



Brandywine  
Financial  
Group, Inc.  
An SEC Registered Investment Advisor

# Brandywine's Daily Plan-It

JULY 2009

## SPECIAL POINTS OF INTEREST:

- Retirement
- Education Costs
- Economic Recovery

## INSIDE THIS ISSUE:

- Get Your Retirement Reality Check Today!! 1
- Rising Costs of Education 2
- Finding Recovery In Odd Places 3
- What's New and Old at BFG 4

## Get Your Retirement Reality Check

Do you have any idea of how much you need to save for the retirement lifestyle you envision? If not, you're like the majority of Americans who have never done the math. According to a retirement survey, only 47% of workers have tried to calculate how much money they will need for a comfortable retirement.<sup>1</sup>

Even if your retirement seems a long way off, calculating your future income goal may help you become more serious about saving. In fact, 44% of people who have calculated a retirement savings goal made changes to their retirement plans, and of those almost two-thirds started to save more.<sup>2</sup>

A retirement needs calculation goes beyond the commonly suggested target to have 70% of pre-retirement income. Your personal financial situation, desired lifestyle, health status, and life expectancy must be taken into account for a more accurate picture of your retirement needs.

The familiar 70% figure usually assumes that all your major debts, including a mortgage, are paid off, and that your expenses in retirement will be lower than when you were working. Both assumptions may prove to be unrealistic. In the early years of retirement, some people may want to spend a significant amount of money on travel, the

pursuit of their hobbies, and other leisure activities. In later years, health-care costs and possibly long-term care may eat away at a greater share of a retired couple's income.

After taking a closer look at their individual situations, some people might determine that they would be more comfortable living on 80%, 90%, or even 100% of their pre-retirement incomes. Once an income goal is established, they can calculate the savings they will need to accumulate to generate that level of retirement income.

As you can see in the table below, if a \$1.5 million portfolio earned a hypothetical 5% annual return, an investor could theoretically withdraw \$75,000 per year and never run out of money. If the portfolio earned less than 5%, or if the principal was also

withdrawn, the money would not last indefinitely.

When determining your target retirement income, it's also important to think about the cumulative effects of inflation. If \$75,000 in today's dollars seems as though it would be enough, consider that the future purchasing power of that income would be significantly diminished over a period of 10 to 20 years.

Fortunately, that same cumulative effect can also work in your favor. The sooner you begin saving for retirement, the longer your investment earnings will have to accumulate and multiply into the portfolio that you may eventually need.

1-2) 2008 Retirement Confidence Survey, Employee Benefit Research Institute

### Lifestyles of the Happily Retired

Here's how much a retiree would need to accumulate in order to generate various levels of income without spending down principal during retirement. Calculations assume a hypothetical 5% annual return.

Portfolio balance	\$1.5 million	\$2 million	\$2.5 million
Potential annual income	\$75,000	\$100,000	\$125,000

This hypothetical example is used for illustrative purposes only and does not represent the performance of any specific investments. Rates of return will vary over time. Fees, expenses, taxes, and the effects of inflation are not considered and would reduce the outcomes shown if they were included. Actual results will vary.

# Higher Education Pays, But So Will You

Even as the economy stumbles, the price of a college education keeps on climbing. Average tuition and fees at public four-year colleges and universities rose 6.4% in the 2008–09 academic year, while costs at private four-year institutions rose 5.9%.<sup>1</sup>

Higher college costs and trying economic conditions have interrupted the education plans of many aspiring students. In a recent survey, 57% of high-school seniors lamented that they were considering less prestigious and less expensive college options, and 16% were putting their searches on hold because they didn't think their families could afford to foot the bill.<sup>2</sup>

It's likely that admission to the nation's top colleges and universities will remain competitive, but adequate college savings can help ensure that a student's opportunity to attend his or her school of choice is not compromised by the lack of resources. Fortunately, Section 529 plans are designed to help families save for future higher-education costs.

## Study This Strategy

With a 529 savings plan, investment earnings accumulate on a tax-deferred basis. Contributions and earnings can be withdrawn tax-free if they are spent on quali-

fied higher-education expenses such as tuition, fees, room and board, books, and other school supplies.

