

ALPINE PERSPECTIVES

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ALPINE FINANCIAL ADVISERS, LLC

Six Budgeting Mistakes to Avoid

1. You think budgeting means “no spending.” The important concept to remember is that budgeting is a cash flow plan is a means to provide for your needs, not limit them. It helps you assume control by encouraging you to make conscious decisions about spending, rather than just emptying your bank account. If you have not been budgeting expect mistakes and give yourself several months to gain the self discipline to get used to your plan and see it working.

2. You do not track your spending. If you do not know where your money is going you will have difficulty living within your means. There are a number of ways to accomplish this. Many banks now have budgeting applications on their websites that allow their customers to track and evaluate cash inflows and outflows. Most important is to rigidly adhere to a frequent schedule of reviewing your spending and saving activities.

3. You do not have flexibility in your plan. Many people believe a budget is a static planning tool, but a good plan has room for things such as medical emergencies, unexpected car expenses, and home repairs. A general emergency fund should be built into your budget to account for potential employment changes; 9 to 12 months of living expenses is a good guideline.

4. You have not set any goals. Budgeting is the starting point for planning for meeting small to significant lifestyle and financial goals. Auto mobile purchases/ leases, college educations, and home purchases to name a few. Success in budgeting is having a

clear idea of the benefit of why you are doing it.

5. There is no “fun” in doing it. A budget that is highly frugal and thrifty is admirable, but it is unrealistic to not spend any money on entertainment. One key to staying with the budget is that it should reflect your lifestyle. Discretionary spending is much more enjoyable when it not only happens, but when you know it fits within your budget

6. Your partner has not bought into the budget. A frequent cause of a failed budget is when one member of the partnership is not on board. Both need to be a part of the process and full disclosure is important. Joint checking and credit card accounts are ways that can help those that lack will power.

Do You Have Adequate Liability Insurance?

Comprehensive financial planning includes appraising your needs given the outcome of an unlikely or untimely event. This risk assessment pertains to reviewing the adequacy of your insurance. Liability insurance needs are an often overlooked aspect of financial planning because it's not as sexy of a topic as “investments”, and many advisers either do not understand its importance or choose to ignore the subject. Given today's litigious society, it is highly important to have adequate liability coverage to protect you from a myriad of risks. Liability insurance protects your assets and future earnings from lawsuits and/or legal liability settlements. Many individuals have this coverage included in their home owners and auto policies. Primary coverage includes bodily injury, defense

costs if you are sued, and medical payments. Legal costs may or may not be included in the policy limits, and such costs may be capped or uncapped. Generally the best coverage to have is to have costs uncapped and covered outside of the policy limits. Primary coverage may also include personal injury coverage for extortion, defamation of character, libel, mental anguish, and invasion of privacy. These factors are not universally included, and are riders or amendments to a standard policy. Most people typically carry about \$300,000 of liability coverage on their auto and homeowners policies. Higher liability coverage can be obtained by simply raising the coverage limits. Another approach that I recommend is an umbrella liability policy, which covers a broad range of liability exposures in addition to your underlying auto and homeowners coverage. Umbrella liability insurance requires that you have a minimum of underlying liability insurance on your auto, homeowners, as well as other assets such as recreational vehicles. Umbrella policies are typically sold in increments of \$1 million. The cost of an added million dollars of umbrella coverage is often incrementally minimal, but it is a function of your individual risk profile. I recommend most people with moderate to significant assets and earning power should seriously consider an umbrella policy. Also, individuals with higher liability risk profiles (children at driving age, investment real estate owners, etc.) would be candidates as well.

“A public opinion poll is no substitute for thought”

—Warren Buffet

How Do You Determine Asset And Portfolio Risk?

