

Quarterly Insight

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How Far Have Housing Prices Dropped?

You don't have to be in the market for a house—or, worse, trying to sell one—to know home prices have been dropping across the nation, and residential real estate values may fall still further. During the past year, homes in the seven hardest-hit areas—Las Vegas, Miami, Phoenix, Los Angeles, San Diego, San Francisco, and Tampa—lost more than a fifth of their value on average. All 20 metropolitan areas included in the Standard & Poor's/Case-Shiller Home Price Indices have lost value in the past year. The composite index for the 20 areas fell 15.3% from April 2007 to April 2008, a record low. 13 of the 20 sectors posted record low annual declines, with 10 in double digits.

It's no coincidence the markets with the largest declines are those that enjoyed the most spectacular growth in prices during the past few years. During 2004 and 2005, for instance, homes in Las Vegas appreciated at an annual rate of more than 50%, while Miami residences gained 30% a year.



That all changed when the subprime mortgage market collapsed. Easy credit for unqualified homebuyers ultimately spawned record numbers of foreclosures. And while the mortgage failures make up only a very small percentage of the overall market, they contributed to the glut of homes for sale, causing prices to fall in most major U.S. markets.

Las Vegas and Miami home prices fell most among the 20 real estate markets measured, losing 26.8% and 26.7%, respectively, during the April-to-April period. Detroit, Minneapolis, and Washington, D.C. rounded out the 10 markets suffering double-digit losses.

While many analysts view this downward trend as a normal market adjustment after home prices had more than doubled during the past decade, few anticipate a quick upturn. "There might be some regional pockets of improvement, but on an annual basis the overall numbers continue to decline," said David M. Blitzer, who chairs the index committee at Standard & Poor's,

The regional pockets of improvement that he is referring to are the eight markets that were positive in April, up from two markets without losses March. Leading the indices in April were Cleveland and Dallas, at 2.9% and 1.1% respectively. In March, Charlotte and Dallas' monthly increases were the first in any of the 20 index markets since August 2007.

While seven markets reported losses of more than 2% in April, only two markets lost more in April than they did in March, which may be evidence of a

(Continued on page 4)

Many Americans Fail To Take Care Of Financial Basics

No business would operate without a budget, and balancing income and expenses is also a crucial ingredient for personal financial success. Yet according to a study by Princeton Survey Research Associates International, fewer than half of Americans keep a close eye on what they spend.

Just two in five survey respondents said they closely track expenses. That leaves 58% who claimed either to have a "somewhat good idea" or little or no idea of how much they spend. This sloppiness about spending extends to overall credit management, with more than half of those surveyed saying they had never ordered copies of their credit reports, and almost three in 10 didn't know they were entitled to one free copy of the report each year. And almost a third of survey respondents said they fail to meet monthly credit card minimums, thus incurring penalties and higher interest rates.

And what of those who are mindful of what they spend? How did they get that way? Typically, they learned the financial basics at home, when they were young. The study shows a clear link between having an early grounding in financial management principles and exhibiting positive money habits later in life.

Financial responsibility as an adult starts in childhood. Teaching your children how to manage their money wisely—and making sure they understand what may happen if they don't—can be one of the best gifts you ever provide.

Seeing Red:

Home values fell in all 20 metropolitan areas

Year-over-year changes in housing prices from April 2007 to April 2008.

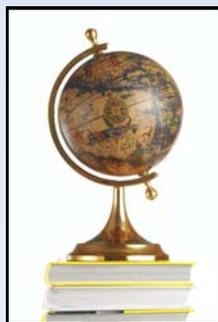
Biggest Losers		Best Performers	
Las Vegas	-26.8%	Charlotte	-0.1%
Miami	-26.7%	Dallas	-3.4%
Phoenix	-25.0%	Denver	-4.7%
Los Angeles	-23.1%	Portland	-4.7%
San Diego	-22.4%	Seattle	-4.9%
San Francisco	-22.1%	Boston	-6.4%

Source: S&P/Case-Shiller Home Price Indices

Azerbaijan, Andorra, Top CIA Factbook Lists

Emerging markets are hot, and if you had to guess which is the hottest, you might choose one of the so-called BRIC countries—Brazil, Russia, India, or China. But those didn't rank among the world's five fastest growing economies in 2006: Azerbaijan (34.5% growth), Equatorial Guinea (18.6%), Maldives (18%), Angola (15%), and Mauritania (14.1%). Of course, money—or a surging economy—doesn't buy happiness or long life, and to find the country with the longest life expectancy you'd have to look in the Pyrenees Mountains between France and Spain. In tiny Andorra, the average life lasts 83.5 years. The United States, with a life expectancy of 78 years, ranks 45th.

