

# In Touch

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**2005**

YOUR GUIDE TO LIFETIME PLANNING

3rd Quarter 2006

## HOW DOES YOUR Garden Grow?

### News and Notes



Karen J. Ellenbecker, President  
**ELLENBECKER  
INVESTMENT GROUP, INC.**

When you received your invitation to our client event this spring featuring Melinda Myers author of "Small Space Gardening" and spokesperson for Stein Garden Centers, you may have asked yourself "what does gardening have to do with investing?" You were not alone...several of my friends said "are you changing your focus?" I love to garden. I enjoy perennials, annuals and just about everything else except the weeds, which I seem to have my fair share. Even though I don't enjoy weeding it provides me quiet time which I often use to think about issues my clients face in their lives both financially and personally.

For the most part our clients come to us with their financial garden already started. I remember when I purchased my first house, I was aware that the yard needed work but my first concern was making the mortgage payment and understanding what new costs I would have to build into my budget. Right from the start however I bought plants on sale and started adding things to my yard. I really didn't have a plan because I didn't feel I had enough to work with. Year after year, however, after adding a plant or bush I filled up most of the spaces but I never really achieved the effect I was hoping for. Many of the things I liked hadn't survived and others were overgrown and out of control. Unfortunately, I've done the same thing over and over in every house I've lived. So when my garden is out of control the question is do I start over, call in an expert or just let it go and hope for the best? This is the stage most of our clients come to us. For years they have been adding to their investment portfolios but they really aren't sure if what they have accumulated is what they want or need for the long term. It is hard to get rid of something when you are unsure of what to replace it with. They have a picture in mind of what they want but somehow it just didn't come together.

I recently drove past the house where I planted my first garden and several evergreen trees. That was 34 years ago and I remember how

proud I was when it was done. How could I have known that the trees I planted would get so big, that they shade out all of the perennials I planted and the yard would end up as one great big tree with several bushes that hadn't been trimmed in years? The house was hidden and the yard looked nothing like I thought it would. Unfortunately this is what happens to many investment portfolios. Just like the tree dominated the yard so do stock positions grow out of control putting the entire balance of the portfolio at risk. What once worked many years ago and seemed like a great start is no longer viable. Shade replaced sun, open spaces became crowded and the absence of care was everywhere.

Relating an investment portfolio to gardening may seem silly and trite however the market is as unpredictable as the conditions you need to maintain a healthy garden. You need good soil for a healthy garden and a solid foundation of quality holdings in your investment portfolio. You may love your friend's garden in Atlanta, but duplicating it in Wisconsin will be impossible. We have snow here and harsh winters. Atlanta has a longer growing season and very dry hot summers. If your friend considers gardening a hobby, they may have more time than you to spend watering, weeding and taking care of it. The conditions surrounding your investment portfolio are unique to only you. You have different abilities to save and different life experiences that have shaped your portfolio. Your investment strategy is based on your time frame, the risk you are willing to take and can afford to take and how much income you may need in the future.

Anticipating the unexpected is by far the hardest part of my job. Recently one of our client's neighbors lost a very old and large willow tree. It came down in a storm and most of it landed in her yard. Insurance did not cover the damage because it was an act of God so

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## HOW DOES YOUR Garden Grow?

Karen J. Ellenbecker, President  
**ELLENBECKER  
INVESTMENT GROUP, INC.**

she was responsible for the cleanup. What she did not foresee was that all of her shade plants would die because of the direct sun and that her daily routine would change. No longer was her patio in shade, it was now hot and uninviting. The unexpected can change our lives and turn everything we planned upside down. It could be the loss of a job, an illness, death, market correction or natural disaster. How often is an investment held too long only to watch it quickly lose value because of an unexpected event? You do your best to protect and strengthen your plants in the event of a frost, drought or other natural disaster. You prune, feed, till and harvest in order to keep your garden healthy. If you don't keep the weeds out they take over your garden and weaken the healthy plants. This is how I view your investment portfolio. Each portfolio requires unique care and attention. The same principles apply to large and small portfolios. We trim positions to take profits, add new investments to spice it up and encourage you to add to it so it will meet your needs in retirement.



