

True North

Compass Financial Consulting, LLC

Providing Financial Direction

Spring 2009

This We Believe...(Part II)

In our last newsletter, Kevin shared his family's personal statement of their financial beliefs and priorities. When we first decided to introduce this concept to you, we thought it would be a good idea to demonstrate the process by sharing our own families experience with this "This I Believe®" approach. We have received a lot of positive feedback on this concept, so we want to keep the momentum going by providing you a look at my family's document.

"What We Believe...An Essay On Our Family's Financial Beliefs and Priorities"

By John and Jill Bochniak

While I hope you look forward to your annual reviews with Kevin or I, imagine being one of our wives who have to meet with us everyday! After 15 years of marriage, my wife, Jill, has become accustomed to meetings with me featuring such questions as, "How much did we spend on gasoline in 1998?," "What's the deal with the 25% increase in charges at Wal-Mart?," and "Why is it so important that we retile our leaking shower when duct tape is so inexpensive?" My line of questioning finally impressed her, though, when I asked her to spend time discussing what are our financial beliefs and priorities. That question led to several hours worth of important conversations.

Like Kevin and Sue, Jill and I discussed a general set of financial topics such as giving, spending, saving, etc. I am pleased to be able to share a few of the beliefs and priorities we agreed on under each of the topics. What you will read is

certainly a very personal disclosure, but, since you share so much about yourselves working with our firm, I find it only right for you to get a better glimpse of the personal side of those who serve you. With that said, here are some highlights...

The Purpose of Our Document

**We endeavored to write something that will improve our focus in a world of financial distractions. Creating a written inventory of our financial beliefs and priorities will allow us to avoid the race to "keep up with the Joneses" and, instead, will keep our attention on the items we find most important.*

Our Core Beliefs

**We strive to strike a balance between earning and saving enough money to be comfortable and secure without sacrificing what we believe is truly our priority—having the time to invest in a relationship with God and our family, friends, and neighbors.*

**We must guard against "living heaven on earth." Being blessed to live in a country of freedom and unbelievable prosperity, it is easy to put our desires first and forget that our resources are not solely for our use. Using those resources to fund only a life of leisure sentences one to a dependence on one's bank balance rather than a dependence on one's true purpose.*

Beliefs & Priorities Regarding Giving

**Our annual giving will be the first line*

item funded in our budget, and it will be set at a level where we will "feel it."

**We have a passion for giving to organizations that help children, families suffering financial hardship, our church and the world's entrepreneurs via Kiva.org.*

**We recognize that giving is more than writing a check. Much more is expected of us! We will continue to find avenues in which to serve our community (i.e., Meals on Wheels, teaching Sunday school, coaching our children's teams, etc.)*

Beliefs & Priorities Regarding Money and Our Children

**We believe that in order to teach our children about money, we have to teach them about stewardship, personal responsibility, work ethic, civic responsibility, caring for our environment, and the lessons of history.*

**As for how we intend to spend our money on our children, we want to avoid giving our girls the trappings of an unsustainable lifestyle. We will happily pay for anything in our parental responsibilities (no, Libby, this does not include the service plan featuring unlimited text messaging), for activities in which they exhibit an interest, and provide them an allowance in payment for household chores. At age 13, we will give them, monthly, a pre-paid debit card that they will use for their personal expenses, including their clothes, entertainment, etc. They can manage it as they see fit.*

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**The bank of Mom & Dad will be found to require steep down payments, and a FICO score better than 700!*

**Three girls means three weddings. We will provide each a single lump sum figure to help them celebrate as they wish. The amount we provide will be based on how much we like the guy (Dad's humor here). What they don't spend they get to keep.*

**If the kids leave the house with faith, self-esteem and a sense of personal accountability then we have succeeded (their knowing the Roth IRA funding rules will only be a bonus).*

Beliefs & Priorities Regarding Our Estate

**While our children are under 18, our entire estate will be directed to their support, in the event of both our deaths.*

**We have thought long and hard about our guardians and have given them much flexibility in how they spend the funds in support of our children. If we trust them with our children, we want to make it easy for them to spend the funds meant for their support.*

**If we are fortunate to live a long life, we do not want our legacy to be a pile of money left behind. We absolutely desire to provide our children assistance, but not support in their adult lives. If any money is left at our deaths, they will each receive an equal share not to exceed a moderate lump sum figure. Any money left after this amount shall go to a few other family members, but the bulk will go to our church and to charity (with the kids to decide which charities benefit).*

**Our preference is to provide our children assistance while they are young, starting a family, buying a home, etc. and need the help versus compiling a war chest for distribution when we are dead, and they are old.*

**We recognize that circumstances surrounding our estate could change dramatically over the course of our lives. Therefore, we will revisit our estate plan*

every two years.

