “safe” investment and stock funds are the “risky” investment, the erosion of their bond-allocated 401(k) nest egg will be disillusioning and distressing. In the words of a trader I speak with regularly, “They're gonna get their feelings hurt.” I couldn't agree more.

So what to do? First we must realize the difference between bonds and bond mutual funds. Bonds mature, open-ended bond mutual funds do not. It is these funds that are most at risk to increasing interest rates. The good news is that the move upward in interest rates is not likely to be dramatic. We probably won't see the 10-year Treasury go from 1.5% to 3% overnight. At least I hope not. The process should take some time to unfold although a several percentage point move in a 12-month period is certainly possible. Since investors receive 401(k) statements quarterly, and probably actually check them less often than that, there could still be significant erosions in the bond-allocated portions of their nest eggs from statement to statement. Human nature being what it is, the primary response will be to quickly file the statement and hope things get better. But if interest rates continue rising, things will not get better in their 401(k), the situation will likely get worse.

Now nothing needs to be done immediately. No one at Red Hills sees interest rates at 5% anytime soon. However, a plan should be formulated on how to invest for these times. Even if your account is not with us, come talk to one of us in the office about your individual situation and what steps you need to take in your outside accounts or your retirement plan. Having a strategy will leave you in a better mental place than knowing the danger is out there and hoping it doesn't hit **you** .

See disclaimer on final page

WAYS PARENTS CAN HELP THEIR BOOMERANG KIDS

A financial strain

Parents naturally want to help their children during hard times, but in some cases, the financial strain of another adult (or two or three) in the house can be too much of a financial shock. If your adult child needs to move back home, discuss how long your child plans to stay and how he or she can contribute financially to the household.

It's been called the new retirement wild card. But it's not inflation, health-care costs, or taxes, though those things certainly matter. What is it that's causing so much uncertainty? It's boomerang kids, and the money their parents spend on them.

The trend

According to the U.S. Census Bureau, there were 6 million young adults ages 25 to 34 living at home in 2011--19% of all men (up from 14% in 2005) and 10% of all women (up from 8% in 2005). Not surprisingly, the percentages are higher for young adults in the 18 to 24 age bracket, with 59% of young men and 50% of young women living with their parents in 2011.

Sociologists have cited a number of reasons for this trend--the recession, college debt, the high cost of housing, delayed marriage, and a tendency toward prolonged adolescence. But whatever the reason, there's no doubt that boomerang children can be a mixed blessing for their parents, both emotionally and financially. Just when parents may be looking forward to being on their own and preparing for their retirement, their children are back in the nest and relying on their income. While the extra company might be welcome, you don't want to sacrifice your emotional and financial health to help your kids.

Set ground rules

If your adult children can't afford to live on their own, establish ground rules for moving back home, including general house rules, how long they plan to (or can) stay, and how they can contribute to the household in terms of rent and chores. As an adult, your child should be expected to contribute financially to the household overhead if he or she is working. Determine a reasonable amount your child can contribute toward rent, food, utilities, and car expenses. You can then choose to apply this money directly to household expenses or set it aside and give it to your child when he or she moves out, when it can be used for a security deposit on an apartment, a down payment on a car, or some other necessary expense.

You should also discuss your child's long-term plan for independence. Does your child have a job or is he or she making sincere efforts to look for work? Does your child need or want to go back to school? Is your child working and saving money for rent, a down payment on a home, or graduate school? Make sure your child's plans are realistic and that he or she is taking steps to meet those goals.

It's a balancing act, and there isn't a road map or any right answers. It's common for parents to wonder if they're making a mistake by cushioning their child's transition to adulthood too long or feel anxious if their child isn't making sufficient progress toward independence.

Turn off the free-flowing money spigot

It can be tempting for parents to pay all of their adult children's expenses--big and small--in an effort to help them get on their feet, but doing so is unlikely to teach them self-sufficiency. Instead, it will probably make them further dependent on you.

If you can afford it, consider giving your child a lump sum for him or her to budget rather than just paying your child's ongoing expenses or paying off his or her debt, and make it clear that is all the financial assistance you plan to provide. Or, instead of giving your child money outright, consider loaning your child money at a low interest rate. If you can't afford to hand over a sum of cash or prefer not to, consider helping with a few critical expenses.

Evaluate what your money is being spent on. A car payment? Credit card debt? Health insurance? A fancy cell phone? Student loans? General spending money? Your child is going to have to cut the frills and live with the basics. If your child is under age 26, consider adding him or her to your family health plan; otherwise, consider helping him or her pay for health insurance. Think twice about co-signing a new car loan or agreeing to expensive lease payments. Have your child buy a cheaper used car and raise the deductible on his or her car insurance policy to lower premiums. Help your child research the best repayment plan for student loans, but don't pay the bills unless absolutely necessary. Same goes for credit card balances. Have your child choose a less expensive cell phone plan, or consolidate phones under a family plan and have your child pay his or her share. Bottom line--it's important for your child to live within his or her financial means, not yours.

Solidify your own retirement plan

Even if your child contributes financially to the household, you may still find yourself paying for items he or she can't afford, like student loans or medical bills, or agreeing to pay for bigger ticket items like graduate school or a house down payment. But beware of jeopardizing your retirement to do this--make sure your retirement savings are on track. A financial professional can help you see whether your current rate of savings will provide you with enough income during retirement, and can also help you determine how much you can afford to spend on your adult child now.

