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SUMMER 2014

Reassess Your Retirement Plans

Approximately five years before you plan to retire, thoroughly reassess your retirement plans and ensure that all significant financial pieces are in place. Once you retire, you probably won't have the option of going back to your former job. So before you retire, consider these points:

Take a serious look at your retirement plans. You're close enough to retirement that you should have a good feel for your retirement expenses and expected income. While you may be anxious to retire, remain flexible about your retirement date. Working an additional year or two can add substantially to your retirement savings and may boost your retirement benefits.

Get a fix on your Social Security and pension benefits. Make sure you know exactly how much you can expect from Social Security and defined-benefit plans. How much will your benefits increase if you delay retirement by one year, five years, etc.? If you retire before full retirement age for Social Security purposes, do you plan on still working? Be aware that for those under full retirement age for Social Security purposes, earnings over $15,480 in 2014 will cause you to lose $1 of benefits for every $2 of earnings over this threshold. Make sure you understand your distribution options for any defined-benefit plans. Typically, those decisions are irrevocable.

Determine how much income your retirement investments will generate. As a general rule of thumb, you can multiply your retirement investments by 4% to get an idea of how much you can withdraw annually. You can go through a more detailed analysis, reviewing a wide range of variables for a more precise answer. However, the younger you retire, the more conservative your withdrawals should be.

Continued on page 2

The Benefits of Low-Correlated Assets

By combining assets with low correlation, you can potentially improve portfolio returns while reducing risk. Correlation is a statistical measure of how one asset class performs in relation to another asset class. Correlations can range from +1 to –1. A correlation of +1 means the two assets move very closely together in the same direction. Combining assets with a high positive correlation will not provide much risk reduction. A correlation of –1 indicates the assets move in opposite directions, a rare event in the investment world. A correlation close to 0 means no relationship exists in the price movements of the two assets.

Combining assets with consistently high correlations to each other does little to reduce risk. The greatest combination benefit to a portfolio seems to be achieved by combining assets with low correlations, which results in reduced risk.

When selecting investments for your portfolio, don't just look at their risk and return characteristics. Also consider the diversification aspects for your overall portfolio. OOO

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FR2013-1120-0002

Reassess

Continued from page 1

✔ **Investigate work options.** If you plan to work at least part-time during retirement, have you decided what you'll do and how much it will pay? Make sure you investigate your options, including asking your current employer about part-time opportunities.

✔ **Finalize living arrangements.** Determine whether you want to stay in your current home or move to another one, either in the same city or a different location. At this point, you should be able to determine whether you'll have a mortgage and how much equity you'll have in your home. While most retirees continue to live in their current home, explore whether it makes sense to downsize, freeing up home equity for investments.

✔ **Deal with health insurance and long-term-care costs.** Two of the most significant costs in retirement are medical care and long-term care. Make sure you have plans to deal with both. If you are retiring at age 65 or later, you'll be eligible for Medicare, although a spouse under age 65 will not. You will probably need supplemental coverage with Medicare. If you are retiring before age 65, make sure you know exactly how much coverage will cost you, especially if coverage is not provided by your employer. Now is also a good time to take a look at long-term-care insurance.

✔ **Live with your retirement budget for a couple of years.** Want to really make sure your retirement budget is reasonable? Try living with your retirement budget for a couple of years before retirement. If you can do so without increasing your debt, you can be reasonably confident that your budget will work during retirement.

Please call if you'd like help assessing your retirement plans before you retire. OOO

Developing an Investment Strategy

How do you go about developing an investment strategy? Here are four steps:

Step 1: Determine your goals. As in any aspect of life, your financial goals will drive your investment strategy. Whether you are planning for retirement, a child's college education, or a vacation, you have to know what you are working toward. If your goal is retirement, for example, what does that look like? A five-star luxury tour of Europe and around-the-world cruise? Or visiting the grandchildren down the street? For your strategy to be successful, it has to be founded on a concrete, detailed articulation of what it's designed to achieve.

