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Planning Points Winter Newsletter – 2014

Are you a pessimist or optimist?

Have you ever met a happy pessimist?

There's a widespread perception that congenital pessimists – we all know a few – are realists, imbued with superior intellect, historical insight, and prescience. Conversely, optimists are often perceived as Pollyannaish, naive, ignorant of the facts, indulging in wishful thinking, or trying to sell you something.

In a recent article titled "17 Reasons To Be Cheerful," author Matt Ridley believes the world has never been better, and will get even better. Here are some of his thoughts for you to think about:

- **Poverty is nose-diving.** The rich get richer, but the poor do even better. Between 1980 and 2000, the poor doubled their consumption. The Chinese are 10 times richer and live about 25 years longer than they did 50 years ago. Nigerians are twice as rich and live nine more years on average. The percentage of the world's people living in absolute poverty has dropped by over half. The United Nations estimates poverty was reduced more in the past 50 years than in the previous 500 years.
- **The environment is better than you think.** In the United States, rivers, lakes, seas, and air are getting cleaner all the time. A car today emits less pollution traveling at full speed than a parked car did from leaks in 1970.
- **Global trade enriches our lives.** By 9 a.m., I have shaved with an American razor, eaten bread made with French wheat and spread with New Zealand butter and Spanish marmalade, brewed tea from Sri Lanka, dressed in clothes made from Indian cotton and Australian wool, put on shoes of Chinese leather and Malaysian rubber, and read a newspaper printed on Finnish paper with Chinese ink. I have consumed miniscule fractions of the labor of hundreds of people. This is the magic of trade and specialization. Self-sufficiency is poverty.
- **Great ideas keep coming.** The more we prosper, the more we can prosper. The more we invent, the more inventions become possible. The world of things is often subject to diminishing returns. The world of ideas is not. The ever-changing exchange of ideas causes the ever-increasing rate of innovation in the modern world. There isn't even a theoretical possibility of exhausting our supplies of ideas, discoveries, and inventions.
- **Optimists are right.** For 200 years, pessimists have had all the headlines even though optimists have been right far more often. There is immense vested interest in pessimism. No charity ever raised money by saying things are getting better. No journalist ever got the front page writing a story about how disaster was now less likely. Pressure groups and their customers in the media search even the most cheerful statistics for glimmers of doom. Don't be browbeaten – dare to be an optimist!

You will have your own perceptions as to whether it is the market pessimists or optimists who have been more right than wrong. If you look back at the stock market over the last 50 years, the optimists win.

Are you an optimist or a pessimist?

Looking to 2015: Retirement Plan Changes

The Good News

401(k) / 403(b) Plans and SIMPLE IRA - At the start of 2015, participants in 401(k) and 403(b) plans will have higher contribution limits. A participant will be eligible to contribute up to \$18,000, a \$500 increase over 2014. Additionally, the catch-up contribution limit for those 50 and older also increases by \$500 to \$6,000 for 2015. SIMPLE IRA participants will also see a \$500 increase to \$12,500 along with a \$500 increase to the catch-up contribution to \$3,000.

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Roth IRA income limit increases - There is a \$2,000 increase on the income limits for Roth IRA contributions. For individuals, the limits are now between \$116,000 and \$131,000. For married couples, the limit range is between \$183,000 and \$193,000. Additionally, individuals who are above these cutoffs may still be able to take advantage of a Roth conversion.

The Not So Good News

The IRA contribution limit will remain \$5,500 for 2015 with a \$1,000 catch-up provision for those above the age of 50. ¹

DID YOU KNOW?

Here are some of the best quotes by Warren Buffett, arguably the best investor of our generation, from *Thoughts of Chairman Buffett: Thirty Years of Unconventional Wisdom from the Sage of Omaha* by Simon Reynolds:

- On hiring: "Somebody once said that in looking for people to hire, you look for the three qualities: integrity, intelligence, and energy. And, if they don't have the first, the other two will kill you."
- On choosing investments: "It's like when you marry a girl. Is it her eyes? Her personality? It's a whole bunch of things you can't separate."
- On stocks with good histories: "The investor of today does not profit from yesterday's growth."
- On predicting markets: "The fact that people will be full of greed, fear, or folly is predictable. The sequence is not predictable."
- On the limitations of wealth: "Money, to some extent, sometimes lets you be in more interesting environments. But, it can't change how many people love you or how healthy you are."
- On the ideal investor personality: "The most important quality for an investor is temperament, not intellect. You don't need tons of IQ in this business. You don't have to be able to play three-dimensional chess or duplicate bridge. You need a temperament that derives great pleasure neither from being with the crowd nor against the crowd. You know you're right, not because of the position of others, but because your facts and your reasoning are right."
- On inheritance: "Children should be given enough to do what they want to do, but not enough to be idle."
- On risk: "Risk is not knowing what you're doing."
- On long-term thinking: "Our favorite holding period is forever."

RFC NEWS

- Michelle Lauzon in our office recently passed the Series 7 and the Life/Health Insurance examinations.
 - As a reminder, our office moved earlier this year to 326 W. Liberty St. Suite 5, Ann Arbor, MI 48103.
 - We've refreshed our company website. Please visit rfcfinancialplanners.com
 - In an effort to reduce client mailings, quarterly managed account statements will no longer be mailed by SPC starting in January 2015. However, these statements will still be produced and available online. Please contact our office if you have interest in accessing these statements online.
 - Next year we will be sharing occasional market commentary newsletters and video newsletters in addition to our normal newsletters. Please ensure that we have your e-mail address if you would like to continue receiving our newsletters. Starting in January 2015, we will no longer mail our newsletter, however, if you would like to continue to receive our newsletter please call the office so we can accommodate you.
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Our business continues to be successful because of great clients like you. If you know anyone else who is looking to simplify and organize their financial lives, please let us know. With their permission, we would be happy to contact them and introduce ourselves.

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Source: Peak Advisor Alliance.