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Arvada PD 19th Annual Michael Northey Golf Tournament

Quote of the Quarter

“Prosperity is the best protector of principle.”

– Mark Twain

Market Commentary — Jeffery E. Townsend, CRPC®

September 1st we changed our financial indicator to negative and reallocated our discretionary accounts to our very conservative allocations (model “A”). This shouldn't have been a surprise if you were reading my “Special Message” e-mails that I was sending out throughout the summer. If you were not receiving these e-mails it means that we don't have your e-mail address. If you would like to receive future Special Messages and Weekly Market Commentary from me please send your e-mail address to **Townsend@TownsendRetirement.com**.

Since it seems that some of our clients have forgotten our investment methodology, I want to devote this issue to emphasize the importance of having a plan and sticking with it no matter what. There is absolutely no room for emotions if you want to make money in the capital markets. There always seems to be more bad news than good news and more reasons why not to invest than to invest. If you are not a long-term investor with conviction you shouldn't be in the market. The stock market is loaded with long-term success but is riddled with short-term volatility and risk.

The wild market fluctuations that have taken place over the past 60 days have really emphasized the word “risk.” We have taken many calls from clients that are extremely concerned about the stock market, the economy and political situation both here and abroad. Now is a good time to remind everyone that investing is risky business, especially over the short term. If you want or need to average more than bank interest rates there is risk, always has been and always will be, period! It's extremely imperative that everyone realize this before they invest. During our initial client meetings we discuss that there will be years that we'll lose money, in fact I guarantee it. What you need to determine is how much risk you are willing to take. As an example, a moderate portfolio may average 8% -9% per year over 10 years but in any given year it could go down more than 15% or go up over 30%. Obviously no one gets upset if their account goes up 30% but the biggest

Relative Strength of the Market:

NEGATIVE

mistakes occur when their accounts go down. If you can't tolerate any losses ever, then you should probably keep your money in the bank. However, if this is the case there is a good chance that you may outlive your money.

There is no one investment approach that is going to be successful every time, and ours is no exception. However, we do believe that our strategy gives us the best opportunity to make money over the long run. Given the stock market's poor performance over the past decade it's very important to have disciplined investment approach like ours that is active and not static. The stock market has provided investors with gains over the long-term, but there are periods of time when the market has struggled. Based on our methodology our indicators told us to move to a more conservative position 4 times since 2000.

Another consideration to your success is the date in which you invested. As an example, from September 13, 2010 through September 12, 2011 the S&P 500 is up about 3.7% but had you invested on January 3, 2011 through September 12, 2011 you would be down 8.6%! Or, from June 1, 2009 through September 12, 2011 you would be up about 24% but change that dates to October 8, 2007 through September 12, 2011 you would be down about 26%. So when you invest is relative to your results.

Our investment objective is to participate in good markets and to minimize losses in bad markets. Note that I said minimize losses and not avoid losses. How much you participate in gains or losses depends on your investment policy (risk assessment). A more aggressive strategy will incur larger losses than a more conservative strategy however, it will perform better during good markets.

Our investment methodology has basically 3 moving parts; first we want to build two diversified portfolios. One will be a very conservative portfolio which may have about

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Newsorthy Items

Wage base for 2012—Social Security have estimated the wage base for 2012 to be \$110,700, up \$3,900 from 2011.

Confidence in Social Security benefits—While 91% of retirees have Social Security income, only 77% of pre-retirees expect to receive benefits, according to the Employee Benefit Research Institute.

Scam—The Securities Investor Protection Corp. (SIPC) has warned consumers to beware of individuals claiming to represent SIPC. The scammers ask victims of investment fraud for information or payments in order to return funds lost in frauds. SIPC doesn't charge consumers a fee for recovering assets.

Have a plan—According to Fidelity Investments about 80% of pre-retirees think having as detailed retirement-income plan is important. But only 10% of pre-retirees have a written plan.

Working for the government— One out of every six American workers is employed by the government either at the federal, state or local level. (source: *Department of Labor*)

Elder financial abuse—The National Committee for the prevention of Elder Abuse estimate the annual loss by victims of financial elder abuse is \$2.9 billion. Even more disturbing was that for every reported case of abuse, four to five were unreported.