*Are you thinking, oh I wish I had a garden like that?*

Is your investment portfolio the right size and diversified with investments that will weather the inevitable storms? When I go shopping there are so many plants that I admire but I have a limited amount of space and many plants would not grow well in my garden. It is similar to the

amount of time you have with your busy schedule to sort through the wealth of the investment information out there to determine the right investment for you. Have you considered hiring a professional? That is what I did when I built my last house. I turned my yard over to an expert and said "make it beautiful." The end result unfortunately did not turn out like I had envisioned. What I learned was that you can hire a professional but you still have to invest the time to make sure that the professional understands your preferences and goals.

Our process is simple and begins much like planning a garden. As your professional partner, we first want you to visualize the end result so we understand where you want to go so we can help you get there. We ask many questions to help you identify your wants, needs and goals. With this starting point we begin to build the foundation. Just like your garden may have a concrete patio, brick steps and clay pots that are constant year after year, your portfolio also has a foundation. We call it your individual, unique asset allocation. There are assets like bonds and large blue chip stocks that will be held long term because we believe in their strength and staying power. Like perennials, these investments will grow over time. The annuals that you change each year are similar to the investments we choose to hold for shorter periods of time. Different areas of the world work at different times as do different styles of investing. Weeding and watering your garden is important and that is what we do when we rebalance your portfolio.

We can't predict what the markets will do but we can prepare your portfolio so it is resilient. Let Ellenbecker Investment Group be your financial gardener. Don't worry if you haven't been successful in the past. Whether you are in retirement or in the process of building a portfolio, the most important part for gardening and investing is that you take the time to enjoy the fruits of your labor. Just as you admire your freshly weeded garden on a beautiful summer evening, you need to know that when you retire and begin spending you will have piece of mind knowing your money will last a lifetime.

### Spring Client Event a Huge Success

Thank you to everyone who came and participated in our Melinda Myers gardening experience. It was a wonderful time to see our friends and clients who have helped us grow and flourish over the last ten years. If you have suggestions for future events please feel free to call or e-mail us with details.

# RISK MANAGEMENT *and Insurance*



*Joleen S. Kane*  
**ELLENBECKER INVESTMENT GROUP, INC**  
**VICE PRESIDENT,**  
**DIRECTOR OF SPECIAL PRODUCTS**

We all require a certain level of peace of mind knowing that if something happens we are protected. So we make sure our property is adequately insured and often choose to purchase additional liability coverage to protect us from the worst case scenario. Health insurance is a necessity that most would never considering going without. Many of you own disability policies either through employment or independently. These are all areas that should be reviewed periodically, especially as you go through life changing events.

In this article I will focus on life insurance and some things you should consider when reviewing existing policies or deciding to purchase new. Life insurance fills a need and in most cases we do not consider it an investment. Whether you are married, a single parent, a stay-at-home parent or retired, there are reasons you should consider owning life

insurance. If you have children or a spouse who is dependent on your income the need for insurance is obvious. However, as a stay-at-home mom, did you ever take the time to place a value on all that you do? Life insurance can never replace you or your love, but it can help your family cope with your loss.

If this is you, consider making a list of all that you do and give it a price. Include the cost of childcare, driving, tutoring, housekeeping, cooking, bookkeeping and yard care. And be sure to consider inflation and how many years your family will require these vital services. If you are retired and no longer think you need life insurance, consider the size of your estate and the amount of taxes your heirs would need to pay after you die (up to 48% of your estate depending on your state). Even if you are single, consider the amount of your credit card debt and burial expenses. Or are you providing care for aging parents or siblings? Every person's situation is unique.

Another reason you might purchase insurance is as a gift for a child or grandchild. One of the most difficult situations we come across is when a client finally recognizes his/her need for insurance but because of health issues is unable to obtain coverage. When this occurs there are very few options available. If you know something in your family history that could potentially affect your adult children or grandchildren, giving the gift of insurance is very valuable and meaningful. Smaller policy values are available initially and additional insurance can be purchased at specified times throughout the policy.

Life insurance is all about knowing the value you provide and owning enough to give you peace of mind during your lifetime. So that leads me to my next question. How much is enough? The Consumer Federation of America (CFA, 1997) recommends 6 to 8 times your income for a married couple with children. Rules of thumb are good but are only a starting point. There is a helpful calculator that can be found at [www.prudential.com](http://www.prudential.com) or call our office at 262-938-9060 and we will mail you a worksheet. Once you have an idea of your needs or if you want assistance in considering all your personal variables we would be happy to meet with you.

