

**WEALTH BRIDGE ADVISORY SERVICES, LLC**  
1613 Plymouth Rock Dr., PO Box 1836, Cherry Hill, NJ 08034  
Phone: 856-795-8134 / 800-795-8134 Fax: 856-795-8144  
E-mail: bill@WealthBridgeAdvisory.com www.WealthBridgeAdvisory.com



## COMMUNICATIONS FROM YOUR FINANCIAL COACH

March - 2011

**WILLIAM M. GREENFIELD, CLU, ChFC**  
**Financial Coach / Registered Investment Advisor**

### **Welcome To A New Edition Of My Newsletter**

For those of you who are accessing my newsletter from my email edition, thank you for your readership and your "green" consciousness. Not only is money being saved, but over six hundred pages and envelopes are being saved as well.

In this issue you will read about what I think will be the themes for investing in the future: globalization and technology (page 1).

Long term care insurance, you either love it or hate it. No matter what, this type of insurance is in need of emergency care and this spells opportunity for you (page 4).

Many of my readers believe that investing is stressful. It doesn't have to be that way. (page 8).

Finally, true globalization is caring about other people in need. Right now Japan deserves our attention (page 9).

Thanks for reading my newsletter. I encourage your feedback.

*Bill Greenfield*

This newsletter was written during the week of March 7th, 2011.

### **UPCOMING WORKSHOPS:**

#### **Finding The Money For College...** **Helping Parents Navigate The Financial Aid Maze**

Tuesday, April 12<sup>th</sup> or Thursday, April 14<sup>th</sup>  
6:30 - 8:30 pm  
Cherry Hill West High School

**At this workshop parents will learn how it is possible to afford a private college for about the same out-of-pocket expenses of a state school and how to choose colleges that will provide the best financial aid packages. Attendees will also be given resources to research the financial aid process and material that will aid their student in choosing a career and making them better college students.**

**You must call my office at 856-795-8134 to reserve your seat.**

### **From Airplanes In India To Urban Growth In China... From Roads Made of Glass To The Speed of Technological Change... I'm Excited About the Future of Investing.**

As a professional in the financial services industry, I am constantly asked about the direction of "the market". "Is now a good time to buy?" "What stocks are you watching?" "Warren Buffet just bought fill in the blank . Should I buy it, too?"

First of all, short-term moves are something I never recommend. Instead I answer by saying this: Globalization, according to some authors (see below), is just in its infancy and, according to an article in Time Magazine, computer technology is now progressing more each hour than it did in its entire first 90 years.

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In other words, think globally, pay attention to technology/innovation and think long term. Let me give you some examples of my thought process. First, let's think global.

Ever hear of IndiGo Airlines? Yes...me neither. It just so happens that IndiGo Airlines is the largest discounted-fare airline in India. Its flights are all domestic routes within India. And yet, the company just recently placed the largest order of planes in the history of commercial aviation. The contract calls for 180 Airbus A320 aircraft worth about \$16.4 billion.

According to the airline, "This order positions IndiGo to take full advantage of predicted growth in Indian air travel." [NDTV, 1/12/11] Did you know that the future of Indian domestic air travel was so vibrant? Yes...neither did I.

To add to the international flavor of this deal, did you notice that the order was with the European airplane manufacturer Airbus...and not Boeing? Think global.

Here's another example of global awareness.

In his book *Sonic Boom*, Greg Easterbrook puts forward a "thesis that globalization has barely begun and that, as it reorganizes and even revolutionizes the world over the next decade and beyond, globalization will produce wealth and spread that wealth farther and wider than most of us can imagine. [Financial Advisor Magazine 1/11]

To add substance to his thesis, he asks if you have ever heard of a city in China called Shenzhen. Yes...me neither.

**It just so happens that 30 years ago this city did not exist.** But with the incredible urban growth of the southeast section of China (around Hong Kong and Macau), the national government of China realized that space for new manufacturing was paramount to sustain this growth...and the existing cities were already very dense. So they decided to build a brand new city...from scratch.