Family members can contribute up to \$13,000 (\$26,000 for married couples) to a 529 plan each year per student without triggering gift taxes, and there are no donor income limits. Contributions up to \$65,000

not perform well enough to cover college costs as anticipated.

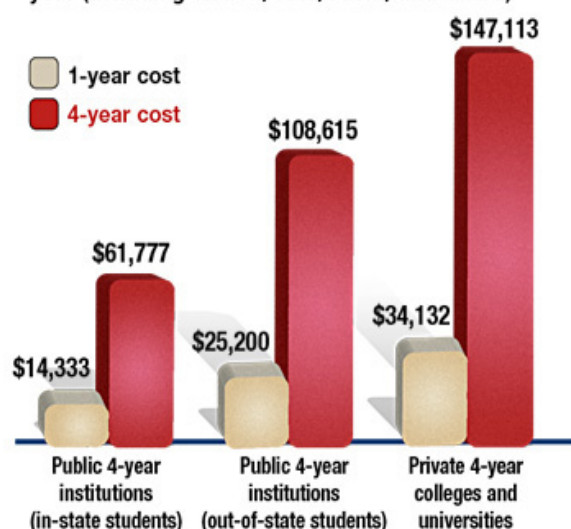
The tax implications of a 529 plan should be discussed with your legal and tax advisors because the plans can vary significantly from state to state. Also note that most states offer their own 529 plans, which may provide advantages and benefits exclusively for their residents and taxpayers.

Before investing in a 529 savings plan, please consider the investment objectives, risks, charges, and expenses carefully. The official disclosure statements and applicable prospectuses, which contain this and other information about the investment options and underlying investments, can be obtained by contacting your financial professional. You should read this material carefully before investing.

The average debt for college graduates who borrowed money for college has reached \$22,700, with many owing much more.<sup>3</sup> For parents who worry about the financial future of their children, it can be worth the investment to support worthy students in their pursuit of a higher education.

## Sticker Shock

Average college costs for the 2008–09 academic year (including tuition, fees, room, and board)



Source: The College Board, 2008 (four-year costs assume a 5% annual college inflation rate)

(\$130,000 for married couples) are also allowed in a single year as long as no other gifts are given to the student by the same contributor(s) for five years.

As with other investments, there are generally fees and expenses associated with participation in a 529 savings plan. There is also a risk that the plan investments may lose money or

1, 3) The College Board, 2008  
2) *The Wall Street Journal*, October 30, 2008

# Looking for a Recovery in Odd Places

The business world loves a good economic indicator. Chief executives, budget planners, small-business owners, and others who must make assumptions about the health and direction of the economy take a keen interest in popular indicators such as consumer confidence, gross domestic product, housing starts, stock prices, employment data, and even the price of gold.

Economic indicators may take on extra significance when the nation is in a recession and anxious for signs of a recovery because the national psyche plays a key role in business cycles. People who are not experiencing any personal financial problems may nonetheless rein in their spending or alter the timing of major purchases when the news is telling them that the national economy is in difficult straits.

## Right on the Kisser

When investors and economists anticipate that the economy is approaching a turning point, they may look in some unusual places for early indications of a shift in consumer behavior. After all, someone who can identify a recovery or a downturn before everyone else may gain a competitive advantage. Over the years, this has given rise to a number of odd economic indicators, although some are more valuable as entertainment than as a basis for financial decision making.

**Keeneland thoroughbred sales:** The epicenter of the world thoroughbred horse market is Keeneland, a horse auctioneer near Lexington, Kentucky.

Business columnist Daniel Gross suggested that the prices of thoroughbred race horses at Keeneland might be a good indicator of how the ultra-rich feel about the global economy. Race horses are highly speculative investments. When the rich are feeling their oats,

they bid up pony prices. When their appetite for risk declines, so does their willingness to spend big. For example, from 1993 to 2000, a time when the economy was flourishing, Keeneland's sales rose for eight straight years. But Keeneland's sales dropped sharply in 2001 and 2002 as the global economy went into recession and the stock market plummeted.<sup>1</sup> Gross receipts for Keeneland's January 2009 Horses of All Ages Sale were \$32.8 million, down from a year earlier.<sup>2</sup>