What is the best insurance for your personal situation? That depends. Term policies are the cheapest with premiums guaranteed for a specific period of time. The disadvantage is if you want to continue coverage at the end of the term it may be too expensive or your health status may affect insurability. Permanent policies such as whole and universal life offer lifelong protection as long as the premiums are paid. These policies require higher premiums and accumulate cash value. Not all policies carry guarantees so it is important that you understand what you are buying and why you are buying it. Life insurance policies come in many varieties so if you don't understand what you own, be sure to review your policies with someone you trust.

### ***Here are a few things to keep in mind when purchasing insurance.***

- Work with someone you trust and don't be afraid to ask all the necessary questions so you understand the product.
- There are many product choices available. Consider all your options.
- Keep in mind that once you have purchased a policy there is a free-look period that is usually from 10 to 30 days. During this time you have the option to change your mind and get a refund.
- Review your coverage periodically, especially when your life changes. Perhaps you got married, bought a home or are expecting your first child.
- Review old policies. They may not be appropriate for your current circumstances.
- Keep a list of your policies (include policy numbers) with your important estate planning documents. This is particularly helpful for your beneficiaries. Include your agent's name and telephone number if possible.

Planning for untimely events may be difficult, but you and your family will be glad you took the time. Ellenbecker Investment Group, Inc. is here to help you through the process. I meet with people on a regular basis to provide a second opinion on their insurance policies. Please call me at 262-938-9060 if you would like to schedule an appointment.

# BEYOND the value of exercise



Nick Neitzel

**CORPORATE DIRECTOR OF FITNESS  
WISCONSIN ATHLETIC CLUB**

*My name is Nick Neitzel, Corporate Director of Fitness for the Wisconsin Athletic Clubs as well as one of Karen Ellenbecker's Personal Trainers. Karen asked if I would answer a few questions for the Newsletter to inform others about the WAC and how we can help.*



**Wisconsin Athletic Club, Inc.**  
"Fitness For The Good Life"

## **When did the WAC start and where was the first location?**

The first club opened in 1976 in West Allis and was called *The Racquetball Club*. The club originally started with 8 racquetball courts and eventually grew to 16 courts. Since then it has been expanded and remodeled many times and over the years we have been nationally honored as the top racquetball/handball club in the nation! The Waukesha facility was added next in 1978, and our other three facilities were added in 1998 when the name was changed to the Wisconsin Athletic Club. We are proud that we have been under the same local ownership since the day we opened. Our clubs have too many activities and amenities to mention, but I strongly encourage you to check each location out for yourself to see what each club has to offer you. Come on in for a free-week pass on me, and try it for yourself.

## **There have always been health clubs in our area. What separates WAC from other clubs?**

I joined the WAC about 8 years ago. One of the reasons I joined the team was their mission statement: "To make a difference in people's lives." Our staff members genuinely care about people, are naturally friendly, love their jobs, and above all – have fun! Each club is unique but has the same comfortable, clean environment that feels like a "home away from home" for every person. We have the latest in equipment and a wide variety of programming and classes. And one of the best things about our clubs is that the West Allis location, where I work, is now open 24 hours (*and boy does that make me tired!*) We are also scheduled to open our sixth facility in the North Shore area this fall. Now you really have no excuses!

## **The Wisconsin Athletic Club has aligned its business with various partners, hospitals, sleep clinics, Ellenbecker Investment Group, etc. Why are these relationships valuable to WAC?**

These relationships allow us to reach out and educate more people while building community awareness regarding the benefits of exercise and health & wellness. The WAC can provide support to area businesses by implementing wellness programs, coordinating health fairs or building on-site fitness centers. We want to be a wellness resource to members and non-members alike so they can benefit from a higher quality of life. The WAC is interested in more than keeping their members' bodies alert and agile. It is also about helping them to get balance in other parts of their lives — estate planning, finance, food, relationships, stress, and health just to name a few. I would love to help you, in whatever way possible, and I hope the Wisconsin Athletic Club can be a part of your health and happiness. **Nick Neitzel can be reached via e-mail at [nneitzel@thewac.com](mailto:nneitzel@thewac.com).**

