

CITY SECURITIES WEALTH ADVISORS

Your Life. Your Goals. Your Advisors.

February 9, 2009

Before discussing a few personal responses to our current economic crisis, I would like to bring to your attention an article on page A2 of today's Wall Street Journal, in "The Outlook" column. Looking at past recessions and analyzing current pent-up demand, the author describes an economic outlook that is strikingly consistent with our 2009 strategy that I wrote about last week - a possible 2009 recovery that provides an opportunity to reposition assets, but is otherwise unsustainable. This article is positive for a couple of reasons. First, it is always a welcome event to have your observations validated by others who are looking closely at the same situation. Second, these things have a way of self-fulfilling. There are real obstacles to such a recovery occurring this year, and I am unable to wish it into happening (I've tried); but a second page story in the Wall Street Journal won't hurt in a world dominated by investor psychology.

Now on to the personal finance discussion promised last week.

I want to begin by taking time in this letter to share some client stories with you. Every client's personal finance situation is unique, so it is often difficult to make blanket statements about what you should be doing as we progress through this period of history together. Attempts to do this usually result in replies coming back to my office that say "That is a really good idea, but should we still do it even though [the client proceeds to describe one of the things that makes their situation unique]?" Rules of thumb too often assume everyone has the same thumb-print. I think these few stories will better convey the important big ideas. How the big ideas are implemented in your own life will be unique to you, which always makes for a great discussion in our meetings.

This weekend I received a phone call from a young couple with elementary aged children. They were excited to talk because they now have some excess cash which they want to begin systematically investing while the economy and markets are down. The husband described their savings account as now being sufficient to cover multiple catastrophes, they were both participating in and maxing-out their employer retirement plans, and they anticipated being completely debt free before the end of this year. They have also been setting aside additional cash for the husband to purchase a business sometime in the coming few years without having to borrow significantly. And even with all of this, they have now found that they have excess cash flow.

Another client that comes to mind hasn't been as fortunate as the couple above. Their household has always been funded by two salaries, until the husband became unemployed for over a year. Then, within a few months of the husband finding a job, the wife became unemployed. During these successive periods of extended unemployment, the family was able to continue funding their various retirement accounts, did not need to downsize or otherwise sell their home, and was able to continue providing a private education for their teenage children.

One final story is from a retired executive and his wife. We had a recent conversation discussing the economic and market downturn, and the noticeable effect it has had on some of their investments and income sources. Our conversation covered everything from the history of the credit crisis to the current actions being taken in Washington, D.C., investment strategies, medical updates, and a healthy dose of

laughter. Missing from our conversation was any hint of concern on their part about having sufficient income for their needs, paying for the expenses of a second home, or other fears that should be expected of a retiree during this period in history (retirees are often at the greatest risk during downturns since they generally have finite resources and no future wages to rely on).

These three families, each with a very unique set of personal circumstances, have one very important thing in common - margin. When I prepare a document on letter-size paper, I generally set up a one-inch margin on all sides of the paper. Even though this margin doesn't look very large, in reality I am only using about 63% of the available space on the page - the rest is margin. This margin leaves me with plenty of room to take notes, make changes in the main document, write a handwritten message to the recipient, or for my children to draw a picture. Without this margin, the document would be cluttered and overwhelming. Not everyone has the option of creating financial margin - there are plenty of families that struggle just to provide food and shelter, and living with margin is not possible. But most of us reading this do have the option, and those that take it benefit during economic growth, and during economic downturns.

In my next letter, I'll discuss some aspects of creating margin in our personal finances. In the meantime, feel free to call or write me with questions you would like to discuss. Have a great week!

All the best,

A handwritten signature in cursive script, reading "Kenneth R. Klabunde".

Kenneth R. Klabunde, MS, CFP®
Vice President