REGISTERED INVESTMENT ADVISORS

GORDON & ASSOCIATES FINANCIAL ADVISORS, INC.

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Out Of Work? How You Can Survive And Even Thrive

The numbers are downright scary. From December 2007, when the recession began,through June 2009, the number of unemployed increased by over seven million, bringing the U.S. unemployment rate near 10%. But the statistic that matters most to you is your own, and if you've been laid off or your company has gone under, you're competing with an army of others for the few available jobs. Still, this difficult period doesn't have to be a financial or personal disaster. Manage your financial affairs carefully while you're out of work and you'll survive the economic crisis. You might even emerge in better shape than you were before.

Eight ways to triumph. No single approach will work for everyone, of course, but these eight suggestions could help you overcome an unexpected pink slip.

1. Don't panic. It's normal to be nervous if you've suddenly been sent packing after years of gainful employment. But now's the time to take stock of your situation as calmly as possible. Pull out all of your account statements, apply for unemployment benefits, and look for ways to keep your finances under control while you hunt for another job.

2. Reduce spending. You need to keep up with your mortgage payments and put food on the table. But there are likely to be some discretionary purchases you could reduce or eliminate for the time being. Poring over your budget and finding things you can do without may also help you overcome the feeling of powerlessness that often comes with unemployment.

3. Eliminate unnecessary debt. Cut up your credit cards? Maybe not, because you'll still need to buy essentials, and using plastic can serve as a quick emergency borrowing source. But charge only what you can afford to pay each month. Otherwise, a small debt could quickly spiral out of control.

4. Take advantage of benefits. Getting unemployment compensation is much easier than it used to be; in many states, you can avoid those dispiriting visits to the unemployment office and apply for benefits by mail or online. Meanwhile, double-check the amount of severance you should be receiving from your ex-employer, and consider continuing your health insurance coverage under COBRA. You'll pay your old group rates, and a provision of the American Recovery and Reinvestment Act of 2009 will subsidize 65% of the cost for nine months. Also, look into coverage under your spouse's health insurance plan if it's more economical than COBRA or if you're still out of work when the nine-month COBRA provision expires.

5. Network, network, network. Applying for jobs posted online or in the newspaper pits you against a host of other applicants. You're likely to have

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Bernie Madoff Is The Exception, Not The General Rule

The recent revelations concerning Bernard Madoff's Ponzi investment scheme and several other highly publicized frauds perpetrated by financial services professionals have given the profession a huge black eye. When you combine these incidents with the greed of Wall Street bankers and brokers who accepted million dollar bonuses while government funds were bailing out their firms, it's no small wonder the public's faith in financial and investment advisors has been shaken to the core.

Given all that has happened, you may have questions about what we are doing to protect your interests. This firm remains committed to provide honest, forthright guidance to everyone who works with us, and we hope you will continue to trust us during these difficult economic times. You need never worry about our integrity and our ability to advise you in a way that's tailored to your individual needs.

It has always been our policy to operate openly and transparently, and we welcome the opportunity to discuss and document how your money is being invested, where it is being placed, and the procedures we use to safeguard your assets.

Very few financial advisors are Bernie Madoff. We remain committed to showing you why we are so different from him and others who have tarnished our industry. If you have any questions or reservations, please give us a call.

When Market Noise Gets Loud, Trust An IPS

The stock market often acts like a roller coaster with highs and lows during the year. When things are looking up, making money looks easy, worries about risk seem remote, and having a written investment policy statement (IPS) may feel like a waste of time and paper. When the market is in the dumps, the natural reaction is to sell, even though we all know the importance of "buying low." In both instances, an IPS will be your ally.

An investment policy statement commits to writing the details of your financial situation—what you want to accomplish, a plan for achieving it, and how much risk you're willing to take to get there. It can save you from your own worst instincts, helping you resist the temptation to reach too far when times are good or panic when the market plunges.

Suppose, hypothetically, that the Nasdaq Composite just had a great run, skyrocketing 15% in the most recent quarter. With your portfolio ahead just 5% during the period, you might feel frustrated, and tempted to grab some of Nasdaq's big gainers to try to catch up. A glance at your IPS, however, would remind you why that's a bad idea. The diversification strategy you've committed to is designed to keep your portfolio on a relatively even keel, with judicious allocations to bonds and dividend-paying blue chip stocks. It has the potential to produce steady gains over the long haul to fund your financial goals. And though it may not take off during a market surge, it's also less likely to go into free fall when the investment climate gets stormy.

