

# HOLIFIELD HUNTLEY

Financial Advisers

June/July 2011 Volume 4 Issue 3 Investment Updates

## Customize Social Security Options

Most people just take the money and run, but if you want to get the most out of Social Security, you ought to think twice. If you're married, the decision isn't all about you.

Social Security choices grow out of the program's rules:

- You will be penalized for taking benefits early (before age 66 for those born between 1943 and 1954) and rewarded for taking them late (up to age 70).
- Married people have a choice of collecting either a spousal benefit or a benefit based on their own work records.
- At the death of the first spouse, the survivor gets to receive the larger of the two benefits.

Here are a few examples of how couples can maximize their benefits. Each example assumes that this is a first marriage for both and that the full retirement age is 66.

CASE NO. 1: Spouses of similar ages each earned benefits based on their own work records. Strategy: The spouse with the lower benefit starts collecting at 66. The spouse with the higher benefit starts collecting a spousal benefit at 66, then switches to his or her own higher benefit at age 70. By taking only the spousal benefit at 66, the second spouse still gets the delayed retirement credit, boosting his regular benefit.

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### Adviser Corner

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## Tips for New College Grads

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This is the time of year when thousands of young people leave campus life behind and aim to make their way in the world. It's an especially tough world out there these days, which means it's more important than ever to start out on sound financial footing. Here are a few tips to help you get started:

- Don't expect to start out living large, especially if you graduate with student loans or credit card debt. Living at home or sharing costs with a roommate may be your best bet until you've accumulated some savings.
- Save a little each paycheck to build up an emergency fund. If you've got access to a credit union through payroll deduction, that's probably your best option. Financial emergencies are part of life and can lead to credit card debt if you don't have an emergency fund you can tap.
- Steer clear of credit card debt. Only

charge what you know you'll be able to pay off in full when the bill arrives. If you already have credit card debt, avoid new charges and pay more than the minimum each month to whittle down your balance.

- Learn to cook (if you don't already know how). Make restaurant and fast food meals an occasional treat instead of a regular routine. Home cooking is less expensive and better for you.
- If you're fortunate enough to land a job with a retirement savings plan, be sure to sign up, even if you can only afford to contribute a small amount in the beginning. If your company matches your savings, don't leave free money on the table — contribute enough to get the maximum match. If you find the investment options confusing, you can always start with a balanced fund that invests in both stocks and bonds.

## What's Happening at Holifield Huntley

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It's been a busy few months at Holifield Huntley. In addition to our usual cycle of reviews and financial planning projects, we have been upgrading our technology. In early June, we transitioned from a physical server to "The Cloud," a system that stores our files on offsite servers accessible via a secured digital network. We believe that cloud storage will better protect our client data from thieves, equipment failure and natural disasters. In addition, Helen and Rhonda will be more easily able to access client files when not in the office.

We encourage our clients and friends to review their electronically stored personal and business information and to consider whether they need to upgrade their security and backups. It's hurricane season, folks!

### July Closings & Absences

Holifield Huntley will be closed Monday, July 4, in observance of the Independence Day holiday.

Rhonda will be out of the office Thursday, June 30, through Monday, July 4.

Rhonda will be at a continuing education conference July 20-23.

## ETFs vs. Traditional Mutual Funds

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The popularity of exchange-traded funds has many investors wondering: Are they right for me?

Exchange-traded funds and traditional mutual funds have a lot in common. In fact, some ETFs are just share classes of traditional funds. Whether you opt for the ETF or the open-end fund, you get a diversified, professionally managed portfolio of securities. The most obvious difference is that ETF shares trade like stocks throughout the day, while mutual fund shares are always priced at the close.

So which is better? The answer is that it depends on which ETFs and funds you are considering and where your money is held. At Schwab, some ETFs

and about 2,000 mutual funds are available with no transaction fee. However, when both involve a fee, Schwab charges less on the ETF. Generally ETFs also have lower expense ratios, which can quickly make up for the transaction cost. However, if you're investing \$50 or \$100 at a time and have no transaction fee, you'll probably do better with a traditional fund. That's because traditional funds are the only way to buy fractional shares, putting all your money to work.

Before switching out of any investment, take a look at the tax consequences. You likely have a gain or loss that you will realize by selling.

