

**SPECIAL
POINTS OF
INTEREST:**

- Inflation
- Life Insurance
- The Fed Spending Plan

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Defend Your Retirement from Inflation

Throughout most of 2008, abnormally high gas and food prices contributed to a spike in the consumer price index, a popular measure of inflation. In fact, the CPI rose at a 5.6% annual rate in July 2008, a 17-year high.¹

The slow and steady advance of inflation is normally difficult to detect from one year to the next, although dramatic increases such as we saw in 2008 can cause immediate pain for retirees and others living on fixed incomes. However, when left unchecked for long periods, inflation can pose a significant threat to quality of life for retirees, primarily because it reduces the purchasing power of their retirement incomes.

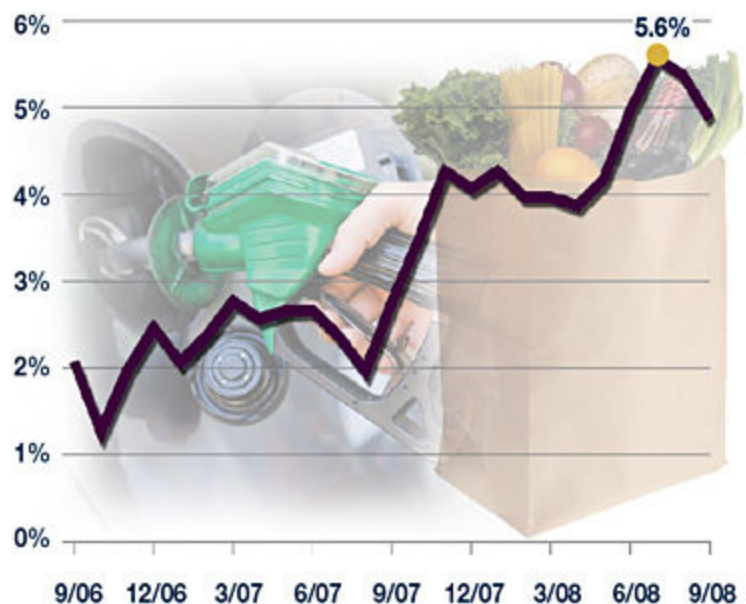
It is important to keep inflation in mind when projecting your future income needs. The rate of inflation will necessarily influence decisions you make today about how much income your retirement portfolio will need to produce in future years.

To counter the effects of inflation on your portfolio, you

might consider including some investments that have the potential for higher returns over the long term. However, remember that investments seeking the potential for greater returns often entail a greater level of risk. Inflation will probably always be with us. Anticipating its effects today can help prevent surprises tomorrow.

1) Haver Analytics, 2008. Consumer price index for the period January 1990 to September 2008.

THE INFLATION PICTURE
Year-over-year percent change in the consumer price index



Source: Haver Analytics, 2008. Consumer price index for the period September 2006 to September 2008.

Never Too Old—or Too Rich—to Consider Life Insurance

Grown children or money in the bank may not reduce the need for coverage

A large majority of Americans believe that it's important to provide for their families after they are gone.¹ Yet experts say that most people with life insurance may not have enough coverage for their families to avoid financial hardship if they were to die unexpectedly.²

But let's say your children are grown and/or you have substantial assets. Should life insurance still play a role in your overall financial picture?

The primary reason to own life insurance is to cover expenses that would otherwise fall onto dependents who may not have the means to pay them. This might paint a picture in your mind of a young widow who needs money to raise small children. But don't let this traditional definition blind you to the bigger picture.

Here are some possible reasons to consider owning life insurance, even if you have convinced yourself that it's no longer necessary in your situation.

A Spouse's Retirement

A spouse who is suddenly faced with a smaller income may be tempted to cut back on retirement contributions.

Proceeds from a life insurance policy can help ensure that a surviving spouse has money for retirement.

Education for Children and Grandchildren

One often-overlooked consequence of losing an income earner is the possibility that dependent children may not be able to afford college. Life insurance can also be helpful in cases where grandparents had hoped to help pay college costs.

Taxes, Probate, and Final Expenses

Given the uncertainty surrounding the future of the federal estate tax, it's prudent to assume that some form of estate taxation can be expected for the foreseeable future. Life insurance proceeds can be used to help pay any estate taxes and probate costs, as well as final expenses.

Immediate Cash

One little-considered advantage of life insurance is the swift payment of benefits. Life insurance proceeds typically are not subject to probate or income taxes, and the interval between the claim and the payment of benefits can be a matter of only days or weeks. The money might even serve as a lifeline if significant medical expenses are looming just as the family's income ceases.

Your Legacy

Life insurance proceeds represent an opportunity to make a significant charitable contribution or leave an inheritance for loved ones. In some cases, it might even be possible to leverage money you had earmarked for a donation by using it to purchase a life insurance policy with the charity named as beneficiary.

The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. Before implementing a strategy involving life insurance, it would be prudent to make sure that you are insurable.

As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. In addition, if a policy is surrendered prematurely, there may be surrender charges and income tax implications. Before you take any specific action, be sure to consult with your tax professional.