While there's no hard-and-fast format for an investment policy statement, most combine the same basic components. First, there's usually an executive summary that lays out where you are now in your investing life. It describes your current portfolio and may include your target asset allocation, how much new money you'll invest each month or year, and what index benchmarks are used to gauge your progress. The executive summary also considers risk, often in terms of how much of a loss you could tolerate during specified time periods.

Next, your IPS may detail your investment objectives—for example, that you and your spouse plan to retire in 15 years, and you'll need income of $200,000 a year, inflation adjusted, for three decades. Your investment philosophy sets out your investing rules to live by. How do you feel about risk, diversification, frequency of trading, investment costs, and taxes? Answering these questions in a formal IPS provides a philosophical underpinning for specific investment selection criteria that translate your beliefs into action. Finally, the IPS may outline monitoring procedures for gauging your progress.

If you don't already have an investment policy statement, please let us help you create one. Simply going through the process can be invaluable; answering our questions about your goals and risk tolerance may focus your thinking in a new, beneficial way. And with your IPS in hand, we'll know how to serve your needs whatever the market climate. ●

College Savings Help Admission Chances

If you need a little extra motivation to set aside college savings each month, consider this: With a volatile stock market taking a bite out of college endowments, financial aid budgets are shrinking and assistance will be harder to come by. Worse, many colleges are choosing not to admit students who need aid.

Today, relatively few schools have the financial wherewithal to disregard a student's ability to pay when making admissions decisions. According to Donald E. Heller, an associate professor and senior research associate at Pennsylvania State University, only about three dozen colleges and universities now commit themselves to meet every admitted student's need. "So it's safe to conclude that all other institutions, to one extent or another, take financial need into account when deciding which students to admit," says Heller.

Will your children be affected? It depends on the strength of their credentials, Heller says. Most top candidates will be accepted regardless of need, and may even be awarded merit scholarships. But other students may be judged in part on the basis of how much they will cost the school. "When admissions staffs get down to those last pools of applicants, very often they will not admit students who need financial aid if they know the school can't meet that need," says Heller. "At that point, candidates who can pay their own way have an advantage."

That's not the way things generally worked during the 1970s and early 1980s, when most colleges at least aspired to need-blind admissions policies. By the mid-'80s, however, most admissions offices had adopted a more pragmatic business model often referred to as enrollment management. The bottom line for the admissions staff was simple: Fill the

What Happens After Economic Crises?

What if U.S. home prices dropped by more than a third, and didn't recover for six years? Or if stocks slid by 56% in a three-year bear market? Consider what would happen if the unemployment rate rose by seven percentage points, or per capita economic output fell more than 9%, and didn't recover for two years.

While parts of that scenario may seem extreme, in fact it's just average for almost a score of banking-led financial crises around the world since World War II. In a recent paper, Carmen Reinhart of the University of Maryland and Kenneth Rogoff of Harvard University put the current U.S. downturn in global and historical perspective. They considered 18 postwar financial crises around the world, including what they dub the big five: Spain in 1977, Norway in 1987, Finland and Sweden, both in 1991, and Japan in 1992. Add to that group the U.S. upheaval that began in 2007—which is "now beyond contention...severe by any metric," they write. They also factored in famous emerging market crises, including Asia in 1997-1998, Colombia in 1998, and Argentina in 2001, and incorporated data from the Great Depression. In all of these cases, banking system meltdowns triggered major recessions. The Reinhart-Rogoff paper maps the fallout in several areas and charts how long it took before conditions improved.

By late 2008, when the paper was written, U.S. real housing prices had fallen by almost 28% from their peak—more than twice the decline during the Great Depression. And though many countries have suffered much worse setbacks, including drops of more than 50% in Finland, Columbia, the Philippines, and Hong Kong, the U.S. retreat has approached the 35.5% average noted by Reinhart and Rogoff, who found that the average recovery time for home prices is almost six years.