Today, Shenzhen has more inhabitants than Paris, London and even New York...cities that took centuries to develop. Think global.

And if you needed one more example of how investment opportunities are expanding worldwide: Last month the parent company of the New York Stock Exchange agreed to be acquired by the operator of the Frankfurt, Germany stock exchange, Deutsche Borse AG. One of the driving forces behind this transaction is that the US companies listed on the NYSE are increasingly doing business overseas. According to Standard and Poors, about half of the revenue of the companies in the S&P 500 comes from overseas compared to only 30 percent in 2000. [Phila. Inquirer 2/16/11]

One reason globalization is so important as an investment factor is that technological innovation is happening all over the world.

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But first let's understand that technology does not have to be something brand new...a scientific phenomena that never appeared on the face of the earth, but rather collecting existing technologies and reconstituting them into something new. This is innovation and this man-made need to innovate will drive future investing.

In a book written by Matt Ridley, *The Rational Optimist*, he cites such an example. The idea of the camera pill, the invention of which has allowed doctors to see inside the human body as they have never been able to see before, came about after a conversation between a gastroenterologist and a designer of guided missiles.

Here's another example of innovation as opposed to a technological breakthrough.

Highways do two things really well: Carry vehicles and absorb sunlight. What if, instead of just getting really hot, these highways could actually utilize that energy to produce electricity? Did you know that the Department of Energy and a company by the name of Solar Roadways is studying just that idea? Yes...neither did I.

Imagine that the entire Interstate Highway System, instead of being paved with macadam or made of concrete, was made up of glass solar panels with built in microprocessors tied into the nation's electric grid. Now, before you say that glass isn't strong enough, don't think in terms of window glass, but rather think in terms of bulletproof glass with a pebble-like surface. Such an installation, according to Solar Roadways, would exceed the electrical energy needs of the country.

Let your imagination run with this. Certain panels could, with low-res LED lights, be message boards letting drivers know of accidents ahead or to slow down because of construction. Imagine a message saying that there is a bouncing ball on the road ahead or an animal crossing the road.

Sure, by using existing technology, this innovative idea is much too expensive to even believe that it will soon become a reality. But is it worth pursuing? Does this idea really need a technological breakthrough or just an innovative way of using existing technology? Would you invest in such a company doing this type of research?

So, to answer the original premise of this article: I believe that the future of investing lies in a global perspective with the added belief that new ideas will change the world in ways we have no way of fantasizing. Can you believe in such a world? Yes...I can.

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## Quotable

"The only man who never makes a mistake is the man who never does anything."

*Theodore Roosevelt*

## Long Term Care Insurance Is In Need Of Emergency Care

[Information for this article have been taken from Morningstar Advisor.com and numerous interviews of people within the industry]

Imagine you are watching one of those hospital shows on TV (Grey's Anatomy or House...your choice). The scene opens with a nurse running a gurney down a hallway into the OR. As the oxygen mask is placed over the face of the patient, the scene fades to a time 35 years ago.....

Approximately 35 years ago the insurance industry was excited. The staid industry believed that they had just discovered a brand new insurable need. If viable and marketable, this could possibly be a fresh, off the drawing board, newly formulated, consumer oriented insurance product – possibly the first since the invention of the automobile and the necessity of auto insurance.

As our society was aging, more and more seniors were ending up in nursing homes without the ability to pay for the service...and this service was more expensive than recipients anticipated. The public believed that a government entity somehow paid for this service. The public was wrong (more on this later in this article).

The need was defined, but now an insurance policy had to be designed.

To do this the insurance industry had to answer the following question: How do you design an insurance policy for a need that never existed before? The industry answered that question by copying the essentials of an already existing insurance product. They used life insurance as the template.

While there was no documented experience figures for tracking long term care costs, there was over 150 years of modern experience for tracking the design of life insurance policies. The actuaries (the people who actually design insurance policies) realized that there were five main components that went into the pricing of a life insurance policy:

1. The age and sex of the insured
2. The health of the insured
3. The amount of coverage
4. Administrative costs
5. and something called Lapse Ratios

While the first four variables are somewhat obvious, the fifth component is a bit more obtuse. The life insurance industry learned over time that not everybody who purchased a policy actually held on to the policy until his or her death.

