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## PROGRESS AND DEVELOPMENTS

By Loren Kayfetz, President, CERTIFIED FINANCIAL PLANNER®

While these articles are often designed to bring you new and interesting perspectives on financial planning themes, I am going to instead use this opportunity to talk about progress and developments within Personal Financial. We are excited about what is going on.

After several years in Emeryville, we will be relocating our offices to a larger space in Oakland at 1970 Broadway. We are expanding our space due to the expansion of our firm. Nicole Hanson and Erin Hadley have returned from their maternity leaves and are with us on slightly modified schedules. In addition to Stefanie Corrales, we now have two additional operations and administrative personnel.



Cristina Fernandez joins us as an Executive Assistant. Having worked in a similar position in the Los Angeles area, she joins us after returning to the Bay Area to be near family. She keeps Pat Pannell, our COO and myself organized and productive. Cristina also assists with greeting, telephone, data management and other research duties.

Nathan Walsh joined us in August as Managing Director of Operations. With more than a dozen years of experience with a similar financial and advisory firm in San Francisco, Nathan brings extensive experience to the table with systems, procedures, investment management, marketing and client facing services. He will concentrate on streamlining and improving our client service experience.

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Pat Pannell and I have resumed living most of the time in the Bay Area. In addition to concentrating of the strategic direction of Personal Financial as COO, Pat continues to work on her jewelry and women's accessory business based in Guatemala and California. I do what I have always done: set direction in terms of overall mission and brand of Personal Financial, as well as work with clients, along with Nicole, Erin and Brad Klontz. In addition, I continue to serve on a number of non-profit boards, including as Treasurer of the Kauai Chamber of Commerce, the Kauai United Way Board, Larry McIntosh Scholarship Association, and newly on the advisory board of the Contra Costa Wind Symphony. We go back to Kauai from time to time for R&R.

Many challenges lay ahead for developed economies, including the United States and Europe. We find the climate to be confusing for many, and so we would like to remind you that we have a very clear, concise vision of how to produce financial results to meet your needs. It is in periods of flux that being forward looking is so vital. We look forward to guiding you through whatever politics and economics come our way.

Thank you for your continued trust in us.

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LOOK FOR THE CLIENT EVENT SURVEY COMING SOON!

WE ARE LOOKING FOR PEOPLE JUST LIKE YOU!  
THE GREATEST COMPLIMENT TO US IS A REFERRAL.

## THE KEYS TO LONGER HEALTHIER LIVES

By Nicole Hanson, CERTIFIED FINANCIAL PLANNER®

We all want to live long happy lives and while genetics plays a part in longevity, there are many things we can do to age slowly and gracefully. The exciting part is that we are all capable of doing these things – none of them are out of our control! In fact, our clients *are* doing them because as I looked at our clients' longevity\*, I realized that they live *two years* longer than the national average (based on 2010 WHO information)! Our female clients live 3.4 years longer than the national average for women and our male clients live 1.3 years longer than the national average for men.

...our clients' ... live *two years* longer than the national average...

I recently went to a talk on how to attain a longer, healthier life and according to this talk, the following are things that our clients are doing to contribute to their longevity:

### If they love their work, they continue working

Many of our clients no longer have to work for financial reasons but they choose to work at least part time because they enjoy it. Also, they have reached a place in their career where they can “call the shots” and have more control over their schedule and the kind of work they do.

### They stay active

We have many clients who even in their seventies and eighties are walking, playing tennis, doing Tai Chi, gardening and doing a wide range of activities that keep their heart rate up and strengthen their muscles.

### They do what love

Many of our client have hobbies and volunteer positions that interest them and give them a fulfilling sense of giving back to

their communities and leaving a legacy.

### They stay engaged with others – social engagement

Our clients maintain close family ties and friendships. They often travel with friends or travel to see children, siblings, nieces and nephews. Loneliness has been linked to shorter life spans and our clients have benefitted by having these close relationships with others.

### Manage stress

Our clients have found ways to decompress and to better manage the stresses that are inevitable in life. Their relationships sustain them and their activities provide a healthy outlet for stress.

### They manage their health issues

Besides eating well and remaining active, our clients have increased their longevity by carefully managing their health issues, whether it is high blood pressure, high cholesterol or diabetes. By taking an active role in managing their conditions they are adding to not just the quantity but their quality of their years.

### They make sure their home is safe

Many clients remodel their homes when they are in early retirement or they choose to move to a new home that can accommodate their changing needs as they age. They make sure the bathroom and shower layout is safe and that there are fewer or no stairs and that their home is either close to amenities and/or close to family or friends.



