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INSIDE THIS ISSUE

- Acting Your Age When Making Investment Choices by Lisa V. Johnson
- Ask Allie
- Announcement
- Distribution of This Newsletter

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ACTING YOUR AGE WHEN MAKING INVESTMENT CHOICES

The attorneys at Oast & Hook are frequently asked to assist clients with financial planning for their retirement or the payment of long-term care. Unfortunately, we find that clients have often made significant mistakes in their investment planning. Having a clear-cut, simple financial plan in place is a good idea for everyone, regardless of age; however, a growing body of research suggests simplicity takes on added urgency as we move into our 70s when our ability to make wise investment choices begins to decline. According to a recent *Wall Street Journal* article, increased age often causes many seniors to make poor financial decisions.

According to the article, about one-half of individuals in their 80s experience some dementia or cognitive decline. The article cites recent research into our financial decision-making skills which suggests they begin to slip after the age of 70 years and suffer more rapid declines after the age of 75 years. George Korniotis of the Federal Reserve and Alok Kumar of the University of Texas business school studied thousands of stock trades made by investors in the 1990s. Their research revealed that although older investors traded less frequently and held less risky portfolios, they began to lose their knack for selecting stocks beginning in their early 70s, enough so that their average annual returns were 3% to 5% less than expected. This can be extremely problematic for investors in their 70s and 80s who are unable to return to work and have fewer years to recover from poor investment choices.

Another study discussed in the article examined the findings of four economists who had reviewed bank data on several types of loan transactions. They found that individuals in their 20s and those over the age of 70 years were much more likely than those in middle age to make financial mistakes, such as accepting higher-than-necessary rates on home-equity loans or owing fees for paying a credit card late or going over a credit limit. The economists attributed the mistakes of the younger individuals to inexperience, but those of older individuals to declining decision making abilities.

The economists note that this is especially troublesome because older individuals have much larger assets, and thus have much more at stake.

Since it's virtually impossible to know what challenges we may face as we age, the best defense against poor decisions or fraud is a good offense — a simple, easy to manage financial plan, put in place well before the age of 75 years. The article suggests the following steps to consider:

1. Simplify your investments. Consider doing away with individual stocks in favor of easier choices like index mutual funds. Avoid alternative investments and private partnerships that might be hard to sell. Many investment firms will calculate and automatically send you mandatory IRA distributions and offer services that, for a fee, automatically rebalance your investments.
2. Consolidate accounts. Many of us have a dozen or more banking and brokerage accounts or certificates of deposit at several banks. Consider reducing the number of investments you must monitor by consolidating your accounts. Consolidation makes keeping track of your money much easier.
3. Get your paperwork in order. Although your Social Security payments are probably direct-deposited and you may have already designated someone to make major decisions for you if you become incapacitated, you should still locate and organize all of your important documents such as account statements and stock certificates.
4. Eliminate debt. The Federal Reserve's 2007 study of consumer finances found that almost one-half of households headed by individuals 65 to 74 years of age had a mortgage, and 37% carried credit-card balances. Paying off these debts will free up cash and lessen the worry of forgetting to pay bills.

The attorneys at Oast & Hook assist clients with their estate, financial, insurance, long-term care, veterans' benefits and special needs planning issues. To help our clients with financial and investment planning, Oast & Hook has formed Oast & Hook Financial Services LLC, a Registered Investment Adviser and financial planning firm that is separate from Oast & Hook PC that provides legal services.

Ask Allie

O&H: Allie, we've heard that microchipping pets is a good idea. Please tell us about it.

Allie: Sure! Microchips help identify your pets and reunite them with you if they become lost. Many people do not microchip their cats, especially if they are indoor cats. Because indoor cats often do not wear collars, microchips become even more important if the cat slips through an open door. There are several microchip companies, and it is important to register your pet's microchip so that the information is in a database.

Home Again is one company that permits pets to be registered with its service, even if the pet has a microchip made by another manufacturer.

If your pet is lost, Home Again is proactive and sends out Rapid Pet Loss Alerts to veterinarians and shelters in your area. Home Again's World Scan scanner can read all known microchips currently sold in the U.S. For more information on Home Again, please visit <http://public.homeagain.com/index.html>. I'm glad my Oast & Hook family had me microchipped. I'm an indoor cat, but it sure is tempting to try and sneak outside and visit with the other animals in the neighborhood. On the other hand...I think I'll find my mom and see if she wants to play. See you next week!

Announcement

Oast & Hook attorney Brian Boys will speak at the monthly meeting of the Norfolk Retired Employees Association from 10:30 a.m. to 11:00 a.m., Friday, June 25th at the Titustown Recreation Center, 7545 Diven Street, Norfolk, Virginia 23505. For more information on this organization, please visit www.norfolk.gov/retirees.

Distribution of This Newsletter

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