Step 2: Examine your financial profile. This is a great opportunity to get a detailed view of your finances — your income, your debts, your assets, your budget, and your existing investments. It will help you learn where you are relative to where you want to be and allow you to develop a strategy to get there. If you have mounds of debt, your first priority may be to pay that off. If your finances are in order but you don't have an emergency fund saved, that may be your first priority. Once you know what you have to work with, you can better achieve your goals.

Step 3: Analyze your investment appetite. Are you a conservative or an aggressive investor? Aggressive investors are willing to accept the potential of substantial financial loss for the potential of substantial financial gain. Conservative investors are willing to accept smaller financial gain for lower risk of financial loss. Whether it's more appropriate to be an aggressive investor or a conservative investor depends in part on where you are relative to your goals.

If your goal is retirement, for example, it is generally more appropriate to invest aggressively when you are younger and further away from that goal. Then it is generally more appropriate to invest more conservatively as you get closer to retirement, pulling your money out of higher-risk investments to avoid losses from which your investments will not have time to recover. Are you striking the right balance?

Step 4: Be advised. Seeking counsel from a credible financial advisor will help you make the best investment decisions based on your goals, your financial profile, and your risk appetite. A financial advisor will ensure that you are getting the most from your investments and your money is allocated properly, helping you rebalance your profile every year. In addition to having expertise in the different types of investments and a deep understanding of what's going on in the market, advisors are not emotionally attached; that can be invaluable in keeping you aligned with your strategy, especially when the market is fluctuating.

Like a good map, an investment strategy will help get you from point A to point Z on the road to achieving your financial goals. To develop a strategy, revisit an existing one, or for help getting back on the road, please call. OOO

Have You Assessed Your Risk Tolerance?

While investors want the highest returns possible, returns compensate you for the risks you take — higher risks are generally rewarded with higher returns. Thus, you need to assess how much risk you are willing to take to obtain potentially higher returns. However, this can be a difficult task. It is one thing to theoretically answer questions about how you would react in different circumstances and quite another to actually watch your investments decrease significantly in value. What you are trying to assess is your emotional tolerance for risk, or how much price volatility you are comfortable with. Some questions that can help you gauge that risk tolerance include:

✔ **What long-term annual rate of return do you expect to earn on your investments?** Your answer will help determine the types of investments you need to choose to meet that target. Review historical rates of return as well as variations in those returns over a long time period to see if your estimates are reasonable. Expecting a high rate of return may mean you'll have to invest in asset classes you aren't comfortable with or that you may be tempted to sell frequently.

✔ **What length of time are you investing for?** Some investments, such as stocks, should only be purchased for long time horizons. Using them for short-term purposes may increase the risk in your portfolio.

✔ **How long are you willing to sustain a loss before selling?** The market volatility of the past several years will give you some indication of how comfortable you are holding investments with losses.

✔ **What types of investments do you own now, and how comfortable are you with them?** Make sure you understand the basics of any investments you own, including the historical rate of return, the largest one-year loss, and the risks the investment is subject to. If you don't understand an investment or are not comfortable owning it, you may be tempted to sell at an inopportune time.

✔ **Have you reassessed your financial goals recently?** Due to market volatility, your financial plan may need to be revamped. Otherwise, you may find you won't have sufficient resources in the future to meet your goals. Based on your current investment values, determine what needs to be done to meet your financial goals. You may need to save more, change or eliminate some goals, or delay your retirement date.

✔ **Do you understand ways to reduce the risk in your portfolio?** While all investments are subject to risk, there are some risk reduction strategies you should consider for your portfolio. These strategies include:

✔ **Diversify your portfolio.** You should diversify among several different investment categories, including cash, bonds, and stocks, as well as within investment categories, such as owning several types of stocks. A properly diversified portfolio should contain a mix of asset types whose values have historically moved in different directions or in the same direction with different magnitudes.