For example, young couples with children certainly need a lot of life insurance while the children are growing up, but once the children are out of college and living on their own, not as much insurance is needed and some existing insurance may be dropped (lapsed).

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Two partners open up a business and see the need to insure the lives of each other. But if the company is eventually sold, or goes out of business, or one partner retires, the insurance now has no purpose and is cancelled (lapsed).

There are various other reasons why a policy may lapse, but the life insurance industry soon realized that any policy that had premiums paid for a number of years without any death benefit ever being paid out was potentially profitable for the insurance company. By knowing the percentage of policies that would lapse at any given age of purchase, the actuaries could price the policy to be more competitive in the marketplace.

The life insurance industry had over 150 years of experience to determine these lapse ratios.

The same variables were now going to be used to price the newly conceived long term care insurance. A person's age, health status, coverage amount and an administrative cost all made sense. But then the industry blundered. It assumed the same lapse patterns as documented by life purchasers...even though sales of long term care insurance had no history whatsoever.

Long term care policies were now brought to the market. And though there was a clear need for these types of policies, sales were slow to develop. There were numerous reasons for this:

- Denial: Even though the insurance industry had discovered a spike in the numbers of seniors needing long term care, consumers in their fifties and sixties did not believe that individually they would ever be in a position to have to be placed in a nursing home. "This type of insurance is for the other guy. Not me."

This denial soon changed when adult children started to place their parents into nursing homes or adult day care facilities because these children could no longer take care of the physical needs of their parents or they did not live near their parents.

- Delusional: Seniors believed that somehow, somewhere, the "government" covered such needs. Surely on the federal level or the state level, or through Medicare, Medicaid or other such programs these costs would be covered.

The shocking truth slowly made itself visible. The only safety net available was Medicaid...and that was after a recipient became indigent. A very costly lesson once again learned when adult children ended up having to place their parents into nursing homes.

- Deer-In-The-Headlights Sticker Shock: Even at the outset of this new market and product, the cost of this new type of insurance was considered too expensive... especially for a type of coverage that might possibly never be needed. At least with life insurance, if you held on to the policy long enough, you eventually would die and the policy would pay out the insurance. Consumers just believed that the risk did not justify the cost.

As it turned out, the cost was, in fact, not high enough.

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The insurers soon learned that the cost of long term care was out-pacing inflation and, just on that level, the policies were not priced correctly. So now new policies were issued with higher premiums.

[An aside that is happening in my life right now. This year I had to put my 86-year old aunt into a nursing home in the northeast section of Philadelphia. She is a retired Philadelphia schoolteacher who never married, has no children, and I am the Power of Attorney. The nursing home has a daily rate of \$350. On a monthly basis that comes to \$10,500. Do the math one more time: On an annual basis it will cost over \$125,000. Financially she is not even close to being able to afford this nursing home. As such, Medicaid is in the process of taking over her pension, Social Security, proceeds from the sale of her condominium, and the sale of her car. This is the outcome of over 40 years of work.]

And then, with close to 20 years of experience in hand, a surprising fact was discovered about the people who bought long term care insurance. Unlike the historical marketing facts of life insurance purchasers, policyholders of long term care insurance policies were holding on to their policies and not lapsing them.

Why should they surrender them? Unlike many circumstances surrounding life insurance, the older one got the more likely he or she would need the long term care coverage. Unlike life insurance that may have a cash value to the policy, thereby giving a reason to surrender the policy, long term care insurance did not have such values connected to the policy and therefore no purpose for surrendering.

In other words, where the high lapse ratios were used to lower the cost of life insurance, the low lapse ratios of long term care insurance should have been used to create higher premium costs...not lower costs. And now, with a 35-year history of experience, the industry finds itself with issued policies and unsustainable premiums.