Beliefs & Priorities Regarding Insurance

**While we could think of a hundred other uses for the premiums, we recognize we need to insure against the risks that would be catastrophic to our plan. Therefore, we will make it a priority to include both life and disability insurance premiums in our annual spending plan.*

**Life insurance on John will be set at an amount that will pay off the house, fund college, and provide Jill the security that life can continue to be as "normal" as possible.*

**Life insurance on Jill will be set at a level that will pay off the house and give John some time to figure out how to cook.*

**As disability is a much greater concern at our current ages, John will secure the maximum amount of disability insurance he can get.*

**We will review our property and casualty insurance coverage every 3 years.*

Beliefs & Priorities with Regarding Lifestyle and Savings

**We will sit down annually to discuss and create a spending plan. We enjoy the challenge of living within the financial framework we set. We know that we control the budget, the budget does not control us.*

**We have found that a spending plan (budget) frees us from needing to analyze every expenditure. Money spent within the framework of a spending plan on which we both have agreed need not be scrutinized.*

**Jill will utilize cash (via a debit card) to fund the majority of our monthly household expenses. Credit cards will be used sparingly, and their balances shall be paid in full every month.*

**Real life includes surprise expenses.*

We must account for such items in our annual spending plan for, if they are not included, those expenses will serve to frustrate us and our plan. Said another way, we need to put a prudent figure in the "Stuff Happens" line of our annual spending plan.

**We are comfortable with funding an emergency account equal to 8 months of our living expenses.*

**We will not leave our current home before age 65. During that time, we expect to have to spend money on home maintenance and projects. Items in the next ten years include replacing windows and siding, and repairing the deck. We will try to do as much as we can ourselves.*

**Cars are not productive investments, rather they are depreciating and frustratingly expensive property. Our priority is to buy good ones, and keep them for 15 years or more.*

**Our goal will be to save at least 10% of our income each year. This savings will be for priorities that include the kid's college, paying cash for our cars, maximizing our retirement accounts, and funding memorable family experiences (i.e., cross country trip to the Grand Canyon, jet ski racing, etc.)*

**It is our desire to fully fund our kid's college educations. However, in our spending plan, we are not willing to forgo family vacations in order to fully fund the college accounts. We believe our vacations build our memories and strengthen our family bond. It is money well spent! Instead, our plan will be for Jill to return to work when Katie is a sophomore in high school, if necessary. Her cash flow, combined with the college 529 savings account balances, will do much in the way of funding college. If our children find it necessary to take on a college loan, it is our intention to take over this loan and pay it for them. This commentary applies to their undergraduate education only. The funding of any post-graduate schooling will be discussed on a case-by-case basis (as long as it will lead to a career that*

will support Dad in his old age!)

Beliefs & Priorities Regarding Our Investments

**We will implement the same investment strategies utilized for Compass clients as we intend to “eat our firm’s own cooking.”*

**We agree that the goal of our investments is to protect and increase the purchasing power of our savings.*

Beliefs & Priorities Regarding Debt

**We intend to have no debt on our balance sheet outside of our mortgage.*

**If we were to receive an inheritance, we would apply this money against our mortgage in an effort to retire the mortgage early.*

**We desire to enlighten our children of the wisdom in the following quotes:*

“Creditors have better memories than Debtors”—Benjamin Franklin

“Leverage is the only way a smart person can go broke”—Warren Buffet

Beliefs & Priorities Regarding “Financial Independence” (a.k.a. Retirement)

**John has been fortunate to develop a career in something he feels passionate about and enjoys. He intends to work long and hard at it. We will save diligently for later in life, so, at some point, we have the financial resources available where he could reduce his hours and his salary to promote the growth of the future Compass partners!*

**We believe that social security is a tax and not a retirement program. The benefits our government is promising are not sustainable in our lifetimes; therefore, we will not forecast these benefits in our future cash flow or financial independence scenarios. If the benefits happen to be paid, it will be “found” money that we can use to help our children and grandchildren*

because, if the current social security program is not fixed by then, they will really need the help.