These facts come from a surprising source: the U.S. Central Intelligence Agency. In 1943, the CIA's predecessor, the Office of Strategic Services, began publishing Joint Army Navy Intelligence Studies (JANIS), and by 1947, the reports covered 34 countries. The CIA produced its first



comprehensive “factbook” in 1962 and its first unclassified edition in 1971. In 1997, the CIA began offering the World Factbook online. The Factbook provides data about the government, military, geography, people, economy, communications, and transportation of each listed country.

It often includes surprising details about many little-known corners of the world. Who would guess, for example, that North Korea has a literacy rate of 99%? Other facts are more in line with the country's reputation for isolation, economic stagnation, and political totalitarianism. Life expectancy at birth is only 72, and the infant mortality rate

is 22.6 per 1,000 live births. Meanwhile, Nauru, Liberia, and Zimbabwe have the worst unemployment, with rates of 90%, 85%, and 80%, respectively.

While Azerbaijan has the fastest growing economy, the U.S. has the largest, with a gross domestic product of approximately \$13.13 trillion, followed by China at \$10.17 trillion. Luxembourg has the highest GDP per capita (\$71,400), joined in wealth by Bermuda (\$69,900), Jersey (\$57,000), and Equatorial Guinea (\$50,200). The United States is ninth on that list, with a per capita GDP of \$44,000.

The wealthiest nations tend to be some of the world's smallest, using favorable tax laws to attract businesses from around the world. Monaco, Andorra, and Luxembourg,

for example, all have high GDP rates per capita and long life expectancies, as do Lichtenstein and the Cayman Islands. Monaco and Andorra have, essentially, zero unemployment while Lichtenstein has only 1.3%.

To explore the CIA World Factbook go to <https://www.cia.gov/library/publications/the-world-factbook/index.html>. ●

BRIC And Company

A few facts on the world's 10 largest economies.

Country	GDP (in trillions)	Per Capita GDP	Unemployment Rate	Life Expectancy at Birth
United States	\$13.13	\$44,000	4.8%	78.0
China	\$10.17	\$7,700	4.2%	72.9
Japan	\$4.22	\$33,100	4.1%	82.0
India	\$4.16	\$3,800	7.8%	68.6
Germany	\$2.63	\$31,900	7.1%	79.0
United Kingdom	\$1.93	\$31,800	2.9%	78.7
France	\$1.90	\$31,100	8.7%	80.6
Italy	\$1.76	\$30,200	7.0%	79.9
Russia	\$1.75	\$12,200	6.6%	65.9
Brazil	\$1.66	\$8,800	9.6%	72.2

Source: The CIA World Factbook

When Parents Pass On And Leave Children All They Own,

Brace yourself. When your parents die, you may find yourself regressing, feeling once again like a helpless child—an orphan!—just when you and your equally stressed siblings face the emotionally wrenching task of divvying up your parents' personal belongings and letting go of the family home.

Pity the poor children whose parents named them all as equal beneficiaries. Sure, it seems fair, and that's what your parents intended, for each of you to get no more nor less than your brothers or sisters. But working out the details all too often

brings long-buried childhood grievances and sibling rivalries back into the open.

To avoid painful clashes, begin a conversation now with your parents and your siblings, when decisions can be made without the added trauma of a parent's death. Here are ways to minimize family drama.

1. Pick a leader. There are countless details to handle and decisions to be made either after a death or when your parents are no longer able to make their own choices. Even if your parents have already named someone outside the family

to serve as executor for their estate, choose a sibling to be point-person and manage the process alongside the executor.

2. Remember, the family home is more than a piece of real estate. Many families focus on the house, but often it's the contents that hold the most value for children—and the most potential for hurt feelings. Talk among yourselves about who wants your grandmother's china or the piano, and then put a plan together that incorporates these heirlooms into a roughly equal distribution of assets.

