

Mentor Monthly Missive

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Key questions you must answer for your financial future

It can be overwhelming to think about the most important financial issues affecting your long-term financial health, especially your ability to eventually retire and have an active, comfortable lifestyle.

There is no time like the present to begin answering the important questions affecting your financial future because the longer these questions are ignored, the more difficult it will be to retire when you'd like to do so. What questions should you be finding answers to? While this list isn't all-encompassing, the following questions are the most important ones for most people:

1. **How much money will you need to have when you retire?** This is especially important if you are within 10 to 15 years of your desired retirement age. If you don't know the answer, you risk retiring too early (and running out of money later on) or working longer than you need to.
2. **How much money should you save each year to achieve your goals?** If you don't know the answer to this question, you have no idea if you're saving too much or too little. (Most Americans don't save enough.) The sooner you can answer it, the more time you have to achieve your goals.
3. **What rate of return do you need to meet your goals?** This question goes hand-in-hand with question #4 below. The return you need impacts how much of your portfolio should be invested in stocks versus bonds. Without knowing the answer, you might be taking too much risk or not enough risk with your investments.
4. **How should your portfolio be allocated between stocks and bonds so that you earn a return necessary to meet your goals?** See #3 above.
5. **Is your personal tolerance for investment risk compatible with the risk you should take to earn the necessary return on your investments?** If the risk you should take to earn the necessary investment return exceeds your tolerance for risk, you must figure out how to bridge the gap. (Should you take the higher risk to earn a higher return, or work longer, or save more, or spend less, or a combination of these factors?)
6. **At which age should you start receiving Social Security?** Most people start receiving Social Security payments as soon as they're eligible. However, the longer you wait, the greater your monthly payments will be for you and your surviving spouse. This is a crucial question to answer for your retirement years.
7. **If you're eligible for a pension, what is the best payout option for you and your spouse/heirs?** Should you take payments only during your lifetime, or take reduced payments that will continue for your spouse if he or she survives you? Knowing the answer to this question can have a huge impact on the financial security of you and your spouse in your retirement years.
8. **Should you keep your 401(k) account where it is when you retire, or roll the proceeds over to an IRA?** This is not a question to be taken lightly, and your decision could impact your retirement portfolio to the tune of thousands upon thousands of dollars.

9. **If you're already retired, do you know how much you can withdraw from your investments each year?** Not knowing the answer to this question exposes you to greater risk that you'll spend too much and run out of money, plus cause you stress and worry not knowing whether you're spending too much or too little.

Our advisors here at Mentor Capital have extensive experience helping clients find answers to these questions and guiding them as they achieve their financial dreams.



Mentor Capital offers tax-preparation services

Mentor Capital is accepting new tax-preparation clients for the 2009 tax year.

Although our primary business is providing clients with financial planning and investment management services, at this time of year our advisors are also busy preparing income-tax returns. We do this work for financial planning and investment clients as well as those who do not engage those services.

Our tax-preparation services may be right for you if:

- You prepare your own tax returns but no longer wish to prepare them yourself;
- Your tax returns are prepared by someone else, but you are concerned that you're paying too much or aren't receiving good service for what you're paying;
- You think you might benefit from having your tax returns prepared by a financial planning firm that can take a "tax planning" approach when preparing your returns;
- You'd like to learn more about how tax planning integrates with the financial planning and investment management process.

We invite you to give one of our advisors a call to find out more.



The perils of stock picking

Many investors use an "active" investment approach of selecting specific stocks or actively-managed mutual funds for their portfolios, rather than using a "passive" approach of owning mutual funds that mimic the characteristics of market indexes.

Trying to pick stocks – with the goal of outperforming the stock market – can be a risky bet. Why? Well, believe it or not, the majority of stocks LOSE money over the long run. How can this be, you might ask, when the stock market rises over time?

Research has shown that from 1980 through 2008 the U.S. stock market's gain was derived from only the top-performing 25% of stocks. The remaining 75% lost about 2% per year, on average, during that 29-year time frame.

How do you give yourself the best chance of avoiding the bottom 75% of stocks and buying only the top 25%? Unfortunately, history shows that nobody has been able to do this successfully on a consistent basis. Although some investors and fund managers are successful "stock pickers" from time to time, that so-called ability doesn't persist over the long haul.

The best way to take part in the gains of the stock market is to invest the bulk of your portfolio in low-cost index or passively-managed funds. By doing so you "cast a wide net" by diversifying your portfolio among different asset classes and among many stocks. This approach gives you the best chance of owning tomorrow's winners.



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