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Financial Briefs

FEBRUARY 2008

Securing Your Financial Life

In a recent survey, 74.5% of individuals with at least \$1 million in net worth felt that the world is a dangerous place (Source: *Financial Planning*, June 2007). While there might not be much we can do on an individual level to reduce crime, war, or even stock market corrections, there may be appropriate steps to mitigate the risks under our control. If you're looking for ways to increase your financial security, you may want to consider the following tips:

- **Get your estate in order.** While dealing with your own mortality is often difficult, it is one of the most important things you can do to ensure your family can survive financially in the event of your death. Make sure your will reflects your current desires for the disposition of your assets and names a guardian for your minor children. You should also consider a durable power of attorney, which designates someone to control your financial affairs if you become incapacitated, and a health care proxy, which delegates health care decisions when you are unable to make those decisions.
- **Review your portfolio.** Recent stock market fluctuations may have made you a little nervous about holding stocks. But if you're saving for goals that are decades away, stocks probably

should continue to hold a major position in your portfolio. The lesson we should learn from recent stock market fluctuations is that our portfolios should be diversified. A properly diversified portfolio may help protect its value during market declines while generally offering higher return potential.

- **Take another look at your life insurance.** You may need to purchase insurance to protect your family in the event of your death. The amount needed will depend on your current net worth, the lifestyle you want to provide for your family, and your personal circumstances and desires. Since

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Control Your Spending

If you're trying to increase savings, remember that savings are directly tied to spending — the less you spend, the more you have to save. Some tips to help you get your spending under control include:

- Analyze your spending for a month. Are you surprised by how much you spend on dining out, groceries, entertainment, or clothing? Give serious thought to your purchasing patterns, looking for ways to reduce spending. Clean out your closet and really assess whether you need new clothes. Cut back on how often you dine out or at least dine at less-expensive restaurants. Rent a movie instead of going to the theater. Make a list before grocery shopping and don't deviate from it. Look for coupons and sales before shopping.

You may scoff at these ideas for saving money, thinking they

can't possibly add much to your savings. After all, you're just spending a few dollars here and there. But let's take a look at just one example. Suppose you go to the deli every workday, spending \$7 or \$8 on lunch. If you brought a sandwich from home, it might cost \$2 a day. That difference of \$5 per day equals \$25 per week or \$1,300 per year. Save \$1,300 per year for 25 years earning 8% compounded annually, and you could end up with \$95,000. (*This example is provided for illustrative purposes and is not intended to project the performance of a specific investment.*)

- Go over major expenditures also. When was the last time you comparison shopped your auto or homeowners insurance? Have you checked mortgage rates lately to see if you should refinance? Have you reviewed strategies to

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Being Named a Guardian

When asked to serve as the guardian of someone's minor children in the event of his/her death, it is usually meant as a compliment. However, don't accept this role without giving it serious thought. Consider the following:

- **Are your lifestyles compatible?** Go over all details involved in raising the children. Will the children have to relocate far from their current home? It is difficult to lose parents, but it becomes even more traumatic when the children must relocate away from friends and school. What are the parents' preferences regarding education, religion, lifestyle, and other factors? How well does your family get

along with their children? Consider the impact on your children, including the fact that you will probably have less time available for them.

- **How much financial support will be available?** This involves more than making sure money is available for college and other expenses directly attributable to the children, such as clothing, medical expenses, and entertainment. Additional children in your house will increase many of your bills, including food, utilities, transportation costs, etc. Your house may now be too small, requiring an addition or moving to a larger home.
- **Are you comfortable taking on responsibility for the children's**

finances? Just because you agree to take physical custody of the children does not mean you have to handle their finances. You may feel more comfortable with another person involved to review how money is spent.

- **Has a contingent guardian been named?** Find out if a contingent guardian has been named in case you cannot serve. However, don't use this as an excuse to say yes when you really want to decline. It is better to indicate that you do not want to take on this responsibility now, so another guardian can be chosen. Also, if your situation changes in the future, inform the parents immediately. ■■■

Your Financial Life

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your insurance needs will change over time, assess your insurance coverage periodically, especially after major events in your life.

- **Obtain sufficient disability income insurance.** You may want to consider disability income insurance if your current assets won't support you until age 65. Many companies provide short-term disability insurance that covers 100% of your salary for three to six months. Long-term disability insurance is typically less common and less generous. Thus, even if you have long-term disability insurance at work, you may want to obtain additional coverage. Your available resources and disability benefits should equal at least 60% of your pretax salary.
- **Make sure you have an emergency cash reserve.** Consider setting aside at least three to six months of living expenses, although the exact amount will depend on your age, health, job outlook, and borrowing capacity. This can help tide you over in

case of a job layoff, short-term disability, or large, unexpected expenditure.

