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THE ADVISOR

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I Hate to Say I Told You So

By David Scranton

And in this case, I really hate to say it, because the past year proved to be even tougher than I anticipated. As many of you know from our conversations over the years, I frequently discuss these 15- to 20-year bear market cycles. It appears we're 9 years into this current bear cycle.

In fact, beginning with our first newsletter in October of 2007, I was cautioning against getting too excited about the record market highs because similar highs were a standard feature of many previous secular bear markets. In fact, I stated in the article, "Should the market return to its 2003 low, it would represent a drop of more than 40%!"

Unfortunately, that is exactly what happened. So while I was not surprised by the market plunge, I had hoped it would not be quite so steep.

Then, in our next issue, we kicked off 2008 by discussing the subprime crisis. At the time, the government had just instituted two emergency short-term interest rate cuts in what proved to be a futile attempt to inject liquidity into a shaky market.

Once again, the information proved timely, and in March we saw the first of the firms holding now worthless mortgage bonds. Bear Stearns hit the financial wall. Lehman Brothers, along with Fannie, Freddie, and AIG followed in close order. The rout was on.

From here, where?

All of which brings us to the present and the inevitable question, what's going on now and what might the future hold? There have been some interesting market developments recently that are worth some discussion.

We'll start with some good news. First, no matter how you feel about it, the government bailout has helped quell the market's fears about systemic financial failure. Second, the sharp drop in gas prices has helped cool inflationary concerns. Those are a couple of things the government doesn't have to worry about, at least for now.

One thing that caught my attention is the recent move by the government to lower interest rates. In our May issue, I likened government manipulation of interest rates to caffeine for the economy. Specifically, I mentioned the Federal Funds Rate (FFR), the rate which institutions with funds on deposit at the Fed charge each other for overnight loans. That rate has now dropped to an unprecedented 0 to .25%.

My concern when the FFR rate dropped below 2% was that the government was running out of ammunition in its attempts to stimulate the economy. As I feared in that article, they have no bullets left.

Which is why we're currently seeing a strange phenomenon. With the Dow at this writing relatively stable in the mid- to high-8000s, the long-term treasury interest

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Three Questions to Ask Your Doctor

When we have a health concern, it's only natural we go to our physician for an expert diagnosis. In the vast majority of cases, that is exactly what we'll receive. But physicians are also human beings, which means even they can make mistakes.

In fact, medical misdiagnosis is not a rare phenomenon. About 15% of all patients are misdiagnosed, and half of those face serious harm—even death—because of the error. Contrary to the general impression that most misdiagnoses result from a technical foul-up, such as mislabeling someone's X-ray or mixing up a blood specimen in the laboratory, most errors are due to mistakes in the doctor's thinking.

There are three major cognitive mistakes that can occur in the mind of the doctor and lead to misdiagnosis. The first is termed **anchoring**, meaning the tendency to grab on to the first symptom, physical finding, or laboratory abnormality. Such snap judgments may be correct, but they can also lead physicians astray.

A second common cognitive error is termed **availability**. This refers to the tendency to assume that an easily remembered prior experience—what is most readily available in the physician's memory—can explain the new situation he or she is trying to diagnose.

The third mistake in thinking is termed **attribution**, and this accounts for many of the misdiagnoses in the elderly. Attribution refers to the tendency to mentally invoke a stereotype and "attribute" symptoms to it. This stereotype is often a negative one, which can lead the doctor to overlook the possibility of an illness not specifically linked to "old age."

Three important questions

Although we aren't always comfortable questioning our doctor's diagnosis, asking three simple questions can help prevent medical mistakes.

1. **"What else could it be?"** This question helps to prevent an anchoring error or an availability error, where a diagnosis is formulated too quickly in the physician's mind because it corresponds to the initial symptom or abnormality (anchoring) or because it is most familiar to the doctor (availability).

2. **"Could two things be going on to explain my symptoms?"** In medical school, doctors are taught to identify a single cause to explain a variety of complaints and symptoms. But sometimes a patient can have two medical problems simultaneously. Physicians sometimes stop searching once they find an initial problem—even if the patient does not fully recover.

3. **"Is there anything in my history, physical examination, laboratory findings, or other tests that doesn't seem to fit with your working diagnosis?"** All physicians tend to discount information that seems to contradict their hypothesis. This bias can lead a doctor down the wrong path; his or her anchor diagnosis may be so firmly fixed that this leads to ignoring contradictory data.

Asking these questions can lead to the best outcome for everyone involved. All doctors want the best treatment for their patients, and the best treatment involves the most open-minded thinking. ~

Adapted from an article by Jerome Groopman, M.D.