# WHAT DIRECTION Are You Heading?



Nance Guilmartin  
Author

**HEALING CONVERSATIONS:  
WHAT TO SAY WHEN YOU DON'T  
KNOW WHAT TO SAY**

Chances are that sooner or later this summer, you'll take a trip—locally or far from home. Maybe you'll go by bike, boat, plane, train, foot or car. At some point, you may decide to ask for directions, perhaps because the ones you were given didn't quite measure up. Or because you thought you knew how to get where you were going and unexpectedly found that you didn't. Or you may encounter a detour that doesn't make it easy to reroute to your destination. Or maybe you're like me, you hate getting lost and you want someone else to give you some helpful guidance on how to get there from here.

In the midst of driving a 500 mile trip this week, it occurred to me that having to stop and ask *ourselves*, what direction we're heading is a good thing to do every once in a while. What do I mean by that? Well, the idea started weaving itself together as these questions popped into my mind. They might be questions you'd like to take the time to ask yourself as you transition from spring into summer.

- Do I want to continue in the direction I'm heading — with my career, my family and my friends?
- Are there any U-turns I want to take — to double back and spend more time going in the opposite direction? (For example, I'd like to build new memories with old friends who've moved away so I'm planning to visit them, not just live in the past "good old days".)
- Do I want to head "West" for a while, not geographically speaking but figuratively—do I want to open up some space in my life to explore new frontiers, friendships or work possibilities? Or do I need some "space" and time out to reflect and come up with an updated plan for the second half of my life?
- How do I feel about the direction my physical, emotional, mental and spiritual life is taking, especially as I get older? Am I investing my "life's time" in people and activities I enjoy?

Whatever direction you are heading at the moment, why not pause to ask yourself, *What guides am I willing to seek and to trust as I make the choices that will chart my travels—today, tomorrow, and in the times ahead?*

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# PARTNERING WITH *Ellenbecker Investment Group*



*Lisa Turner*  
Public Relations Director  
**KRAUSE FUNERAL HOMES &  
CREMATION SERVICES**

I met Karen Ellenbecker through a networking friend and learned about Concierge Lifetime Planning Service, whose interest is in helping families plan ahead for their funeral arrangements, as well as many other retirement necessities. I met with Dawn Lotz, whose father had recently died, and we discussed all the questions and concerns that she had.

Dawn was overwhelmed with her own grief and knew that there had to be a better way to plan ahead for a death. Karen, Dawn and I sat with a box of tissues and I assured them that Krause Funeral Home could help them with this dilemma. Throughout the process, we met with most of their staff and discussed the importance of preplanning funerals and in several cases we helped them plan their own. It was the beginning of our relationship and would be a great connection for the families we serve.

Why would a funeral home partner with an investment company (Ellenbecker) or, for that matter, a hospital (Froedtert), retirement community (Luther Manor), bereavement center (Kyle's Korner) and a support group (Compassionate Friends)? Because of you, our families. At Krause Funeral Home, not only do we want to provide you with an outstanding final goodbye, but we also want to be here for you as a resource throughout your life's journey.

About three years ago, Mark Krause, President of Krause Funeral Home, said to me, "I need your help reaching out to and networking with the community." So my job as Public Relations Director came into being. The funeral home needed a community resource person to reach out to the public by providing quality educational classes free of charge twice a month. My goal was to get people comfortable walking into the funeral home — a tough act to do. It worked! We started with a small group that has grown over time to include many professionals as well as retired persons. Our topics have ranged from nutrition, reflexology, aging, computers, divestment, to medical powers of attorney. We include a continental breakfast with wonderful bakery.

Next, I needed to wear off the good bakery and hit the networking groups. I met many professional knowledgeable people who could be resources to the families we serve. I joined the Milwaukee Aging Consortium, Waukesha Senior Consortium and the End-of-Life Coalition. These groups opened up numerous doors and helped me connect to the community. I get requests all the time for information. We had a family where the son was stealing money from his mother and we helped the daughter with information on Elder Abuse. I have learned so much and met great people in these organizations.