## FEELING QUEASY FROM LOOKING OVER THE EDGE OF THE FISCAL CLIFF?

By Erin A. Hadley, CERTIFIED FINANCIAL PLANNER®

### What is the fiscal cliff?

The term refers to a confluence of events which are scheduled to take place at the end of this year, either by expiring at the end of the current year or taking effect at the beginning of the next. Some of these events include the expiration of the Bush tax cuts, changes to the Alternate Minimum Tax (AMT), the expiration of the payroll tax cut and the debut of the Medicare surtax, as well as various changes to existing tax deductions, credits, exemptions and exclusions. Also scheduled to take place are spending cuts to the defense and other budgets.

### Is the fiscal cliff a good thing or a bad thing?

That depends on your views on taxes, the federal government and our deficit. Though it would mean a huge reduction in our federal deficit (by half in 2013), the worry is that such sudden and dramatic changes could throw our fragile economy back into recession, and this isn't just partisan rhetoric: the Congressional Budget Office projects a potential reduction in GDP growth of about 4%. Tax revenue received by the IRS would increase by

\$423 billion in 2013, according to CBO and the Joint Committee on Taxation; more than 80% of US households could see an increase in taxes, according the Tax Policy Center.

### What are the Bush tax cuts?

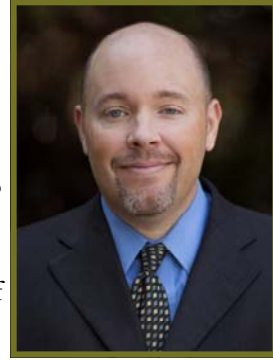
So called because the tax cuts resulting from the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) and Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) were both passed during George W. Bush's presidency; they included “sunset” provisions (meaning these cuts would expire) for 2010. A two-year extension was subsequently passed in that year via the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act. If nothing is done by Congress before the end of this year, these tax cuts will indeed sunset, leading to higher, pre-Bush era, taxes.

(cont. pg. 4)



## COMMON INVESTOR MISTAKES (AND HOW TO AVOID THEM) PART 1 OF 3

By Dr. Brad Klontz, Psy.D., CERTIFIED FINANCIAL PLANNER®



“Most of the time common stocks are subject to irrational and excessive price fluctuations in both directions as the consequence of the ingrained tendency of most people to speculate or gamble... to give way to hope, fear, and greed... The investor’s chief problem and even his worst enemy is likely to be himself.” – Benjamin Graham, widely recognized as the father of value investing and mentor to Warren Buffet

Economists, professors of personal finance, and mathematicians have developed complex, statistical models to predict how stocks *should* be valued, how markets *should* react to changes in the financial, social, and political environment, and how investors *should* behave. These traditional finance methods were based on the assumption that investors are rational, markets are efficient, and returns are a function of risk. However, in the wake of the technology

Cognitive biases and emotional investing are part of the human condition.

women. Sorry guys, it turns out that women are better investors. On average, women outperform men by 1% annual return. Why? Overconfidence leads to more trading. More trading leads to more fees. More fees leads to lower returns. A healthy dose of self-doubt, second thoughts, and uncertainty is good for your wallet. I know what you’re thinking: overconfidence is bad, but I really am a better driver than most.

### Reference point fixation

Shortsighted financial decisions can be made when we are fixated on meaningless reference points. The 52-week high or low of a particular holding. The amount of your initial investment versus your current account balance. The DOW Industrial Average in January 2000. A 40% gain in the S&P 500. The price of your house when you bought it. It is easy to get stuck on a particular number and evaluate your holding’s value, profit or loss inaccurately. For example, the 52-week high of a particular holding is meaningless until you compare it to industry averages. By itself, a 20% gain (or loss) in your portfolio tells you nothing about its performance relative to appropriate

Be Free

bubble and the real estate crisis, financial experts have been forced to acknowledge the terrible flaws in these assumptions. Research in the emerging fields of behavioral finance and financial psychology have confirmed what astute financial historians, such as Benjamin Graham, have long recognized: investors are irrational, markets are inefficient, and returns are influenced by emotion and cognitive biases. Cognitive biases and emotional investing are part of the human condition. However, with some insight and fortitude, we can override these natural impulses and rise above our animal brains. What follows is the first of a three part series on common investor mistakes and how to avoid them:

### Overconfidence

How good of a driver are you? Are you better than average? Chances are you think you are. Eight out of ten people rate themselves as above average behind the wheel. Obviously, this is a statistical impossibility. In terms of investing, men rate themselves as having more financial knowledge and confidence compared to

benchmarks. A 90% gain from the bottom of the market may still represent a 70% loss from the top. Making decisions based on an emotional attachment to a meaningless reference point without careful consideration of the larger context can be dangerous for your financial health.