Buy Or Sell A Vacation Timeshare On The Web

These have been tough times for real estate, and buying or selling any kind of property comes with plenty of headaches and caveats. But timeshares? When you're trading only the right to occupy a vacation home or condominium for a specified amount of time each year, it can be almost impossible to arrive at a price that seems fair to both parties. And while the recent proliferation of timeshare auction websites could make the process easier, it takes planning and patience to make a favorable deal.

Timeshare rules vary from company to company, but in general a timeshare gives you the right to use a specific residence—often a condominium or townhouse—for a week or a few weeks each year. Frequently, there's also a way for you to swap with other "owners." So you may be able to substitute a property in Vail, Colorado, for instance, for yours in Naples, Florida, or to opt for a different date. In practice, that's what most timeshare owners do. But swapping timeshares is based entirely on availability and the willingness of other owners to participate. It may be difficult to secure a week in an exotic location or at a resort that's much in demand.

If the system isn't working out the way you'd hoped, you could try to sell your timeshare, though that can be tough, particularly if you're looking to unload off-season dates for a middling property. And

while the secondary markets that have sprung up on the internet could help you find prospective buyers, there are almost always more would-be sellers than buyers, and that excess supply tends to push down prices even for prime locations. For example, a recent visit to BidShares.com, a timeshare auction website, revealed little interest for off-season timeshares in Hawaii, Europe, and the Caribbean. In most cases, the timeshare bids remained at only about half of the minimum that sellers had specified.

A particular problem for sellers is that they must compete with aggressively marketed new offerings that may include incentives such as free trips or other gifts. And while marketing costs often lead to higher prices, buyers seem not to mind. Many don't even know there is a resale market, and new timeshares almost always fetch better prices than existing properties.

It doesn't help that the timeshare market is fragmented, with comparative information about properties at a premium. It may be impossible to know what's really comparable, because so much depends on a particular company's network of owners and properties. The value of a great property may be less than that of a seemingly inferior one if the latter can be more easily traded for other, nicer



locations. Such factors often lead to considerable price disparity.

Auction sites such as BidShares.com, BidforTimeshares.com, TimesharesForAuction.com, and TimeshareAuction.com can help bring together buyers and sellers, though here, too, buyers seem to have an advantage. Unlike on eBay, for example, where there's usually a sufficient volume of buyers to push bids to reasonable levels, a timeshare auction may not generate much action, and a buyer risks little with a lowball bid. Often, a prospective seller ends up having to choose between accepting a low bid and not selling at all.

When trying to sell a timeshare online, consider these rules of thumb:

- **Set a reasonable price.** Browse other websites and auctions for properties that seem similar to yours and see how they're priced. But keep in mind you won't be able to charge as much for a resale as you would for a new timeshare.

- **List on multiple services.** Many auction sites are free, and it pays to get your property in front of as many potential buyers as possible. Prices often vary widely from site to site. (See "An Inefficient Market," below.)

- **Consider renting.** If your timeshare company allows you to rent your timeshare, you could list it online and see whether selling or renting will put more money in your pocket.

- **Don't forget offline marketing opportunities.** The office at your timeshare may have a bulletin board listing timeshares for sale or rent. Take advantage of it.

- **Consider a resale broker.** You'll pay for this service, but it may be preferable to not selling at all. Be careful, though, particularly if the broker asks for a fee just to list your timeshare. Insist on knowing how your timeshare will be marketed, online or off, and get an agreement in writing.

- **Finally, think about selling your timeshare the old-fashioned way—to someone you know.** Though the internet has a potentially wide reach, your personal network of friends and acquaintances could help you find someone more willing to strike a fair deal.●

What Happens To The Family Home?

3. Don't be shy. If you want the house, say so. Then offer a plan for equalizing the inheritance, such as taking out a mortgage and paying your siblings with the loan proceeds.

4. Don't wait to bring in a mediator. If two people want the house or other disagreements surface, hire a disinterested third party to mediate before things escalate into a full-blown family feud. Your parents' estate attorney may be able to lay down some ground rules and diffuse any simmering emotional issues.

5. Decide not to decide. If emotions are

raw and you can't reach consensus, just back away from the process for a little while. Set up a plan for maintaining the home and schedule a time to revisit the issue.

If face-to-face meetings are difficult, ask everyone to write a letter explaining what they would like to have happen.