I have met several families at Trade Shows. I bring a furry sidekick named Oliver, who just celebrated his fifth birthday with a T-bone steak. Believe me, he deserves it. His kind, compassionate manner works wonders with children and adults. Maybe we'll see you at Serb Hall, Zoo, Domes, Country Springs at the Caregiver Conference, or at the Marriott at the Elder Issue Conference. Come by and say hi to Oliver. Don't be surprised if he sits on your foot.

I am blessed to have a job that is so enriching in meeting wonderful people. No one has all the skills and knowledge to be everything to everybody. That is why we partner with other businesses so we can refer our families to companies that are ethical and will treat them with the same care, respect and compassion as we do. We feel this way about Ellenbecker Investment Group, Inc. and recently joined forces with them. You can check out [www.ellenbecker.com](http://www.ellenbecker.com) for a link to our webpage. I look forward to a long and successful relationship. I will do my best to be a resource for you.

## Don't forget to listen to "MONEY SENSE" on WISN AM 1130

— since 1991 —  
Saturdays 2-3 pm  
Sundays 12-1 pm

*Hosted by Karen J. Ellenbecker*



# A PAUSE OR the Beginning of Something Worse?

(From the Pavlic Investment Advisor's  
Mid-Quarter Update)



Terence Pavlic  
President  
PAVLIC INVESTMENTS, INC.

The rally that began in the 4th quarter of last year continued through May 1st and then, for the next several weeks, stock prices fell pretty consistently. This has many wondering if we have come to the end of this bull market. We don't think so.

To understand why, it is necessary to look at what caused the sell-off in the first place. As we have written in earlier editions of this Update, the key consideration for investors, at this point, is whether and when the Fed will stop increasing interest rates. If they stop soon, then it is likely that the economy will slow but not fall into recession. If, on the other hand, they keep pushing rates higher, then the fear is that, like so many times before, they will smother the economy and a recession will develop. This is a particularly delicate maneuver in the face of rising prices for many items including mortgages, gasoline, electricity and other commodities. After its late-April meeting, the Fed raised rates but gave a pretty clear signal that it was very close to stopping. Then a few days later, it was reported that the new Fed Chairman Bernanke was disappointed with the market's interpretation of his earlier comments. Furthermore, another Fed governor indicated that she really had no idea what the Fed might do at the next meeting. As you know, the stock market hates uncertainty and these two comments created a lot of it. Gold and many other commodity prices promptly fell 8-12%, foreign stock markets like India, Russia and China collapsed 20-28%, and US stocks fell 4-6%.

There is an old saying that the Fed doesn't stop until it breaks something. It is pretty clear that several foreign markets broke and commodity prices, while perhaps not broken, are much lower than they were a month ago. In addition, real estate prices have stagnated and in some areas are actually falling, a far cry from the runaway price inflation that this market enjoyed only one year ago. We think these market responses will give the Fed all the reason it needs to stop raising interest rates for the foreseeable future. We will know for sure after the next Fed meeting, scheduled for June 28-29, 2006.

*Note: Abstracted from Pavlic Investment Advisors, Inc. newsletter, Winter 2006.*

*This information is being provided strictly as a courtesy and does not constitute an endorsement by SII Investments, Inc. The opinions being expressed are solely those of the author and may or may not be representative of our opinion.*

# CAN MEDIATION BE EFFECTIVE in a family dispute?



Vicky Hekkers  
Mediator Specialist

Lisa Jansen is nervous when she receives the letter from her father's financial consultant requesting mediation between her and her brother. She is well aware that her mother is suffering from Alzheimer's disease and that her dad's health is frail after his stroke. She is worried about assuming all of the responsibility for their care and financial matters. She wants help and guidance from her brother but they have not spoken for years.

Lisa ponders the idea of the mediation, discusses it with her husband and calls the financial consultant a week later to discuss the possibility and steps involved in the mediation process. She is surprised to find out that her brother, who also received a letter, has already agreed to the mediation. Lisa learns that the mediation will begin with a telephonic "convening discussion" with each party separately to determine what the issues are and if the mediation process may be helpful in resolution.