### Playing with the house’s money

Financial good fortune, such as selling an investment that made money, having a great year in the stock market, or coming into sudden or unexpected money, can make you lose your head. Research shows that people are more likely to double down after a financial success, even though their odds of winning have not increased. As such, they are a significant risk of taking much more risk than they normal would (or should). If we let our exuberance take the reins, we are much more likely to steer ourselves right off a financial cliff.

## FEELING QUEASY? (continued from pg. 2)

### What is the payroll tax?

The payroll tax, which all workers pay into to fund social security, was temporarily to help with our economic recovery. President Obama, in a bipartisan deal with Congress, cut the 6.2% by 2% bringing it to 4.2%. It was put in to place in 2011 then extended into 2012. That cut is now scheduled to expire at the end of this year, thus leading to higher taxes for workers if it does.

### What is AMT?

The Alternate Minimum Tax (AMT) is a parallel system that uses an alternate method to calculate one's tax liability; its original intent was to limit the amount by which certain upper-income taxpayers could reduce their taxes by reducing the number of deductions that can be used. Most were unaware of AMT until the Bush tax cuts caused many more people to become subject to it.

In the past, Congress has passed "patches" to help ease this burden. The amount of income exempt from AMT is scheduled to revert to 1986 levels; if another patch or other change is not made before year end, it will cause even more people to be subject to it, again resulting in more taxes paid.

...Congress has passed "patches" to help ease this burden.

### What is the Medicare surtax?

The Patient Protection and Affordable Care Act was signed into law on March 30, 2010. To help pay for it, a 3.8% Medicare surtax is scheduled to go into effect at the beginning of 2013. There's been a lot of attention raised around this surtax leading to much concern and misunderstanding about how it's assessed. It's important to understand how it will affect you, the taxpayer, if at all. This tax applies only to passive income, not earned income and kicks in only once one's modified adjusted gross income (MAGI) exceeds certain thresholds: above \$200,000 for a single filer and above \$250,000 for those married filing jointly and above \$125,000 for married filing separately.

### How does the Medicare surtax affect me?

Remember, if you earn more than these amounts, but it is all earned income (reported on your W-2, for example) the surtax does not apply. If, however, you have net investment income (capital gains, dividends, interest or other types of passive income, like rents, royalties, etc.) instead of, or in addition to your earned income, then it is applied to the lesser of net investment income for the tax year or the amount by which one's MAGI surpasses the thresholds mentioned above.

Here are some examples:

A single taxpayer has a MAGI of \$275,000; all of it is earned (no investment income): no surtax

A single taxpayer has a MAGI of \$275,000, \$50,000 of which is investment income: the 3.8% would be applied to \$50,000.

A single taxpayer has a MAGI of \$275,000, \$100,000 of which is investment income: the 3.8% would be applied to \$75,000.

### What will Congress do?

Theories range from nothing, thus allowing the most dramatic impact, to patches or extensions of the cuts to broad reform of the tax code, including making the Bush era tax cuts permanent. While there are plenty of theories, no one really knows what will happen and the decision could be made, as Congress often does, in the eleventh hour.

### What should I do?

Remember, this is all speculation at this point and taking action based on what might happen can have adverse consequences if changes are made based upon the expectation that things go a particular way but then actually go in the opposite direction. In addition, when viewing the big picture of your financial life, managing the tax impact, while important, should not be the sole or primary objective: we want to be careful not to let the "tax tail" wag the "investment" dog.

Also important to remember is that your situation is unique; something that has a huge impact on your neighbor or family member can have no impact whatsoever on you. If you'd like to have a more in-depth discussion of the changes mentioned above as they might relate to your situation, we'd be happy to sit down with you anytime.

## MEET NATHAN WALSH



Nathan joins Personal Financial as the Managing Director of Operations & Compliance. He started his career at Merrill Lynch in San Francisco and was a financial consultant until 1999, when he joined a regional registered investment advisory firm where he functioned as a partner, CFO, Chief Compliance Officer, Chief Operations officer and portfolio manager until August of 2012.

Nathan holds the Series 65 Investment Advisor license and a Bachelor of Arts degree in History from Rhodes College.



Nathan lives in the Bernal Heights neighborhood of San Francisco with his wife Megan, and daughter Finley. He enjoys Cajun-style cooking, gardening, college football, first edition novels, and going to museums with his wife and daughter.