- **Consider long-term-care insurance.** This coverage may be especially important for women, who tend to outlive their husbands. You should probably purchase the insurance while you are in your 50s or 60s. After that, the premiums get much more expensive. Also, if you develop a serious health condition, you may not be able to purchase the insurance.
- **Protect your financial identity.** While you typically won't have to pay for anything charged by an identity thief, you will have to work to restore your credit and to ensure all fraudulent accounts are closed. That can be time-consuming as well as expensive. To help protect your financial identity, only give out your Social Security number when it is required, shred financial documents, cut up old credit cards, and review your credit reports periodically.
- **Keep your homeowners insurance up to date.** Review your homeowners policy carefully so

you understand what would happen if your home was totally destroyed. It is your responsibility to make sure you have adequate policy limits, so inform your insurance company when you make major improvements, get an inflation rider for your policy, and make sure your policy covers the total cost of rebuilding your home.

- **Protect your home.** You may want to obtain a good security system for your home. Make sure all doors are metal or solid wood with deadbolt locks, use bars or locks to secure sliding glass doors, and keep all entrances well lit.
- **Properly store important documents.** Documents that you might need when the bank is closed, such as passports, birth certificates, wills, or insurance policies, can be kept in a fireproof home safe. Other documents, such as deeds, stock certificates, and titles, should be kept in a safe deposit box in a bank. ■■■

Control Your Spending

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- reduce your income taxes?
- Make a spending plan and put it in writing. Budget for all major expenditures, and resolve not to purchase items that aren't in your budget.
- Throw out your credit cards (or at least hide them for a while). Most people find it more difficult to spend cash than to charge a purchase. So, for the next couple of months, only purchase items with cash.
- Don't purchase items over a fairly low dollar amount until your second shopping trip. How often have you purchased something on impulse, only to realize when you got home that you really didn't need it? To control those impulses, compare price and value on your first shopping trip. Then go home, think about whether you really need the item, and purchase it on another trip.
- Think carefully before making major purchases. Often, upkeep and maintenance will add to your costs. Do you really need a motorcycle, boat, recreational vehicle, or vacation home? Consider a less-expensive car or a used car. Keep your car for four or five years instead of getting a new one every two or three years.
- Figure out the maximum amount you can afford for a house and then buy one substantially less expensive than that. Not only will you save on your mortgage payment, other costs associated with owning a home will be lower. Living well within your means is one of the best ways to ensure you have money left over for saving.

Learn to control your spending and your savings should increase. Please call if you'd like more help in this area. ■■■

Give Your Kids a Good Financial Start

It's a common enough goal — to live a better life than your parents. While you may be able to say you accomplished that goal, how likely is it that your children will be able to say the same thing? To help them with that pursuit, make sure to teach them these important financial lessons:

- **Graduate from college.** Even if your children are interested in pursuing careers that don't require a college education, encourage them to obtain a college degree first. It is much easier to go to college straight out of high school before getting married or taking on other responsibilities. And financially, college graduates have higher earnings on average than nongraduates. For instance, the median earnings by level of education for 2005 were \$23,400 for someone who was not a high school graduate, \$31,500 for someone who was a high school graduate, \$37,100 for someone with some college education, \$40,600 for someone with an associate's degree, \$50,900 for someone with a bachelor's degree, \$61,300 for someone with a master's degree, \$79,400 for someone with a doctoral degree, and \$100,000 for someone with a professional degree (Source: *Education Pays*, 2007). Over a 40-year working career, a person with a bachelor's degree can expect to earn 61% more than a high school graduate.
- **Develop written financial goals.** Developing financial goals will help your children think about their future and how to pursue their goals. Get them into the habit of saving first, then worry about how to spend the rest of their money. Encourage them to set up a system to

automatically divert some of their income to savings. As part of the process, encourage them to get a money management system in place to track expenditures and organize information about assets and investments.