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rates have plummeted. Since October, long-term treasury rates have gone from roughly 3.75-4% down to 2-2.25%. Normally, for treasury rates to get that low, the market has to really tumble. Then we have a flight to quality, everyone buys government bonds, and this forces rates down.

In this go around, the market is calm yet the rates are falling. Why? Because the government realizes that caffeine isn't working anymore and they've moved on to harder drugs—namely, buying back their own bonds. This is very similar to what the Japanese did in the 1990s. The hope is that mortgage rates will come down, the real estate market will be stimulated, and people will buy stocks because the bonds look so unattractive.

My concern is that the strategy didn't help the Japanese economy all that much. I hope this American market is different. And I also hope I'm not a prophet once again. When discussing these long bear cycles in previous issues, I've mentioned the first drop in the market is typically not the biggest. The first drop in this cycle, recorded in late 2002 through the beginning of 2003, has nearly been matched in the S&P 500, but not yet in the Dow. Historically speaking, we may hit a new low before government policies begin to take us north again.

Time will tell. And, as always, if you have questions about how to best position yourself financially during these challenging times, please don't hesitate to give me a call. ~

Living With Purpose

The alarm clock rings, you moan and roll out of bed to begin another work day, all the time thinking, "I wish I could sleep in and follow that up with a whole day of doing nothing!" You might want to rethink that goal, however, if you intend to live a long, full life.

A growing body of research suggests having a meaningful purpose in life is one of the keys to lengthening your days on earth. A 2005 study followed 12,640 middle-aged Hungarians and found that those who felt their lives had meaning had significantly lower rates of cancer and heart disease than did those who didn't feel this way.

"People who feel their life is part of a larger plan and are guided by their spiritual values have stronger immune systems, lower blood pressure, a lower risk of heart attack and cancer, and heal faster and live longer," notes Harold G. Koenig, M.D., professor of psychiatry and behavioral sciences at Duke University Medical Center.

While experts note there is no one magic bullet that provides the "something more" in life, there are certain factors that tend to increase satisfaction and boost a sense of purpose.

Keep working

A job is probably the easiest way to help you feel your life has purpose, so consider staying with it as long as you can. The sense of accomplishment (and the income) a job provides can help foster an ongoing sense of purpose.

For negative reinforcement, there is the European study that tracked 16,827 Greek men and women for 12 years and discovered that those who retired early had a 51% higher mortality rate than those who kept working. And according to a 2005 study that followed 3,500 Shell Oil employees, those who retired at 55 were twice as likely to die during the next ten years as people the same age who continued to work.

Find your flow

Mihaly Csikszentmihalyi, former chairman of the Department of Psychology at the University of Chicago, believes we find fulfillment in activities that develop a skill, challenge us, and provide ongoing feedback. He calls this "flow."

He believes a good way to find flow is to think about what you've always wanted to do but thought you couldn't—ideally something you really care about. It could be researching your heritage, working on a community quilt, or building model trains. Like climbing a mountain, purposeful activity should engage your abilities and require effort.

Explore religion

The correlation between religious faith and health has been analyzed in more than 2,200 studies over the past few years. It appears the faithful live longer. One 1999 study, published in the journal Demography, tracked 20,000 Americans and found that white people who regularly attended church lived an average 7 years longer than their non-churchgoing counterparts, and black people lived a remarkable 14 years longer.