✔ **Stay in the market through different market cycles.** Remaining in the market over the long term helps to reduce the risk of receiving a lower return than expected, especially for more volatile investments, such as stocks.

✔ **Use dollar cost averaging to invest.** Rather than accumulating cash so you have a large sum to invest, invest small amounts regularly. Dollar cost averaging is a method of investing a certain sum of money in set amounts at regular intervals. This spreads your purchases over a period of time, keeping you from making one major purchase at high prices. Since you are investing a set amount, you purchase more shares when prices are lower and fewer shares when prices are higher. While a valuable investment strategy, dollar cost averaging does not ensure a profit or protect against losses in declining markets. Before starting a program, consider your ability to continue purchases during periods of low price levels. This strategy requires the discipline to invest consistently regardless of market prices and can help develop a habit of regular investing.

Ensuring your investments are compatible with your risk tolerance is an important component of your investment strategy. Please call if you'd like help assessing your risk tolerance. OOO

Financial Thoughts

In the class of 2012, 71% of college graduates had student loan debt, with an average loan balance of $29,400 per borrower. Approximately 41% of college graduates indicated that their jobs don't require a college degree (Source: *The Wall Street Journal*, January 5, 2014).

Currently, 52% of individuals own stocks, down from 65% in 2007 (Source: *Money*, January 2014).

Within the baby boomer generation, the wealthiest 20% of boomers own 96% of all equities held by their generation. Their large net worth could mean sustained high-equity allocations throughout retirement as they consider estate planning and wealth transfer strategies. Baby boomers, on average, allocate 47% of their portfolios to U.S. stocks (Source: *AAII Journal*, December 2013).

Approximately one out of every four American workers uses 401(k) and other retirement savings accounts to pay current expenses (Source: *REP.*, November 2013).

Approximately 62% of workers between the ages of 45 and 60 plan to delay retirement, up from 42% in 2010 (Source: *REP.*, November 2013). ❍❍❍

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News and Announcements

Hello again, friends! It is summertime in Iowa, and as Gershwin wrote, "the livin' is easy." With so much going on, before you know it, we will be watching the leaves turn colors again. Make the most of this beautiful season; bike, boat, golf, or just sit and have an extra lemonade.

Last weekend I had the chance to sit and talk to my nephew, Ryan, at my in-laws' 60th wedding anniversary dinner (Congratulations Lou and Vern!). Ryan is a fascinating young man. He is a junior at the University of Iowa (he must have decided against the University of St. Thomas…the Harvard of the North!) and is smart, insightful, and a little quirky. Ryan is also a proud Eagle Scout! This quarter's newsletter reminds me of the Boy Scout motto, "Be Prepared." Articles such as "Reassess Your Retirement Plans" and "Have You Assessed Your Risk Tolerance?" remind us that we should be Semper Vigilant (always vigilant). To me, this means meeting with your Weitzel Financial Services, Inc. advisor for a cup of coffee and reviewing your account, talking about your goals and dreams, and simply "making sure we are on the right path" before the clouds roll in.

In many past newsletters I have written about my admiration for Sir John Templeton, both as an investment legend and as a humble individual. Sir John died July 8, 2008. Perhaps his best-known observation is as follows: "Bull markets are born on pessimism, grow on skepticism, mature on optimism, and die on euphoria." Of course, the trick is to identify where we are in the emotional cycle.
As my nephew, Ryan, would undoubtedly say, "Be Prepared." For me, being prepared means to diversify, be patient, be long-term minded, and talk often with your Weitzel Financial Services, Inc. advisor.

Now, I have a confession to make. After what seems like a lifetime, I finally watched (and enjoyed) a soccer game. Really!!! The 2014 World Cup matches have been very exciting. Not nearly exciting as your 2014 Chicago White Sox, but pretty close!

In closing, we wish all of you a relaxing and safe summer. Thank you for your continued trust and confidence; we greatly appreciate it.

Jim