1) MarketWatch, September 23, 2008

2) Life and Health Insurance Foundation for Education, 2008

The Fed Plans to Spend a Trillion or More to Spur Growth

For the first time in a generation, the Federal Reserve has undertaken a campaign to influence long-term interest rates, a departure from recent monetary policy that has focused almost exclusively on short-term rates.

The Fed said it would buy up to \$300 billion of longer-term government bonds, an additional \$750 billion in mortgage-backed securities (bringing its total purchases of these securities up to \$1.25 trillion this year), and twice the \$100 billion debt it already said it would purchase from Freddie Mac and Fannie Mae.¹ The package is expected to help drive down interest rates on mortgages and other consumer loans. Because the Fed had already lowered its short-term interest-rate targets to almost zero, the government has essentially turned to printing money as a way to help expand the credit supply. Not since the 1960s has the central bank made such a direct attempt to influence long-term interest rates.²

Even though economists said the move had been expected for some time, some expressed surprise at the Fed's timing. Economists expect the primary effect to be a swift and significant reduction in mortgage rates. This could help stimulate the housing market as well as allow homeowners to refinance at lower rates, which would increase household cash flows, leaving consumers with more money to spend. Because consumer spending represents the majority of economic activity, leaving consumers with more of their own money could increase economic activity and, by extension, raise employment levels.

However, not everyone is convinced. Were it not for the shrinking economy, a foray of this size into the debt markets would almost certainly ignite a serious bout of inflation — and it may eventually do so. But because inflation is a side effect of economic growth, the risk of a near-term increase in prices seems remote. The Fed appears to be more worried about deflation, or falling prices.

Other concerns include

- A weakening of the dollar, which has a multitude of side effects, not all of which are bad. (Gold prices rose in the wake of the announcement, and the dollar fell against the euro and the yen.³ Gold is a favorite hedge against dollar weakness and inflation.)
- A reluctance among banks to loan the cash raised from selling Treasuries, and the possibility that households and businesses that have been spooked by the barrage of bad economic news will hoard any gains and not spend additional money.
- An overstated threat of deflation: flooding the economy with new money will in fact spark inflation. The scope of the program — \$300 billion would allow the Fed to buy about one-quarter of new government debt for six months — may be inadequate and require the government to print even more money in order to purchase

greater amounts of government debt, further raising the risk of inflation while taking a psychological toll because of the unprecedented measures the government deems necessary to stimulate the economy.⁴

- If the Fed's action, in fact, causes inflation, the result will be an increase in interest rates and, paradoxically, higher Treasury yields.

What Does It Mean to You?

The Fed is essentially trying to make Treasury bonds less appealing for investors so that they will seek out other types of debt. Artificially increasing the demand for Treasury debt will induce higher prices and, if interest rates remain level, cause Treasury yields to fall. The move will likely raise the appeal of other types of debt and theoretically add liquidity to credit markets.

However, the risk that steep inflation will accompany the recovery is real, and everyone from consumers to investors to businesses could be affected if policymakers are unable to rein in a rapid increase in prices.

The markets were encouraged by the plan. The day of the announcement saw rallies in the stock and bond markets, and the yield on the benchmark 10-year Treasury note took the biggest one-day

The Fed's Spending cont'd...

plunge since 1987.⁵ But it remains to be seen whether the upswing will last.

For homeowners, the effects may be mixed. Because the ability to refinance depends on whether the homeowner has equity, only those who are not underwater on their homes may benefit initially.

Only if these measures are successful in stimulating the housing market will the benefits spread to more homeowners.

Exactly how — or whether— you should react to the Fed's recent moves will depend on your personal circumstances. We can help you decide how to proceed.

1) Federal Reserve, 2009

2) Associated Press, March 18, 2009

3–5) The Wall Street Journal, March 18-19, 2009

What's New at Brandywine

**From
Raymond's
Desk**

I am pleased that we are finally starting to see some warmer days. During these volatile times it is important for me to find other outlets to focus on other than the financial news. The warm weather has provided an opportunity for me to get out and ride my bike and do some golfing. This past weekend I went on a 27 mile ride and got in 2 rounds of golf! It was some much needed down time for me.

I have also started a “healthier lifestyle.” I don't want to call it a diet because it is not a diet, it is a fundamental change in my eating habits. I recently read the book, “Skinny Bitch.” No that is NOT a typo. That is the title of the book believe it or not. Although, the book is a little extreme it does make some good points about that in which we consume. The old saying “you are, what you eat” is very true. So I have started a very organic, vegetarian type of lifestyle. So far I have lost about 8 pounds and more importantly feel great! I may buy some stock in Wholefoods Market as my grocery bill seems to have doubled!

If anyone is interested in learning a little more about my “lifestyle change” please feel free to ask, I have some great new recipes!

**From
Justin's
Desk**

April's here and tax day is finally over (for those of us that didn't file an extension). I tend to view the requirement of paying taxes much like I view marriage. Before you laugh, continue reading... As a newly married man, I have come to the conclusion that as long as I do certain things, I will receive certain things and as long as my wife does certain things, she will receive certain things. Much like marriage, paying taxes is a give and take relationship. We give a percentage of our earnings to the Government and in return we receive various benefits and as long as the Government provides these certain benefits, we continue to give a percentage of our earnings. HOWEVER, unlike marriage, I still struggle with the logistics of divorcing the government when we fail to receive our certain benefits. Enjoy your April!