The "convening discussion" takes place and Lisa is able to freely and confidentially discuss with the mediator her concerns in seeing and speaking to her brother again. She is relieved to find out that the only issue scheduled to be addressed at the initial mediation is the possible placement of her mother in a long term care facility. She learns that mediation is about compromise and generally, all parties will be expected to offer concessions in order to reach resolution.

The mediator explains that because of the many issues involved in family disputes it is sometimes better to meet and attempt to resolve one issue at a time. This also minimizes the initial contact between parties. Many individuals involved in a family conflict are incapable of civil discussions in the presence of other family members. It is possible to hold these mediation sessions in the same location while the parties remain in separate rooms.

Because Lisa and her brother were prepared, understood that compromise was expected and had only one issue to deal with they were able in less than two hours to reach an agreement on their mother's placement in a long term facility. They also agree to meet again in two months with the mediator and their father to discuss the sale of the family home.

Financial consultants have long realized that they can not assist their clients in making sound investment decisions when the families are divided. The astute consultant recognizes the family's needs and offers them the services of an impartial professional mediator trained in sensitive family and financial issues. This is a novel and innovative way to offer clients financial security and piece of mind.

Victoria Hekkers is a professionally trained mediator. If you would like more information or to explore mediation needs feel free to contact us at (262) 938-9060.

## ESTATE PLANNING *to Create Incentives*



Nancy M. Bonniwell  
Attorney at Law  
**WEISS BERZOWSKI BRADY LLP**

Every inheritance will influence the behavior of the beneficiary. The larger the inheritance, the greater the possibility that the inheritance will effect the behavior of the recipient. Many members of the older generation are expressing concern that younger people do not possess the same work ethic and willingness to save rather than spend their money. The clients feel that without control and guidance, their children and grandchildren may choose a lifestyle that is not productive or fulfilling.

Many people are beginning to create "incentive" trusts to guide their children along the right path

or provide motivation to make good choices in life. In an incentive trust, the grantor sets forth specific criteria that the beneficiary must meet. Once the goals are met, distributions are mandatory, and the Trustee must make them. In the incentive trust, the person who creates the trust replaces the Trustee's discretion with measurable targets. One of the most common desires that clients have is for their children to be productive members of society. To that end, parents provide incentives in their trust to encourage formal education, success in employment, charitable activities and a good lifestyle. Parents may also discourage bad behavior and undesirable life choices such as drug use or criminal activity.

With occupations and vocations, for example, an incentive trust may match a percentage of a beneficiary's earned income as verified by a W-2, or provide a monetary reward for promotions. If children choose careers that are a service to the community but not necessarily very lucrative, such as clergy or social work, an incentive trust could work very well. An income match could support a person's public service occupation. Other trusts will acknowledge a productive lifestyle of a beneficiary who stays home to care for his or her young children.

A beneficiary's education may be rewarded by providing a stipend to a beneficiary who is enrolled in an educational institution and is making progress toward a degree. A reward may be given for earning a certain grade in a class or graduating from college or other post secondary educational institution.

In other situations, parents may require a beneficiary to be drug free or not engage in criminal activity in order to receive a distribution. The Trustee is authorized to order the beneficiary to submit to drug tests. If the results of a drug test are positive or if a beneficiary is convicted of a crime, he may forfeit his entire trust.

How does an incentive trust differ from a traditional discretionary trust in most situations? In a discretionary trust, the Trustee is given authority to make distributions based upon certain standards that are set forth in the trust. Common standards include distributions for a beneficiary's health, education, maintenance, or support. Thus, the Trustee has discretion either to make distributions or withhold distributions as the Trustee determines is appropriate under the standards set forth in the trust.

Many people combine the concept of discretionary and incentive trusts in their revocable living trusts. Clients may give the Trustees the power to make discretionary distributions to a beneficiary at least for health needs, and provide added incentives to the beneficiary to meet the goals established by his parents. If he meets the goal, he will be entitled to an extra reward.

Before you do any planning with incentive trusts, you need to sit back and give the idea of incentives a lot of thought. Every family is different and almost every child will be motivated by different factors. The trust probably will be in existence a long time. You need to build in flexibility to meet the changes that every generation experiences to make sure that providing incentives to your children will have the positive result you intended.