**Lipstick sales:** Leonard Lauder (the son of Estee Lauder and chairman of Estee Lauder Companies) found that his lipstick sales increased during tough economic times. He reportedly coined the term "lipstick index" during the 2001 recession, but the idea that cosmetics sales flourish during a tough economy goes back at least to the Great Depression, when cosmetic sales increased by 25%. One theory is that women are more likely to give up expensive luxuries such as designer shoes and handbags before they would consider cutting back on cosmetics (which they consider more essential), and that they may reward their own frugality with less expensive luxuries such as lipstick. In autumn of 2001, during the aftermath of the terrorist attacks on September 11, 2001, lipstick sales increased by 11%. Therefore, according to this theory, when lipstick sales are up, it may be a sign that consumers are feeling negative about the economy, although lipstick sales have increased during prosperous times as well.<sup>3</sup>

**Scrap metal sales:** This was a favorite of former Federal Reserve Chairman Alan Greenspan. Scrap metal is a significant source of raw material for industrial production. Greenspan believed the market for scrap metal was a leading indicator and that ris-

ing prices were an early signal of an economic recovery.<sup>4</sup> Scrap metal prices are down so far in 2009 but remain relatively high compared with historical numbers.<sup>5</sup>

**Skirt length theory:** According to this one, skirt lengths reflect stock market direction: short skirts reflect an up market; long skirts reflect a down market. The explanation is that short skirts tend to be in vogue during bull markets because consumers are more optimistic and may spend freely, adding to corporate earnings. When confidence wanes and the outlook for stocks is gloomy, the theory goes, hemlines head downward.<sup>6</sup>

**Men's underwear sales:** Greenspan once said that he also paid close attention to the sales of men's underwear. His theory was that when men are feeling truly pinched by a tightening economy, underwear is one of the first purchases they will postpone because almost no one sees a man's underwear. Therefore, because sales of men's underwear tend to be fairly level, Greenspan took an interest when sales dipped. Conversely, pent-up demand can cause men's underwear sales to be among the first signals of an economic recovery, indicating men are confident enough to replace their worn-out underwear.<sup>7</sup>

**Cardboard box sales:** This indicator is used by some investors to gauge industrial production. An estimated 75% to 80% of all non-durable goods are shipped in cardboard packaging.<sup>8</sup> When cardboard sales go up, it could be a sign that companies are shipping their goods in greater volume.

## Recovery in Odd Places...(cont'd)

It's important to remember that even though these offbeat indicators may be an interesting diversion, they shouldn't supplant financial fundamentals and your long-term investment goals. When it comes to your investments, you should rely on a carefully considered strategy, not on whether consumers are wearing old jockey shorts or purchasing more lipstick.

- 1) Slate.com, December 2, 2005
- 2) *Austin Business Journal*, January 19, 2009
- 3, 7) *The Economist*, January 22, 2009; May 27, 2009
- 4) *The Wall Street Journal*, June 12, 2009
- 5) *Scrap Price Bulletin*, June 15, 2009
- 6, 8) Investopedia, 2009

## What's New at Brandywine

### From Raymond's Desk

First, I have an announcement to make. Justin Follmer, who many of you know has been with me for just over 3 years has decided to look towards a different career path. We are very sorry to see him go, especially me as we have become very close over the past three years. We wish him the best of luck in his future endeavors and he will be truly missed by the staff and many of our clients that he has become close to.

The summer is half over (can you believe it!) and I have lost 15lbs on my new diet. Only issue I have now is most of my clothes do not fit! Eating healthy and exercising regularly has really increased my energy levels and helped me focus more.

Last weekend I spent some time with a Dairy Farmer from the State College area and listened to the troubles he is having with his Dairy Farm. He shared with me that dairy prices are controlled by the Government and he is effectively losing .50 cents for every gallon of milk he produces. This in turn is causing him to question, why, he is in business. Furthermore, how, he is going to stay in business. He has been a farmer his whole life and shared many stories about his upbringing on the farm. He even had me listening to some country music which I was pretty fond of. I enjoyed the weekend very much and he invited me to the Centre County Grange Fair held in Centre Hall, PA between Aug.27-Sept 3. I may even get to milk a few cows! Stay tuned!