Beliefs & Priorities Regarding Accountability

**We will set aside one weekend per year to revisit our beliefs, priorities and to create our annual spending plan. John is in charge of pulling together the numbers, and Jill is in charge of deciding where to go.*

While we could go a couple of more pages here, I think the above does a good job summarizing the results of our efforts. I want to wrap up this commentary by echoing what we said in the summary from last quarter. That is, we know everyone has different priorities, preferences, and goals. It is our role to help you define and achieve them. By sharing our beliefs and priorities, our goal is to see if we can stir up the desire in any of you to take on the challenge of drafting such a document of your own.

Jill and I have found this exercise to have been extremely valuable. It has allowed us to gain a better understanding of all that we find financially important. We now have, in black and white, a document providing us a clear direction and foundation for financial actions we take from here.

It is Kevin and my sincere hope that we can play a role in helping you build such a foundation document of your own. This exercise is something in which “we truly believe....”

—John Bochniak, Partner



So you want to own some Gold

With the continued turmoil in the global financial markets, we have been asked on more than one occasion whether or not it was wise to have direct access to gold. Billed as the ultimate hedge against chaos, having direct access to gold is a function of your concern regarding the uncertainty of the future. As we have heard said sarcastically before, if it ever comes to a point where one needs daily access to gold, then the chaos has reached a level where it might be best if you had access to gold bullets instead of gold bullion. However, it is a legitimate question, and one we will attempt to answer.

The most common way to purchase gold is via a gold dealer. The challenges inherent in this method are finding a reputable dealer that can be trusted, accounting for the 4-7% commissions on each sale or purchase, shipping costs (gold is heavy), and storage costs.

Another way to get access to gold is by buying an exchange traded fund that invests solely in gold. The largest ETF of this kind is the iShares Gold Shares (ticker:GLD). GLD allows investors to participate in the gold bullion market, with each share representing 1/10 of an ounce of gold. While GLD does allow you a quick and easy means of buying and selling gold, it will not allow you to touch and admire your gold.

Another alternative to consider is a program offered by EverBank. EverBank is a bank based in Jacksonville, Florida and is considered one of the more creative financial firms out there (we use creative here in a good sense, not in the bad Lehman Brothers toxic asset sense.)

Through EverBank, one can open a Metals select account. For as little as \$5,000 and a 1% trading cost, you can pool your money with other investors in the program and purchase actual

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gold that is stored at the bank. You receive monthly statements, and there are no storage costs. But remember, you share this gold with the other investors. So if Armageddon comes, you will want to make sure you are the first down to Jacksonville to pick up your share.

If sharing is not your thing, you can step it up a level. For a minimum of \$7,500, you can establish an EverBank holding account where you will get your very own designated coins or bars. These are stored at the bank on your behalf. There is a storage fee for this service, but you own the gold outright. If you ever had the urge to admire your precious metal, the bank will even arrange delivery of the gold.

In the end, if today's chaos makes you want to hold a modest amount of gold for your peace of mind, we do not see any-

thing wrong with that premise. But, we must caution you against the performance trap that many fall into when thinking about gold—that is, becoming fascinated by gold's extreme price gains during the 1970's. The argument usually goes that if gold went up nearly 1,400% in only a few short years, then it can do it again. Let us warn you that the 1970's price performance for gold is what we would consider an anomaly. For years prior to that increase, gold had been subject to price controls by the federal government. When those controls were lifted in the 1970's, gold's price exploded as it needed to make up for lost time when it was artificially suppressed. One should not expect that kind of performance again.

As a reminder, we do have a fair amount of gold exposure in portfolios via holdings in the Permanent Portfolio, as well as the gold futures held in the PIMCO Commodity fund.

IN PURSUIT OF THE TRIVIAL

The question for this quarter is: "In April 1933 FDR made it illegal to hold gold coins, bullion or gold certificates with a few exceptions. He required all gold to be delivered to a bank prior to May 1, 1933. What was the maximum punishment that could be levied on you if you did not comply?"

We will take answers through 5pm Eastern Time on April 30th. You must respond to either kraus@financialdirection.com or johnb@financialdirection.com with your answer. If you do not have email, you may call us. We will include all those providing the correct answer in a drawing to determine the winner. Staff from the accounting firm of Bridges & Dunn-Rankin will conduct the drawing and certify the results. The winner will receive a \$100 Lowe's gift certificate.

Answer for Winter 2009. Last quarter's question was, "What country had the worst performing stock market in 2008, both in local currency and in US dollars, according to the individual country indexes from DJ Wilshire?" The correct answer was Iceland, the first, and most dramatic, casualty of the loose lending era. Congratulations to Beth Mazur, the winner of the drawing from correct answers. She now has back-to-back wins.



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