Note: This article intends to offer general information on the subjects discussed and should not be regarded as a complete analysis of these subjects. Professional advisors should be consulted before implementing any options presented. No party assumes liability for any loss or damage resulting from errors or omissions or reliance on or use of this material. SII Investments does not provide legal advice.

### **New Building Fall 2006**

With summer already here and the weather cooperating, our new building is beginning to look like a place we will soon gratefully call home. It is estimated that the move will take place at the end of September or early October. We do not anticipate missing a beat as far as business is concerned. You will be kept updated as things progress as well as any new contact information we may have. We look forward to seeing all of you at our open house once we get settled.



# HOW YOUR CHILD'S DAY JOB CAN TEACH *Money Management Skills*



Lynne Finch  
Author

**"THE NO-CASH ALLOWANCE:  
A PRACTICAL GUIDE  
FOR TEACHING YOUR CHILDREN  
HOW TO MANAGE MONEY"**

While in school your child may learn about saving money, investing in the stock market, and credit card interest. But your child's school cannot provide continuous day-to-day experience managing real money in real time. Yet children are spending real money everyday — and lots of it.

According to The Jump\$tart Coalition for Personal Financial Literacy, children's spending has roughly doubled every ten years for the past three decades, and tripled in the 1990s. Teens spent \$175 billion in 2003, a three percent increase from 2002, according to a new study by Teenage Research Unlimited (TRU).

It is not the amount of money that is a concern but the reality that most of this money is being spent for what we generally consider non-essential items. In the adult world that our children will live in they will need to know how to manage money for both wants and needs. As a parent you have a unique opportunity to use money you are already spending on your child to provide a financial education in your home that your child won't get in school or anywhere else. And at no additional cost to you.

You can give real money management experience by giving your child the responsibility for school expenses. Of course, as parents you are responsible for education expenses but who's to say you have to manage the funds and make all the purchases. What if you created a plan that transfers control of certain school expenses to your child? In effect, you hand your child a list and say, "These expenses are your responsibility." Then you stand back and let your child make all the decisions on how to manage the fund for school expenses.

School is your child's job and offers a meaningful opportunity to manage an increasingly larger fund and more responsibility each year. In addition to making money decisions, the simple reality of being in control adds an ownership factor that doesn't happen when parents make all the purchases. It is a subtle lesson, yet children who buy pencils with money they control may not lose them as often.

You and your child will work together to determine what will be included in the school spending plan. Start with a discussion about what your child needs for school and ask questions such as, "How much will it cost to buy these items?" Depending on the age of your child you will create a list together with approximate costs, much like you might budget for work supplies. You can shop together, discuss options and compare prices. However, whenever there are choices such as "red" or "blue", let your child make the final choice.

At some point your child will understand that money can be manipulated within the fund. One of my daughters loved buying "the coolest" pencils so she decided to buy the cheaper notebooks so she had more money for pencils. This type of decision-making is also a learning experience when you let your child make the final choice and respect the decision. A school spending plan can also allow for funds for replacement supplies during the year, again determined through negotiations with your child.

What I am describing is not simply giving your child an amount of cash and going shopping. Giving your child money for school supplies will only teach your child how to make shopping-day choices and how to spend money for an isolated purpose. To make this experience more realistic (and more like the type of money management you do as an adult) you can make this school fund part of a larger amount that your child manages.

In my book, "The No-Cash Allowance," I explain how children as young as pre-school can learn how to manage money day-to-day, how to use and keep track of virtual (invisible) money and how to make responsible spending choices. The school spending plan would be one of a variety of funds that a child manages for both fun and expenses in a home account with you acting as the banker.

When parents set up a child-controlled money management system they will find that children can make choices simply because there will be many opportunities to make decisions. Your child will learn to think about how and when to make the purchases, while buying the items will teach your child about costs and value. Because the funds are part of a larger total, your child learns that today's decisions will change tomorrow's bottom line. Learning to manage money is a skill that evolves over time. School expenses are a fact of life for children and an excellent tool for helping them gain money management skills.

About the author: Lynne L. Finch, author. "The No-Cash Allowance: A Practical Guide for Teaching Your Children How to Manage Money" (Walnut Row, paperback 2004) For more information about teaching your child to manage money please visit [www.walnutrow.com](http://www.walnutrow.com).

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