## Social Security, from Page 1

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CASE NO. 2: Spouses' ages are no more than a few years apart and only one has an earned benefit. Strategy: The spouse with the earned benefit files for Social Security at 66 but suspends benefits until age 70. This allows the other spouse to start collecting the full spousal benefit at 66. A reduced benefit is available at 62. There is no extra benefit for waiting past full retirement age.

CASE NO. 3 The higher earning spouse is much older or in poor health. The second spouse has a smaller benefit because of limited or no work history. The strategy: The younger

spouse collects either his own benefit or the spousal benefit (whichever is larger) as early as possible. The older spouse, with the higher benefit, waits until 70 to take advantage of the delayed retirement credit. The greater the difference, the more beneficial it is for the older spouse to wait to collect. After the first spouse has died, his higher benefit will go to the survivor for the rest of her life.

If you can't get by without some income from Social Security, the rule of thumb is to take the smaller benefit first. Wait to earn as much as you can in deferred retirement credits on the larger benefit.

# Dividends and Total Return

Income is important to consider when choosing an investment. Especially important for investors approaching retirement, income can add meaningfully to one's total return, which comprises income and price return (capital appreciation). Investors can pursue income returns in many ways including bonds, real estate investment trusts and stocks.

Stock income is typically paid in the form of a monthly, quarterly, annual or special cash dividend, which can be used to finance current consumption or to reinvest. Dividends are typically expressed in terms of yield. Like an interest rate, yield is represented as a percentage rate and is calculated by taking the annual cash dividend divided by a stock's current price. For example, a stock trading at \$20 with a future annual cash dividend of \$1 would have a dividend yield of 5%.

Keep in mind, though, that there is no guarantee a dividend will be paid, even if a certain company has a consistent dividend-paying track record. A company can increase, decrease and even eliminate dividends altogether, depending on its financial situation. Furthermore, if a dividend is declared, the company has to pay dividends for preferred shares first, before any common share dividends can be paid.

Although stocks can be a source of income return, not all stocks are created equal in this regard. Some companies distribute significantly more of their profits in the form of dividends than others, and some don't distribute dividends at all. The following image demonstrates this point. Historically, dividend-earning stocks — represented by Morningstar's Dividend Composite Index — have had compound annual returns of 6.9%, while large stocks have had compound annual returns of 5.0%. Additionally, higher-yielding companies — represented by Morningstar's Dividend Leaders Index —have

## Dividend-Paying Stocks May Provide Better Returns



This is for illustrative purposes only and not indicative of any investment. Assumes reinvestment of all income and no transaction costs or taxes. An investment cannot be made directly in an index. Past performance is no guarantee of future results. Returns and principal invested in stocks are not guaranteed. Dividends are not guaranteed and are paid solely at a company's discretion.

Source: Large Stocks—Standard & Poor's 500®, which is an unmanaged group of securities and considered to be representative of the stock market in general; Dividend-Paying Stocks—Morningstar Dividend Composite Index; High-Yield Dividend-Paying Stocks—Morningstar Dividend Leaders Index. Stocks in both indexes have a consistent record of dividend payment, have the ability to sustain their dividend payments and are weighted in proportion to the total pool of dividends available to investors. The Morningstar Dividend Composite Index captures the performance of all stocks in the U.S. Market Index. The Morningstar Dividend Leaders Index captures the performance of the 100 highest-yielding stocks.

outperformed large stocks: Dividend Leaders Index components had a compound annual return of 9.0% compared with 5.0% for large stocks during the period studied. For investors looking both for income and total returns, dividend-paying stocks can be a reasonable place to invest.

Although higher-yielding stocks have demonstrated an ability to outperform large stocks, all that glitters is not gold. Dividends are paid at a company's discretion, and exceptionally high yields can indicate a potential dividend cut. For example, had investors been lured to many high-yielding bank stocks in late 2008, they would have been sorely disappointed when many banks subsequently cut their dividends as profitability declined during the credit crisis. When looking at dividend-paying stocks, investors should focus on reasonable dividend yields with companies that have the earnings power to increase their dividend distributions over time. Many large companies with recognizable brand names have demonstrated an ability to offer this slow and steady income distribution to shareholders.

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