The U.S. stock market retreated further since Reinhart and Rogoff compiled their data, and prices dipped close to the 55.9% average loss noted in their paper. Here, too, some equity markets have fared much worse, with stock prices in Iceland collapsing by more than 90% during the current crisis and Thai equities sliding about 85% after 1997. Though the average recovery time has been 3.4 years, several markets have taken more than half a decade to bounce back.

Job losses always come with recessions, but when banking crises lead to downturns, the rise in unemployment rates tend to be particularly jarring. The worst was a more than 20 percentage point increase during the Great Depression, a catastrophic result that no postwar recession has approached. Still, the seven percentage point average spike in unemployment that Reinhart and Rogoff observed amounts to an enormous drag on any economy, and the 9.5% U.S. rate in June 2009 was already more than five points above the low recorded in March 2007. On average, it has taken nearly five years for employment to rebound to pre-crisis levels.

The bottom-line impact of a recession is the decline in a nation's economic output, and by that measure, banking-led crises have also been unusually severe, according to Reinhart and Rogoff. Emerging economies have suffered most, probably because they depend on external credit sources that may dry up when times get tough. Per capita gross domestic product (GDP) dropped by more than 20% in Argentina after 2001 and by almost 15% in Indonesia after the 1997 financial crisis. Much worse, of course, was the nearly 30% plunge during the U.S. Great Depression. But developed countries have also seen economic output drop sharply in more recent times, and on average, recovery takes almost two years.

And the cost to governments of trying to coax their economies back to life? The average rise in public debt during the three years following banking crises has been 86%, according to Reinhart and Rogoff. "Even recessions sparked by financial crises do eventually end, albeit almost invariably accompanied by massive increases in government debt," they write.

It's not certain, of course, that the current crisis will follow the pattern of past upheavals, and the authors note that some central banks have been particularly aggressive this time in promoting economic recovery. Still, they write, "one would be wise not to push too far the conceit that we are smarter than our predecessors. A few years back many people would have said that improvements in financial engineering had done much to tame the business cycle and limit the risk of financial contagion." They hardly needed to add that the limits of that hypothesis have become painfully clear. ●

class but don't exceed the financial aid budget.

Today, enrollment management is firmly entrenched at most schools. Moreover, with economics affecting alumni giving and pressure being put on endowment earnings, a student's financial situation plays an increasingly critical role in the admissions process. As a result, strategies for maximizing a student's apparent need by putting assets in parents' names and taking advantage of aid formulas that require students to spend a larger proportion of their own savings could have undesirable consequences. And not saving for college at all, while counting on financial aid to bear the brunt of school costs, could prevent your children from getting into the colleges of their choice.

The safest approach to college funding is to plan to pay as much as possible yourself. Positioning your assets to qualify for financial aid or counting on the availability of loans could backfire with the admissions office and your kids. ●

Out Of Work?

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much better luck if you use personal and professional contacts to find viable opportunities. Be casual about reaching out to friends, family, and business associates—you don't want to seem desperate—but be sure they know you're job hunting. Also, attend as many networking events as possible, via professional associations or chambers of commerce for example.

6. Consider a career change. If your industry or profession seems unlikely to rebound, you might broaden your search to include related fields. For example, the skills of a journalist who loses a job in the print media might easily translate to work on a website, in public relations, or in another job requiring writing and editing. If former colleagues have made a similar leap, ask how they did it. Also consider taking courses that will develop your skills in related fields and potentially result in a certificate or advanced degree.

7. Start a new business. You won't have to look far to find people who tell you that losing a job was the best thing that ever happened to them. If you've always dreamed of turning a hobby or other passion into a profitable business, this might give you the push you need to go for it. Sure, these are uncertain times for new ventures, but if you can fill a niche with high-quality services or products, you'll stand a good chance of success. Plus, you can potentially minimize your overhead costs if your new business venture is Internet-based.

8. Stay positive. Be prepared for an extended job search that may sap the energy you had when you were first laid off. These are extraordinarily trying times, and finding the right position could take many months. But perseverance will pay off. And remember: If you're middle-aged or near retirement, your wealth of experience is an asset, not a liability.

Finally, in a pinch, you may need to tap your retirement plans and other resources to weather the storm. But that really should be a last resort. Money you pull out now will be difficult to recoup later and brings unwanted tax penalties and fees. ●

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