

Financial *notes*

INSIGHTS TO ORCHESTRATE FINANCIAL INDEPENDENCE

FROM THE OFFICE OF DR. SCOTT STRATTON, CERTIFIED FINANCIAL PLANNER (TM)

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Dear Scott,

After a year of sending out paper newsletters, I've decided to try an email format. What do you think? If you'd prefer to continue to receive paper copies, please let me know, and I'm happy to oblige. One of the nice features of this format is that you can forward this message to others who may benefit from this information. If they'd like to subscribe, all they need to do is click on the "join our mailing list" link on the right!

How much is enough?

Investors need to consider the impact of inflation on their retirement needs.

When individuals plan their retirement, they often overlook the impact that inflation will have on their financial needs. Although inflation has been very tame for the last 20 years, even 2-4% inflation can have a big impact for people living on a fixed income. People are retiring earlier, but are living much longer. According to the National Center for Health Statistics, the life expectancy for a 65-year old in 2004 was 17.1 years (male) and 20.0 years (female). Since that's based on a bell curve, half of those 65-year olds should live *longer* than the life expectancy.



Investors need to make sure they have factored inflation into their cash flow estimates. Someone who today needs \$30,000 a year will need \$54,000 to maintain the same lifestyle in 20 years, with just 3% inflation. Based on a 5% investment rate of return, and 3% inflation, a 65-year old retiree would need a starting value of \$756,855 to provide \$30,000 in today's dollars through age 100. While it may seem unrealistic for everyone to plan on living to 100, I'd rather err on the side of caution and make sure my clients have enough money to last a lifetime. Planned withdrawals should be sustainable, and

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The best compliment you can give me is the referral of a friend or family member!

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THIS MONTH, SCOTT IS...

This June, Scott completed his one-year term as an area governor for Toastmasters International. For the new term, Scott is pleased to continue his service to Toastmasters as the Town North Assistant Division Governor. Covering the

include built-in increases for inflation.

To help clients ensure that their current savings are on track, I've created a spreadsheet to estimate how much you will need to retire. While we will always have to make an educated guess about future rates of inflation and life expectancies, it is still a valuable process. People who do not plan for inflation often run out of money in their late 70's or early 80's just as their medical needs and expenses grow. Many then have to find a nursing home that accepts Medicaid, which unfortunately may be less than ideal. It's never too early to plan ahead!

North Dallas area, Scott will be helping five incoming area governors assist 21 clubs to achieve their goals this year.

www.toastmastersd50.org



Dow Jones at 14,000

With record highs this July, here's a reminder of the Dow's recent history:

- March 1999: breaks 10,000 for the first time, and the next month breaks 11,000
- In 2002, the Dow falls from over 10,000 to a low of 7181 on Thursday October 10
- December 2003, returns to 10,000, but does not regain 11,000 level until Jan 06
- November 2006: 12,000; April 2007: 13,000; July 16, achieves 14,053



With all the hype, some people have asked me if we've "come too far, too fast". Is the market is now overvalued? Here's a reality check: the Dow's 10-year return is only 5.75%!
(source: Yahoo! Finance)

Defined Benefit Plans

For years, headlines have heralded the demise of the corporate pension plan. Known formally as a "defined benefit plan", pension plans are being frozen or eliminated in favor of defined contribution plans such as 401(k)'s.

While large companies will undoubtedly continue this shift away from defined benefit plans, there is a real renaissance in these plans for individuals and small companies. The reason? Defined benefit plans allow you to contribute a *much higher* amount than a defined contribution plan. For 2007, the maximum contribution to a defined contribution plan is \$45,000, and you'd have to make over \$225,000 to contribute that amount.

With a defined benefit plan, your age determines maximum contribution. For example, a 40-year old self-employed individual could contribute up to \$74,931, and a 50-year old could contribute even more, up to \$168,184. The owner could have a profit sharing plan in addition to the defined benefit plan, setting aside up to 25% of W-2 compensation.

A defined benefit plan is ideal for someone who is:

- a sole proprietor, or a corporation which employs only family members;
- consistently reaching the contribution limit on their 401(k) or SEP and would like to save significantly more;
- in the 33% or 35% tax bracket and wants to reduce their taxable income;
- earning more than \$200k a year, and anticipates this amount of income, or more, in the future.

The defined benefit plan can maximize tax deferral while establishing a future benefit of up to \$180,000 a year.

(Source: Pension Resources Corp.)

Being good in business is the most fascinating kind of art. Making money is art and working is art and good business is the best art.

ANDY WARHOL

As always, please feel free to call me anytime with any questions or concerns. I'm here to help! Thank you for your business.

Sincerely,

Scott Stratton
Fox & Company Investments, Inc
MEMBER NASD / SIPC

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