Colorado is the only state in history to turn down the Olympics. In 1976 the Winter Olympics were planned to be held in Denver. 62% of all state voters chose at almost the

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80% of its money invested in fixed securities (bonds and cash) and 20% in equities. The other portfolio should match your long term investment philosophy. This portfolio may consist of 45% to 80% equities depending on your investment policy.

Second, which one you'll actually have your money in will depend on our proprietary financial indicator that we call "Relative Strength of the Market." This indicator will either be positive or negative. This positive/negative indicator is based on a number of sub indicators such as economic outlook, monetary policy, equity valuations, investor sentiment, volatility index and the momentum of the market. Combined these indicators tell us when to get more conservative or aggressive.

Last but not least is the trade date. We have found that waiting until the first of the month to trade to either a more conservative or aggressive allocation helps us to do two things; first it removes emotional buying and selling and it also helps to reduce the intra-month volatility. This may be overly simplified but hopefully gives you a better understanding on how we manage our portfolios. You can find a more detailed description on our website.

I'd like to remind you that there are a ton of conspiracy stories floating around which prey on one's emotions. Often these stories are found in the form of newsletters that say they can predict what's going to happen in the markets like predicting crashes. Really?

Regardless of day to day volatility we remain true to our philosophy. We will never base our decisions on emotions. We need factual data before we get either more conservative or more aggressive. An important fact to keep in mind is that we are never 100% in or out of equities.

If you'd like to discuss your investment profile (risk tolerance), or would like to review your accounts, don't hesitate calling us.

The opinions and forecasts expressed are those of the author, and may not actually come to pass. This information is subject to change at any time, based on market and other conditions and should not be construed as investment advice or a recommendation of any specific security. Past performance does not guarantee future results.

Investing involves risk, including loss of principal. An investor's shares, when redeemed, may be worth more or less than the original investment amount. Stock and bond values fluctuate in price so that the value of an investment can go down depending on market conditions. Stock prices may fluctuate due to stock market volatility and market cycles, as well as circumstances specific to a company. The two main risks related to fixed income investing are interest rate risk and credit risk. Typically, when interest rates rise, there is a corresponding decline in the market value of bonds. Credit risk refers to the possibility that the issuer of the bond will not be able to make principal and interest payments. Diversification does not guarantee a profit nor protect against loss in a declining market.



EMPLOYEE PROFILE:

Tiffany Brown, CRPC®
Research Planning
Specialist

Tiffany's primary role is to assist the advisors in preparing retirement plans for new and existing clients, answering client's questions, investment research and placing trades. Tiffany has been in the banking and securities industry since 2002 and is a Chartered Retirement Planning Counselor™. Tiffany is a member of our investment committee.

MARKET COMMENTARY

Sign up for our free weekly market returns on our website by selecting the **Market Commentary** button at www.TownsendRetirement.com

UPCOMING EVENTS

Psychology of Retirement

Thursday – October 27, 2011

Retire Your Way Dinner Presentations

Tuesday – November 1, 2011

Boulder Dinner Theater

Friday – November 11, 2011

Financial Trivia

- 1.) Who was the first U.S. president in office to visit the New York Stock Exchange?
- 2.) In what city was America's first stock exchange located?

First person to call into the office with the correct answers will receive a gift card from Townsend!

Why We Need A Balanced Budget Amendment

Barry W. Poulson, Professor of Economics (ret), University of Colorado

The greatest threat to our nation today is fiscal profligacy. Evidence for unsustainable fiscal policy at the federal level is provided by the non partisan Congressional Budget Office or CBO. The CBO projects the long term federal budget using what it refers to as an 'alternative scenario' which assumes that current policies are continued into the future. The projections are for unconstrained growth in federal spending.

Over the past decade federal spending as a share of GDP has increased from about 20% to 24%. Federal spending as a share of GDP is projected to continue to increase to 28% of GDP by 2050 and 35% by 2082.

The federal debt incurred by the Obama Administration is projected to exceed that incurred by all previous Presidents. Federal debt is projected to continue to increase relative to GDP to 100% by 2021 and 190% by 2035. The projected increases in debt will be accompanied by rising interest rates and inflation with damaging effects on the economy. The unconstrained growth in federal spending will result in retardation and stagnation in economic growth over the next few decades.