6. Put it all in writing. Whatever plan you come up with, the point-person should write everything down in painstaking detail, and then have all of the siblings sign off on it. Then, if you're doing this while your parents are living, add the plan to their will.●

Treating Your Retirement As A Liability

You already pay your bills on time. So why not add one more really important obligation to your monthly budget. If you begin treating your retirement needs as a future liability that you must fund now, you'll likely put away more money than if you pretend retirement saving is optional.

It's easy to fund your retirement account last. You know you should save, but there are competing priorities. The kids want to go to college, and you would like a new boat. And often, retirement saving loses out. But if you treat your retirement saving as another bill you have to pay, it will stay at the front of your mind. You won't miss payments, because—just as when you're paying the mortgage or the electric bill—getting behind has consequences.

While this solution to retirement planning sounds pretty simple, it comes from the sophisticated world of institutional investing. Pension fund managers, for example, have to treat future obligations—payments to pensioners—as liabilities, and that forces them to deal now with something

that may be years or decades off. Using actuarial tables, they calculate the cost of future obligations to determine what return they require on their investments and whether the pension fund is adequate.

While you may not use actuarial tables, you can manage your retirement account like a pension fund. The first step is to determine the savings you need to support the lifestyle you want during retirement, keeping in mind that you probably want to fund retirement through age 90 or 95. Next, determine how many years you have to reach your savings goal. If you are 45 and plan to retire at 62, for example, you have 17 years to fund your retirement account. Finally, determine how much you must save each year and make projections about returns on your investments.

If you're already funding your retirement goal by contributing to a 401(k) or other plan at work, treating that money along with all of your other retirement savings as a liability, may provide you with a more realistic picture about how much you need to put away and the retirement you should

expect. It may make you save more.

A simple way to establish a monthly liability for your retirement obligation is to divide your goal into equal installments. So if you have 17 years to save \$500,000, you can divide that obligation into 204 monthly payments of just over \$2,450 apiece. Given the expected growth of your investments, you're likely to "over-fund" your retirement obligation.

If you would like us to calculate your payments more precisely, we will estimate the impact of inflation, investment returns, and taxes. That may give you a realistic number for your monthly liability. By thinking of your retirement account as a liability, you're paying yourself along with your other debts. It's a great way of funding retirement. Of course, making calculations about how much you need to save today to fund a debt in the future, while also making judgments about inflation and taxes and selecting the right investments, requires the help of a professional. We're here to assist you with any aspect of this and help you create a disciplined system for planning your retirement. ●

Housing Prices Dropped?

(Continued from page 1)

slow recovery.

The 20-city composite index peaked in July 2006 at 206.52, after rising steadily from the yardstick's initial value of 100 in January 2000. In April 2008, the 20-city composite stood at 169.85, down 17.8% from its peak—though still showing a 70% gain in prices nationally since the beginning of the decade.

Home prices are likely to continue to fall at least through the third quarter of 2008. With the U.S. economy slumping, fewer potential buyers will enter the market, and foreclosed properties will add to the large inventory of unsold homes. In many areas, there are now triple the normal number of houses on the market.

Charlotte and other cities in which homes have kept much of their value have benefited from growth in high-paying jobs. More people in those areas can afford to buy houses, and fewer were caught in the subprime mess. These regions also saw less activity from real estate speculators, who sent prices into overdrive in Las Vegas and other "hot" markets.

The Case-Shiller indices—developed in the 1980s by Yale University economist Robert Shiller, author of *Irrational Exuberance*, and Wellesley College economist Karl Case—have become the gold standard for economists and investors seeking to monitor the real estate market. Case and Shiller developed the "repeat sales pricing technique," which tracks the prices of specific single-family homes

through local records. On resale, the new price is matched to the first price of each home—the two data points comprise a "sale pair"—and all sale pairs in a region are aggregated into one index, with adjustments for foreclosures, sales between family members, suspected data errors, and even changes in quality due to remodeling, additions, or neglect.

Some investors use financial instruments based on the Case-Shiller indices to hedge their investments in real estate. But with such steep recent declines, buying opportunities are beginning to present themselves. If you bought your house near the market's peak and are concerned about the continuing drop in prices, or if you're thinking of buying now to catch a housing market rebound, we can help you evaluate your options. ●