Fade back to the operating room where surgeons are discussing their options. If this were a television program, here would be the “surgical” options:

1. Stop the sale of the current block of long term care policies and issue new policies from this point forward with tighter benefits, stricter underwriting, and higher pricing.

In fact, many major carriers have done this, and these policies are still not priced correctly because of the spiraling cost of long term care services and the even smaller lapse ratios that have been the experience in this short history of the product.

2. Because long term care insurance is considered a health insurance product, the premium on these types of policies can be increased, unlike premiums of life insurance policies. These increases, however, would have to be on a state basis and a “block of business” basis and not on an individual basis.

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This has been done as well. Some of the increases from various insurers have been small and incremental, while others have made very large jumps in premiums. Either way, this correction has tended to leave a very sour taste in the mouth of the policyholder and has turned into a marketing nightmare for future sales and goodwill.

3. Finally comes the most drastic solution. The surgical equivalent of cutting off a cancerous limb: Completely getting out of the long term care insurance market and to cease selling such policies. In other words, admitting that the company has no idea how to price these policies and that experimenting with such underwriting has become an actuarial game that is just too costly to continue playing.

Metropolitan Life, Guardian/Berkshire, Allianz, Unum, CNA are just a few of the insurance companies that have made this decision. They, of course, will still service their existing long term care business, but they no longer want to exasperate the bottom line.

It is important to understand that there are some very good companies, financially sound insurance companies, which are remaining in the long term care insurance market and are finding it profitable. They are mainly doing this through very careful underwriting. But when major players, such as those listed above, make such a drastic decision, I believe that constitutes a possible trend that should be noticed.

Just like in medicine, where research shows that a disease should now be treated differently than before, the same is being said about covering long term care expenses. The need is still there for such coverage, but the product will be different.

This is the change that I am seeing in the industry.

One of the issues with purchasing a long term care policy has always been the use-it-or lose-it nature of the product. If you purchased a policy and never needed long term care, you lost all of the premiums paid into the policy.

To answer that concern, insurance companies are answering the long term care need by attaching a long term care rider on to life insurance policies. This rider will allow pre-death access to some of the life insurance benefit to pay for long term care services. These riders are not quite as comprehensive as individual long term care policies, but they do meet the need by helping to offset some of these costs and are not a use-it-or lose-it proposition.

I believe the industry is moving in this direction as a whole and that, sooner rather than later, these linked-type of policies will be the way the majority of consumers will purchase their long term care coverage. And this leaves a wonderful opportunity for those consumers who are looking into long term care coverage...but they must act quickly.

For existing types of comprehensive, stand alone long term care policies...from strong, profitable companies...rates will be going up and underwriting will become much more strict. It does not take a seer with a crystal ball to tell you that now is the time to act if you want to purchase a long term care policy. Call my office and let's discuss the possibilities.

## Let's Take The Stress Out Of Investing...*Once And For All*

The headline screamed, ***"The 9 Key Themes That will Impact Returns In 2011."*** The headline was written to grab your attention. To peak your interest as to what these 9 items could possibly be. [Allianzinvetors.com/MarketingInsights, 2/1/2011]

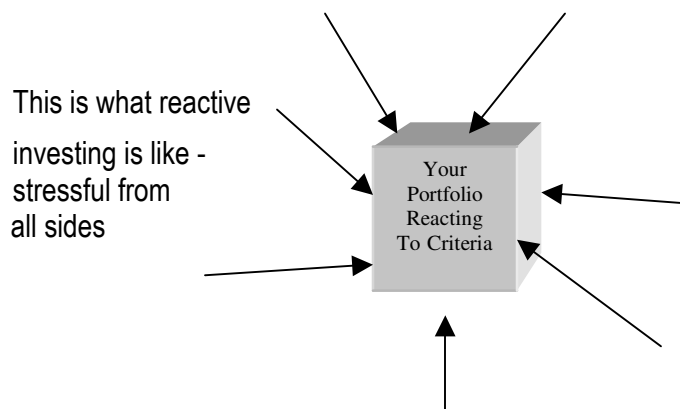
The author of the article then wrote about each theme/criteria and utilized a color graphic showing how each item would impact the stock market.