The CBO compares these long term budget projections under current fiscal policies with that under the Ryan Roadmap. Congressman Ryan has proposed fiscal reforms to constrain federal spending to 20% or less of GDP. With these spending limits in place the CBO projects a reduction in deficits and debt and a balanced budget by mid-century. The result is sustainable fiscal policies accompanied by higher economic growth. By 2060 GNP per person would be 85% higher under this scenario.

If we are to restore long term economic growth we must constrain the growth in federal spending and balance the federal budget. The fatal flaw in federal fiscal policies is the absence of constitutional rules requiring a balanced budget and limiting federal spending.

To be effective an amendment must not only require a balanced budget, but also limit federal spending. Several balanced budget amendments have been introduced in Congress with this objective. Some would constrain federal spending to 20% or less of GDP, others would constrain the

growth of federal spending. The Ryan roadmap would limit the rate of growth in federal spending based on the rate of inflation and population growth, similar to the TABOR Amendment in Colorado.

Constitutional amendments requiring a balanced budget have been proposed many times over the past half century, and several of these proposed amendments have come close to the two thirds vote in Congress required for passage. Congress will again vote on a balanced budget amendment this fall. Given the composition of this Congress the proposed balanced budget amendment is likely to again fail.

The best prospect for a balanced budget amendment to the constitution is through a constitutional amendment convention under article V of the Constitution. Nineteen states now have active calls for a constitutional convention to enact a balanced budget amendment in the constitution. Resolutions calling for a balanced budget amendment have been introduced in Florida and several other states. Fifteen more states are needed to reach the mandatory two thirds required for Congress to call for a constitutional convention to vote on a balanced budget amendment.

With an effective balanced budget in place Congress would be required to enact the fundamental reforms in fiscal policy needed to constrain the growth in federal spending, as called for in the Ryan roadmap. This would also set the stage for fundamental reform in the tax system. What the nation needs is not tax hikes but tax reform. A balanced budget amendment is not sound if it achieves a balanced budget through tax hikes instead of spending cuts. A balanced budget amendment must include a provision requiring either a two thirds majority of Congress, or a vote of the people, to raise taxes.

Sources:

1. Congressional Budget Office, "CBO, 2011 Long Term Budget Outlook," [CBO.gov](#)
2. Congressional Budget Office, "The Budget and Economic Outlook: An Update," [CBO.gov](#)
3. Congressional Budget Office, "The Long-Term Economic Effects of Some Alternative Budget Policies," [CBO.gov](#)
4. The Heritage Foundation, "Saving the American Dream, The Heritage Plan to Fix the Debt, Cut Spending, and Restore Prosperity," [SavingTheDream.org](#)

Newsworthy Items

last minute not to host the Olympics, because of the cost, pollution and population boom it would have on the state of Colorado, and the city of Denver.

The Denver Post reported **Colorado State University** netted a 10-year, \$5.2 million deal with Coca-Cola Company that will provide scholarships, athletic money and a program for beverage management to students. University officials say recent state budget cuts to higher education forced them to approach new ideas for funding. About \$100,000 a year is for athletics while \$40,000 of the academic money will start the Beverage Management Institute at the business school. (*Denver Post*)

Colorado earns its nickname "**Mother of Rivers**" because more major rivers have their source in Colorado than in any other state.

Data for Colorado shows that the five most populous incorporated places and their 2010 Census counts are Denver, 600,158; Colorado Springs, 416,427; Aurora, 325,078; Fort Collins, 143,986; and Lakewood, 142,980. Denver grew by 8.2 percent since the 2000 Census. Colorado Springs grew by 15.4 percent, Aurora grew by 17.6 percent, Fort Collins grew by 21.4 percent, and Lakewood decreased by 0.8 percent. (www.2010.census.gov)

Have retirement and/or financial questions? Please e-mail your questions to:

Jeff@Townsend Retirement.com

...and we will address them in future newsletters.