WHY WOMEN NEED SOCIAL SECURITY

If you have any questions about the Social Security program or the benefits you may be entitled to, visit www.socialsecurity.gov, or call (800) 772-1213.

Did you know that the first person ever to receive ongoing Social Security benefits was a woman? Ever since Ida May Fuller received the first retirement benefit check in 1940, women have been counting on Social Security to provide much-needed retirement income. Social Security provides other important benefits too, including disability and survivor's benefits, that can help women of all ages and their family members.

Retirement benefits: a steady stream of lifetime income

While Social Security retirement benefits are important for everyone, they are especially important for women. Because women generally live longer and tend to have lower lifetime earnings than men, they may be more dependent on Social Security benefits in retirement.*

Fortunately, you can count on two features of Social Security to help you provide for a long retirement. First, benefits last as long as you live; although you may exhaust other sources of retirement income, it's impossible to outlive your Social Security retirement income. Second, Social Security benefits are subject to automatic cost-of-living adjustments that increase benefits when prices increase, an especially valuable feature when you have to rely on a fixed income for many years.

When you work and pay Social Security taxes, you earn credits that enable you to qualify for Social Security benefits. You can earn up to 4 credits per year, depending on the amount of income that you earn, and you'll generally need 40 credits (10 years of work) to be insured for retirement benefits. Your monthly retirement benefit will be based on your lifetime earnings. However, if you don't work outside the home or haven't worked long enough to qualify for Social Security based on your own record (or have much lower earnings than your spouse), you may still be eligible based on your spouse's record.

Disability benefits: help when you're ill or injured

During your working years, you may suffer a serious illness or injury that prevents you from earning a living, potentially putting yourself and your family at financial risk. But if you're insured under Social Security, you may be able to get disability benefits if you have worked long enough in recent years, your disability is expected to last at least a year or result in death, and you meet other requirements.

More women than ever are now insured for Social Security disability benefits. According to the Social Security Administration (SSA), in 1970, only 41% of women were insured; today, approximately 74% of women are insured.** In general, to be insured for disability benefits, you must have earned at least 20 work credits during the last 40 calendar quarters (10 years). If you qualify for benefits, certain family members (such as your dependent children) may also be able to collect benefits based on your work record.

Because eligibility requirements are strict, Social Security is not a substitute for other types of disability insurance, but it can provide basic income protection for working women and their family members.

Survivor's benefits: financial protection for your family

You probably know the value of having life insurance to protect your family, but did you know that Social Security offers valuable income protection as well? If you are insured under Social Security at your death, your surviving spouse (or ex-spouse), your children, or dependent parents may be eligible for benefits based on your earnings record.

You also have survivor protection if you're married and your insured spouse dies. If you're caring for a child who is younger than age 16 or disabled and who is entitled to benefits, you may be entitled to widow's benefits. You may also be entitled to benefits if you are age 60 or older (age 50 or older if you're disabled).

Three tips

- Use the benefit calculators available on the Social Security website to estimate your future retirement, disability, and survivor's benefits. Social Security was never intended to cover all of your financial needs, but understanding what benefits you might be entitled to can help you plan for the future.
- Consider the impact on your Social Security benefits if you plan on taking time out of the workforce. Having years of no or low earnings may mean lower benefits, and can also affect your eligibility for disability coverage.
- Check your earnings history regularly, and report any name changes right away to the SSA so that your earnings are recorded properly. If your name doesn't match SSA records, any income tax refund can also be delayed.

Sources: **Fact Sheet: Social Security Is Important to Women, SSA Press Office; **Fast Facts & Figures About Social Security, 2011, SSA*

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Ask the Experts

Is it true that Social Security beneficiaries are being required to receive their payments electronically?

That's correct. On March 1, 2013, the U.S. Treasury Department will stop mailing paper benefit checks. After that date, all Social Security beneficiaries (as well as anyone receiving another type of federal benefit, such as Supplemental Security Income benefits, Railroad Board annuity payments, federal retirement benefits, or veterans benefits) will be required to receive their benefits electronically. The federal government estimates that switching to electronic payments will save taxpayers $1 billion over 10 years, and cut down on the risk of lost and stolen checks.

Most Social Security beneficiaries are already receiving benefits electronically, and if you're among them, you don't need to do anything--you'll continue to receive your benefits via the method you've chosen. But if you're receiving a paper check, you need to choose one of two electronic payment options as soon as possible.

The first payment option is to have your benefit directly deposited to a bank or credit union account. The second option is to have your benefit put on a Direct Express® Debit MasterCard® prepaid card that can be used to pay bills, make retail purchases, or withdraw benefit funds from an ATM or a financial institution. Most transactions are free, although fees do apply to certain services. The Treasury Department recommends the direct deposit option for anyone with access to an account at a financial institution. The Direct Express® card is most appropriate for individuals who need the benefits of direct deposit but who don't have an account at a financial institution. If you haven't chosen an option as of March 1, 2013, you'll be automatically enrolled in the Direct Express® card option. If you're applying for Social Security benefits for the first time, you'll be asked to choose your payment option at that time.

To sign up for electronic payments, you need to visit the government website, www.GoDirect.org, or call the U.S. Treasury Electronic Payment Solution Center at (800) 333-1795. You can also sign up for the direct deposit option at your bank or credit union, or for the Direct Express® card at www.usdirectexpress.com.

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