There should have be a "reader beware" tag attached to the article that read: **While these 9 "themes" may have some impact on the stock market, you as an investor have absolutely no control over them...so why even bother reading this article?**

The nine criteria were: 1) Corporate Profits, 2) Inflation, 3) Interest Rates, 4) Economic Activity, 5) International Business Activity, 6) Dollar Valuation, 7) Corporate Valuation, 8) Technical Analysis, and 9) Fiscal Policy.

My head explodes just trying to grasp what all of this entails...never mind trying to calculate the impact of all of this on an investment.

My belief is that, while all of these criteria are certainly more than interesting numerology for fundamental analysts, for most investors all it adds up to is increasing the stress level of trying to reach their financial goals. All an investor can do once all of these criteria are thoroughly analyzed is to react to them. React to criteria that you have no control over. Reactive investing is stressful investing.



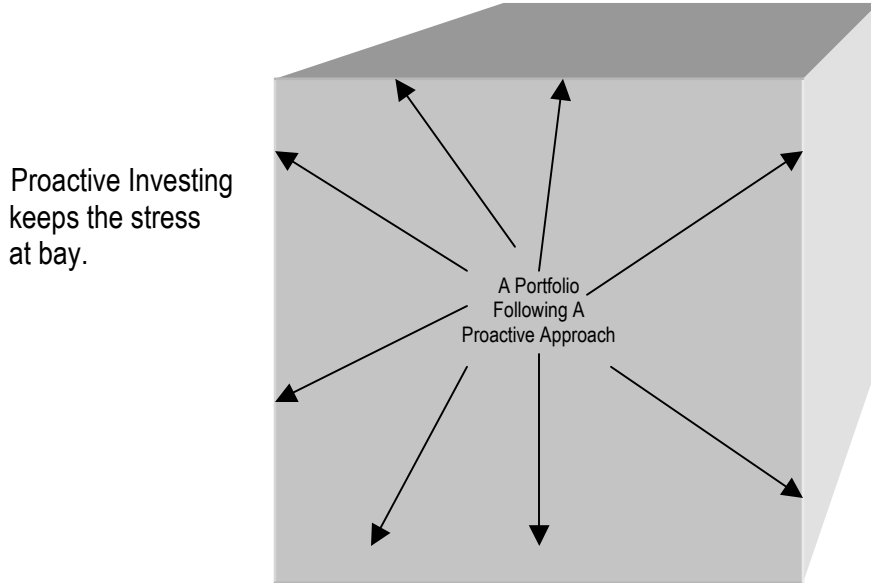
But there is another, less stressful, way to invest.

Instead of all of the mind numbing, esoteric number crunching stuff that you have no control over, why not concentrate on criteria that you have absolute control over. Let's use those criteria to design your investment portfolio.

Now, what criteria do you have absolute control over?

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How about how much risk you are willing to accept? What is the time horizon for your investments? Your investment style. How diversified your portfolio is. How often do you trade or want to trade. Your understanding of your investments. These are just some of the criteria that you control. But when you take control of the process, this is what investing looks like:



Another way to say all of this is that reactive investing is market driven while proactive investing is goal driven. Your goals...that you control.

Can investing be any simpler? Can investing be any less stressful? How stressful is your investing?

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### **In Need Of Donations and Our Prayers**

Let's put away our morbid fascination with Charlie Sheen, our petty political differences, and even our anticipation of a new baseball season. The triple devastation of a horrific earthquake, the resulting tsunami, and the possibility of a nuclear disaster have galvanized the world's attention on Japan.

With over 10,000 fatalities and close to a \$1 trillion of destruction, this is a catastrophe of unbelievable proportions. It deserves our attention...along with our prayers and donations.

Whether it is through the Red Cross, a religious affiliation or other legitimate disaster relief agency, I urge you to help your fellow world inhabitants. This is the meaning of true globalization.