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Planning & Investment Management



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303-452-5986 office

800-578-9896 toll-free

www.TownsendRetirement.com

Information:

For Policy Changes, Account Information,
New Accounts or Roll-Over Paperwork:

Erin Buis X 202

For Performance Results, Profile Updates
or Questions on Your Accounts:

Tiffany Brown X 209

Debbie Macey X 206

For Scheduling Appointments:

Linda Addison X 220

Terri Kelley X 203

For Client Billing:

Shawn Kelly X 205

E-Mail Addresses

Jeff TownsendJeff @TownsendRetirement.com

Linda AddisonLinda@TownsendRetirement.com

Terri AshtonTerriA@TownsendRetirement.com

Tiffany Brown.....Tiffany@TownsendRetirement.com

Erin Buis.....Erin@TownsendRetirement.com

Annette GomerAnnette@TownsendRetirement.com

Christine Kaneta Christine@TownsendRetirement.com

Shawn KellyShawn@TownsendRetirement.com

Terri KelleyTerri@TownsendRetirement.com

Nicole KulinskiNicole@TownsendRetirement.com

Deborah MaceyDeborah@TownsendRetirement.com

Ed MeierEd@TownsendRetirement.com

Madison Spellman..Madison@TownsendRetirement.com

Mark ThomasMark@TownsendRetirement.com

Cayle TownsendCayle@TownsendRetirement.com

Nellie TownsendNellie@TownsendRetirement.com

Bud WitmanBud@TownsendRetirement.com

We're open Monday through Thursday 7:30am-5:30pm and Fridays are 8am to noon.

2761 West 120th Avenue, Suite 200, Westminster, CO 80234

Telephone: 303-452-5986 Toll Free: 800-578-9896 Facsimile: 303-452-5989

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Cayle's Connection — Cayle Townsend

UPCOMING CONCERTS:

Keith Urban and Jake Owen

Pepsi Center on October 11 at 7:30 pm

Jimmy Buffett & The Coral Reefer Band

Pepsi Center on October 18 at 8:00 pm

Jason Aldean

Pepsi Center on October 21 at 7:30 pm

UPCOMING SPORTING EVENTS:

Broncos vs. Detroit Lions

Don't miss this game—the Lions were road winners last season!

Mile High Stadium on October 30 at 2:05 pm

Broncos vs. New York Jets

Watch Denver take on one heck of a team from the AFC East

Mile High Stadium on November 17 at 6:20 pm

Broncos vs. Chicago Bears

The cry baby is back, and were ready to make him cry again!

Mile High Stadium on December 11 at 2:05 pm

Broncos vs. New England Patriots

Tom Brady and Mr. Ochocinco are ready to take on Denver.

Mile High Stadium on December 18 at 2:15 pm

THINGS TO TRY OUT:

Race For The Cure

Sunday, October 2, 2011 at the **Pepsi Center**

On your mark, get set, and get ready for the **19th Annual Susan G. Komen Denver Race for the Cure**. The Race has three events; the 5K Inspiration Run, 5K Celebration Walk, and a Family 1 Mile Fun Walk.

Boo at the Zoo After Dark

Friday, October 28 – 6:00 pm to 9:00 pm at the **Denver Zoo**

Price: **\$5; \$10; \$15**

Phone: **(303) 376-4894**

Have you ever wished to be a princess? Or dreamed of being a super hero? Join Denver Zoo's nocturnal creatures during a special night time addition of *Boo At The Zoo*. Enjoy trick-or-treating stations throughout the zoo while supporting Denver Zoo's mission to provided exceptional care to our resident animals.

Home for the Holidays Dine Out

Wednesday, November 2 – 7:00 am

Participating Denver Area Restaurants, Denver

Eat, drink, and be merry to support *Colorado Coalition for the Homeless* this winter! Restaurants around the Denver Metro Area join the Coalition to support homeless families and individuals this winter.

Veterans Salute

Wednesday, November 2 – 9:00 am to 1:30 pm

at Wings Over the Rockies Museum, Denver, CO

This luncheon and patriotic tribute honors veterans who have served our country. Online registration is available for this event which usually sells out; purchase your tickets early to ensure seating. The City of Aurora is proud hold this event each year to recognize veterans for their service.

9News Parade of Lights

Friday and Saturday, December 2 & 3, 2011

Downtown Denver—Free Event

Celebrate the holiday season at the annual Parade of Lights full of magical decorations, performing arts and even a visit from Santa.

Zoo Lights at Denver Zoo, Denver, CO

Check out their website for specific dates and times at www.denverzoo.org/visitors/events.asp

Come and experience a holiday light safari with more than 38 brilliantly-illuminated acres of lights, featuring more than 150 animated animal sculptures that swing through trees, jump across lawns, hide in bushes and appear in places where they're least expected.