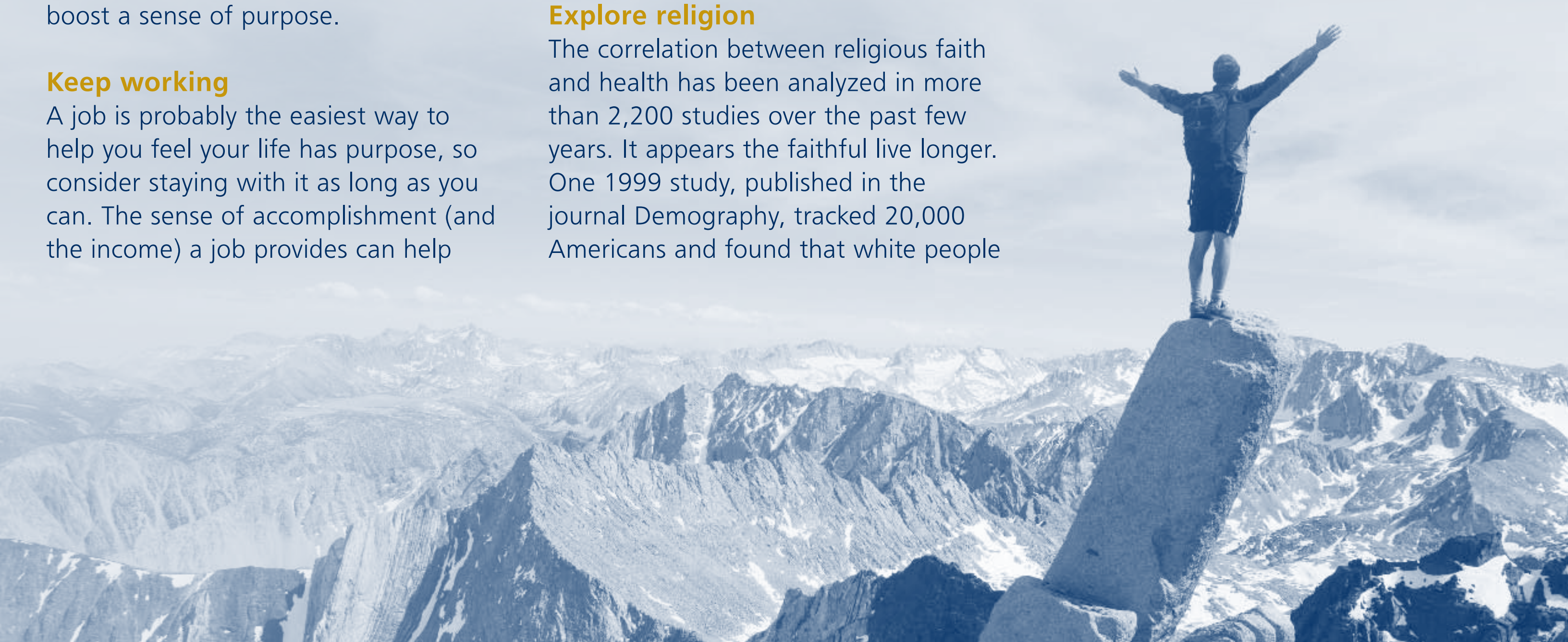
One explanation is that people who believe in a God who has a purpose for humanity—and for them in particular—often feel that in itself is the reward that gives life meaning.

Volunteer

It's not news that lending a hand can make you feel good about yourself and your life. But research now suggests older people who give back have better physical and mental health and a lower mortality risk. The key is to volunteer in ways that seem meaningful to you.

One study published in the Journal of Urban Health found that volunteers ages 60 through 86 who helped in Baltimore public elementary schools outscored their nonparticipating counterparts in both physical and cognitive ability. Two Web sites that provide scores of volunteer opportunities are *www.aarp.org/createthegood* and *www.volunteermatch.org*. ~

Adapted from an article by Dan Buettner



When Their Money Becomes Your Problem

It's the surprise no one wants. You're home because the health of a parent has taken a turn for the worse and they've been hospitalized. During your stay, you discover their pantry—and their bank account—are nearly bare. Suddenly, their previously undisclosed financial problems have become your own.

The fact is that half of those caring for a loved one 50 or older—about 17 million Americans—spend more than 10% of their income on caregiving, according to a study released last year by the National Alliance for Caregiving and Evercare. The added expense can mean adult children stop saving or spend their savings, skimp on their own medical care, or pile on debt.

Economic conditions over the past two years have made this scenario even more likely. Though gas prices have taken a break in their upward climb, heating oil, food, and medicine costs rose sharply in 2008, while Social Security payments increased only 2.3%. That makes life more difficult for those on fixed incomes.

Bridging the communication gap

Lack of communication often leaves adult children unprepared when they inherit their parents' financial woes. Because many people don't seek help until they're in a crisis—and sometimes don't divulge the full extent of their problems even then—the lesson financial pros draw again and again is the same: families need to start talking about money before there's an emergency.

Starting the conversation can be challenging. Which of us hasn't heard—or used—the excuse, "It's none of the kids' business how much I have or I don't have." Like it or not, talking now can avoid a crisis later. Here are some suggestions from the pros on non-threatening ways to initiate the dialog.

1. **Use the News**—Almost half of older Americans carry debt. Talk about your coworker's father who can't afford his prescription drugs, or a news story about an older person who owes more on a mortgage than her home is worth.
2. **Talk Bargains**—Perhaps you can help a parent find less costly phone service or cheaper groceries. Then probe for concerns. For example, ask, "How will you get through the winter with the cost of heating?"
3. **Be Humble**—Ask your father to join you at a financial-education workshop—to help you, not him. To find a free or affordable program, call your state or county cooperative extension service or visit the online complement to the cooperative extension system at *www.extension.org/personal_finance*.
4. **Pose Questions**—If you notice unopened or unpaid bills in your parents' house, ask about them. The goal is for parents to provide their kids with critical information, including the whereabouts of bank accounts, insurance, and wills.
5. **Write a Letter**—If you can broach a subject more easily on paper, write down how much you care about your mom and that you want to plan ahead so her life goes smoothly. Tell her how she helped you and how you want to give back. ~

Adapted from an article by Elaine Appleton Grant

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