You have decided to get serious about securing your financial and lifestyle future by engaging a financial planner, or taking on this responsibility yourself. So you buy some books that explain investment basics, subscribe to Business Week, and find time to listen to "expert" talking heads on television and the internet in order to glean the best information you can to enhance your investment returns. You then proceed to buy individual securities, funds or a combination thereof, and begin to assemble an investment portfolio. From your adviser or your sources of information, you understand the relationship between risk and return...the greater return you desire the more risk you must assume. You have confidence in your understanding of return...it is what you get back over some period of time in addition to the original and subsequent cash you committed. This is a relatively straight forward concept that most people can grasp. But what risk did you take to generate your returns? What quantitative and qualitative metrics have you (or your adviser) analyzed for each security or asset class to determine if the risk you are taking is reasonable for your expected return? If you choose to buy individual securities, there are a multitude of criteria that must be initially analyzed to determine if an entity is worthy of your hard-earned cash. Understanding financial statements, using financial ratios, industry comparison, management evaluation, product lifecycle, service intangibles, cash flow analysis, and goodwill are just a few factors that must be within your skillful grasp for you to make qualified decisions regarding becoming an owner or a creditor to an organization. Not only must these factors be scrutinized before making the investment, but all criteria must be monitored on a frequent periodic basis. If asset allocation is your

chosen investment methodology, the number of variables is smaller but the understanding and calculation of risk is just as difficult. All asset classes can become undervalued or overvalued given supply/demand imbalances, regulatory changes, sovereign nationalizations, political influences, and fiscal and monetary policy actions. Again, these are a few of the factors that must be considered when committing capital, as well as monitored on an ongoing basis in order to evaluate the risk/return profiles. To understand the volatility of asset class returns, visit www.callan.com/research/download/?file=periodic/free/311.pdf, as an illustration of this variability over the period 1989-2008. The key to managing portfolio risk is understanding how individual assets or asset classes behave relative to each other in terms of their respective volatility of returns. This relationship is a statistical measurement called covariance or correlation. Perfect negative correlation between two assets means one asset will perform well, while the other will perform less well over the same period. Two perfectly correlated assets will exhibit returns that mirror each other over time. This diversification of non-correlated assets in a portfolio serves to smooth out the volatility of returns by holding asset classes in varying proportions to optimize expected returns and minimize risk. Two other considerations must be reflected in your investment portfolio risk analysis: you must include your exposure to risk outside of your investment assets such as real estate, collectibles, and human capital; and this risk must be in harmony with the goals you have set in your financial plan. If you are unsure if your risk is being correctly addressed, contact me for a complimentary evaluation.

Searching For Yield In A Low Interest Rate World

With dividends reduced by companies in the S&P 500 by 21% in

2009, and U.S. treasuries yielding the lowest amounts on record where does an investor look to defend or add an income element to their portfolio? Because cash flow is the most important metric for a company's financial performance, it follows that it represents a critical component of the return on an investment portfolio. Dividends represented approximately 45% of the return of the S&P 500 over the last 80 years. If the economy does not rebound and companies do not foresee increased and sustained demand, this element of equity return may not return any time soon. It would be prudent for equity investors to allocate their portfolio to asset classes that historically have the ability to maintain dividend levels. These are generally companies that have product/service pricing power and wide-moat (high entry barriers) business models that allow them to maintain price margins and their dividend payouts. When investing in fixed income, the cash flow is the most important component of the securities return. It is critical for bond investors to incorporate a potential increase in interest rates in constructing this component of their portfolio. Very short term interest rates are influenced by monetary policy, but medium to long term rates are controlled by market forces. If the bond market decides that they need to be compensated for greater supply and credit risk, then rates could rise in the face of below trend economic growth. This increase in rates will obviously cause bond yields to rise and return to decline. While real return bonds (inflation protected securities or TIPS) are a hedge if inflation is the cause in the decline in the price of bonds, they will not perform as a hedge if interest rates rise independent of inflation. Security specific strategies such as "cushion" or "kicker" bonds can be used to compensate for rising rates, as well as portfolio strategies such as maturity laddering and high coupon investing.