Free workshops at Whole Foods!

Whole Foods Market, Capitol Hill, Denver, CO

Phone: **(303) 332-2172**

The Foundation for Wellness and Whole Foods are promoting health and wellness!

Whole Foods will be holding free workshops for the public, presented by **Dr. Cody Golman**.

All workshops begin at 6 pm. To reserve your spot, call **(303) 332-2172** or sign up at Whole Foods.

Workshop topics:

October 11—*Immune Support*

November 8—*Digestion Health*

December 13—*Holiday Stress*

Denver Walking Restaurant Tour

Phone: **(303) 993-3115**

Join *Culinary Connectors* on Fridays as they journey down some of Denver's historic streets for delicious visits to four culinary spots. They're calling it the *Friday Afternoon Club*.



Townsend
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A Retirement Lifestyle — Jeffery E. Townsend, CRPC®

Many of you may have read the article from last quarter *“The Rs of Retirement,”* written by Charleanea Arellano. Townsend Retirement Specialists is holding a dinner presentation for all those interested in learning more about the psychology of retirement on Thursday October 27th at the Legacy Ridge Golf Course. *We encourage all those preparing for retirement to attend!*

These days, many people are starting to wonder if baby boomers will ever retire. The old mainstays of golf, grandkids and travel haven't been enough to satisfy many retirees from previous generations. With the great amount of energy and success that exists with this baby boomer generation, retirement is not something they're eager to start.

Let's look at the current generation of retirees—baby boomers and those who are younger and still working are quickly learning a thing or two from their older counterparts. The Wall Street Journal recently mentioned a few of these interesting statistics:

- 23% of retirees missed their jobs and were concerned about loneliness
- 19% were worried about poor health
- 10% were worried about their finances
- 7% feared boredom

Back in 2006 the Putnam Investments study found that a third of Americans, which at the time was more than 20 million people, had returned to their jobs after only one year of retirement, working 15 hours or less a week. Many of these people said that they returned to work, not because they needed to financially, but because they felt fulfilled when working and employed.

Returning to work may signal one problem, something that many retirees don't anticipate: having that something fulfilling to do. The key word here is fulfilling, and it's the driving force behind the return to work. Yes—the additional income and the potential health insurance benefits are an added bonus! This phenomenon has turned out to be quite the trend, and has become extremely recognized in areas of large and increasing populations of retirees. For instance, Arizona is a very popular state for retirees and many employers cater to their needs. In fact, Wells Fargo has a branch located in Tempe, Arizona that hires retirees to work in a special processing center and nicknamed these employees to be their “Silver Bullets.”

However it's important to not focus just on work after retiring. Baby boomers may still face a rude awakening. Several retirees want to keep working, knowing that they will live well into their 80s and 90s, staying healthier than previous generations, and needing more cash to pay bills. Today were looking at

80 million Americans born from 1946 to 1964; these baby boomers are starting to realize that the new retirement reality may be a messier proposition than originally anticipated.

Although some employers are accommodating to the older generation, like in Arizona, that's not necessarily the case everywhere else. These days jobs are scarce, and a majority of employers are not willing to hire older workers. Therefore, even though the current generation of retirees is relatively financially stable, they are still concerned. Many experts are predicting that unemployment rates will remain high for the next several years which is not the best news for those older Americans who have seen their retirement savings shrink. Half of baby boomers expect to work into their 70s according to a survey of 400 Boomers by First Command Financial Services in May. They want to stay employed simply because they have the desire to stay busy and intellectually engaged. Another driving force appears to be money. Older boomers have been hit hard by the stock market slump and the recession. Gone are the days when they are able to rely on pension plans to fund their retirement as previous generations once did. Today many boomers must rely on their 401(k) plans whose values dropped along with the stock market.

Like many boomers already know—it's important to start your retirement savings early, developing a retirement plan and saving as much as you can through your workplace and on your own. No one expects the baby boomer generation to be completely content with life in retirement, which is why planning post-retirement activities, both work and play, is very important. And it's just as important for younger workers to plan for activities also. No matter your age, informing your financial professional of your desire to work and your hobbies/ interests will make your retirement plan much more complete.

By attending the Psychology of Retirement dinner presentation coming this October, Charleanea Arellano can help guide you into a smooth retirement transition. Please call the office at **303.452.5986** if interested.