- **Live well within their means.** As your children start lives of their own, help them make some fundamental decisions about how to live. They should realize that the only way to save for future goals is not to spend all their current income. So, before your children decide where to live or what kind of car to drive, help them prepare a budget to see how much they can really afford for those items and still have money for saving.
- **Utilize all retirement vehicles available.** As soon as they become eligible, your children should start contributing to a 401(k) plan at work. If their employer doesn't offer a 401(k) plan, teach your children the benefits of individual retirement accounts (IRAs), both traditional deductible and Roth. The importance of saving for retirement at a young age can't be stressed enough.
- **Use debt sparingly.** If your children take on too much debt early in life, they can spend the rest of their lives struggling to get out of debt. Stress to your children that it is best to use credit cards only if they can pay the balance in full every month. Other debt, like car loans and mortgages, should only be taken on after a careful analysis of whether your children can afford the payments and whether the purchase fits in with their financial goals. ■■■

Business Data

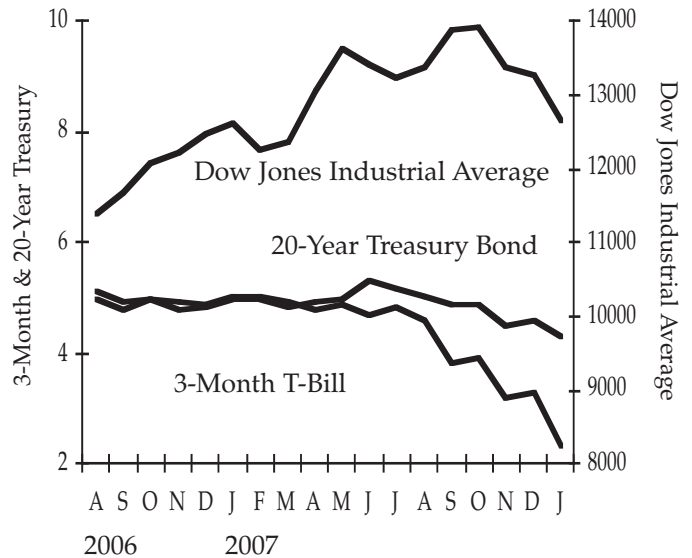


Indicator	Month-end				
	Nov-07	Dec-07	Jan-08	Dec-06	Jan-07
Prime rate	7.50	7.25	6.00	8.25	8.25
3-month T-bill yield	3.18	3.28	2.34	4.88	5.01
10-year T-note yield	4.04	4.12	3.72	4.60	4.77
20-year T-bond yield	4.49	4.58	4.32	4.82	4.96
Dow Jones Corp.	5.67	5.89	5.44	5.71	5.83
GDP (adj. annual rate)#	+0.60	+3.80	+4.90	+2.60	+1.70

Indicator	Month-end			% Change	
	Nov-07	Dec-07	Jan-08	YTD 12-Mon.	Jan-07
Dow Jones Industrials	13371.72	13264.82	12650.36	-4.6%	0.2%
Standard & Poor's 500	1481.14	1468.36	1378.55	-6.1%	-4.2%
Nasdaq Composite	2660.96	2652.28	2389.86	-9.9%	-3.0%
Gold	783.39	833.75	923.25	10.7%	41.9%
Unemployment rate@	4.70	4.70	5.00	—%	8.7%
Consumer price index@	208.90	210.20	210.00	—%	3.8%
Index of leading ind.@	136.90	136.80	136.50	—%	-1.1%

— 1st, 2nd, 3rd quarter @ — Oct, Nov, Dec
Sources: Barron's, Wall Street Journal

18-Month Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield August 2006 to January 2008



News and Announcements

Do You Need a Prenuptial Agreement?

In the past, prenuptial agreements were common only with very wealthy individuals. Most couples married at a young age, with little in the way of assets, and worked together to build their finances. But times have changed. People get married later in life, after accumulating substantial assets or obtaining postgraduate degrees that will help them earn more in their careers. Second marriages are also more common, so there is more concern with protecting children from previous marriages.

A prenuptial agreement details what will happen in the event of divorce or the death of either party. It spells out how assets currently owned and acquired in the future will be distributed. While you may think this will be handled in your will, a will doesn't apply when you divorce, and most states allow a spouse to override the terms of a will and inherit a statutory percentage of the estate. Typically, a spouse cannot override the terms of

a prenuptial agreement. If you married without a prenuptial agreement, you can always use a postnuptial agreement. It is basically the same thing as a prenuptial agreement, but is signed after marriage.

Keep these points in mind:

- **It is important to discuss all financial information.** You and your future spouse should detail all assets, debts, and income, so you can plan appropriately for their distribution. Also consider how you want to distribute assets acquired during the marriage.
- **Consider other topics to include.** You can also include things like who will be responsible for caring for children, how children will be raised, and other lifestyle issues.
- **Sign the prenuptial agreement in advance of your wedding day.** To ensure a spouse doesn't later claim that the agreement was signed under duress, consider signing the agreement at least two or three months before your wedding.

FR2007-1011-0145

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