



# Tips for Effective Goal Setting

A “future focus” is the secret to realizing your dreams.

**I**N HIS BOOK *Getting Things Done*, author David Allen wrote, “We know that the focus we hold in our minds affects what we perceive and how we perform.” As you visualize the lifestyle and quality of life that you would like to have in the future, remember that the secret to realizing your dreams is to maintain a “future focus.”

In fact, the greater your understanding of what is important to you, the easier it will be to “paint a picture” in your mind of what you are working toward. Whatever you identify and claim for yourself will become the basis for your life goals. Therefore, consider these helpful tips to increase the effectiveness of your goal setting strategies:




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**Make it a practice to visualize reaching your goal. Continue to build a stronger and clearer picture in your mind. You will naturally move toward that which you think about.**

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**1. Your goals must be meaningful to YOU.** Lou Tice, who founded The Pacific Institute and created the Investment in Excellence program, teaches that goals themselves have little value unless they bring depth and meaning to your life as you work to achieve them.

**2. Know what you want.** Make sure the goal is something you really want. If your goal is something someone else said you should do, or is something you feel like you need to do, then it is unlikely to motivate and inspire you.

**3. Build an image of the end result.** Make it a practice to visualize reaching your goal. Continue to build a stronger and clearer picture in your mind. You will naturally move toward that which you think about.

**4. Ask yourself if you are ready for change?**

Consider what life will actually be like when you achieve your goal. Are you ready to accept the end result? Often individuals don’t achieve their goals because subconsciously they don’t want to deal with new circumstances or their self-image does not allow for the change.

**5. Is there a conflict?** Evaluate whether or not your goals conflict with one another or with the goals of someone close to you. This knowledge, even on a subconscious level, can prevent you from moving towards your goal. Once you acknowledge the conflict, then

you can look for ways to resolve it.

**6. Decide on a time frame (maybe).** Some goals should not have a deadline because a time limit can cause stress and decrease the joy of the journey. For some types of goals, target dates and deadlines are appropriate and motivating. But for other types of goals, deadlines can stifle creativity and possibility thinking.

**7. Make a wish.** Goals often begin as a “wish” for yourself, for your family, for your job, for your retirement, for your community, and so on. It is your opportunity to dream BIG. When you dare to dream big, you step out of your current reality and open up your awareness to resources, solutions, and opportunities you never thought possible! ■

# Revisiting Risk

With stocks, volatility is the historical norm.

(1) On February 26, the Dow dropped 400 points amid worries about foreign stock markets, the U.S. housing slump and related problems in the subprime mortgage market. The 3.3% decline marked the largest single-day plunge for the Dow in nearly four years and the seventh largest numerical drop in the Dow's history. Soon afterward, the Shanghai Composite Index, which helped spark the sell-off, reached a new record and U.S. stocks rebounded. In late May, the S&P 500 Index surpassed its prior record set in March 2000.

(2) The S&P 500 is now valued at 18 times trailing 12-month earnings, which is only slightly higher than the 16 times earnings historical average. This moderate valuation contrasts with the much higher valuations prior to the 2000 stock market crash. Also, corporate earnings are expected to rise by 10% in the next year. ("Is It Too Late to Buy Stocks?", *The Wall Street Journal*, 30 May 2007, C1)

(3) In the past, low volatility has not lasted for an extended period of time. Over the last 20 years, only the 1993-96 period demonstrated a longer stretch of low market volatility. ("Manager Behavior in a Low Volatility Market", Wilshire Consulting, 10 April 2007.)

(4) Created in 1993, the Chicago Board of Options Exchange Volatility Index offers a real-time estimate of market volatility. It is based on current prices offered for S&P 500 Index options, which include expectations of future market movement.

(5) "Stock Sell-offs Are Losing Shock Value", *The Wall Street Journal*, 5 April 2007, C1.

(6) "Waning Appetite for Risk Poses Global Challenges", *The Wall Street Journal*, 1 March 2007, A2.

**A**LTHOUGH the U.S. stock market experienced a significant correction in late February, stocks have since recovered and investor anxiety has faded.<sup>(1)</sup> Continued economic growth and moderate inflation in the U.S.—combined with rising global liquidity and strong returns in the foreign markets—have renewed investor optimism for 2007.

The February market correction offers a recent example of why long-term investors should not let economic predictions, market forecasts and general investor sentiment cloud their judgment. The bear market warnings issued after the brief market downturn were soon amended as stocks showed resurgent strength.<sup>(2)</sup>

As you observe the investing public's response to these events, keep these principles in view:

• **Low volatility is an abnormal state.** For the last three years, investors have enjoyed rising stock prices without the price turbulence that usually accompanies higher returns. As measured by standard deviation, U.S. market volatility has fallen below 10% since early 2004. The average for the previous three-year period is 18.8%, compared to a 14.3% average over the last 30 years. Large cap growth stocks have experienced the most stability, with volatility falling about 60% since 2004.<sup>(3)</sup>

The CBOE VIX index, which measures U.S. stock market volatility, is quite low at present.<sup>(4)</sup> This implies that financial markets are relaxed about risk and that investors do not expect wide fluctuations in prices. In a February speech credited with helping spark the market sell-off, former Fed Chairman Alan Greenspan voiced concern over the apparent lack of investor awareness of risk exposure.<sup>(5)</sup>

• **Market stability breeds higher risk taking.** The combination of lower stock volatility and diminished stock return expectations has motivated many investors to develop a relaxed view of risk.

Many individuals and institutions are willing to take higher risks in search of market-beating returns. In recent years, money has poured into more speculative instruments, including subprime mortgages, emerging market debt, hedge funds, leveraged buyouts, credit default swaps, collateralized debt obligations and other financial derivatives.<sup>(6)</sup>

Some of the more exotic vehicles have helped boost global liquidity while stabilizing the markets, although the newer instruments have yet to be tested in a period of major financial distress.

• **Managing risk is a key investment priority.**

Investors should be especially wary of analyses that include these four words: "This time it's different".

No one knows whether the four-year bull market has run its course or will keep delivering stable returns. If history is a useful guide, investors should expect change.

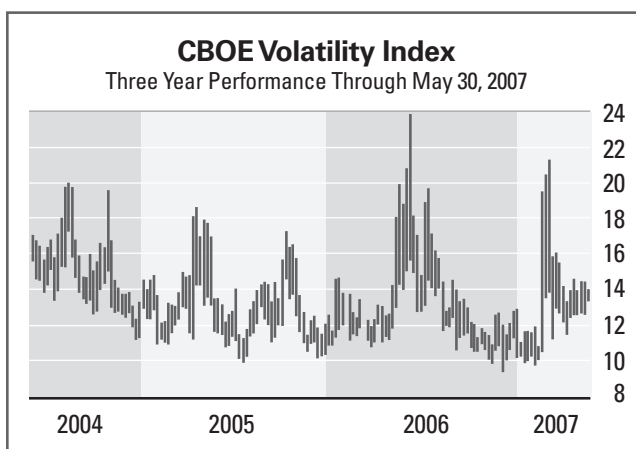
Rather than trying to outwit the market or boost expected returns through exotic instruments, prudent

investors should maintain a strategy to match their risk tolerance with realistic expected return, given their time horizon and wealth goals. Global asset class diversification should play a central role in achieving this balance while helping mitigate volatility in the investment portfolio.

In the late 1990s, the market experienced a period of advances and declines, with each market rebound propelling investors to higher levels of confidence and risk taking. Fueled by speculation in technology stocks, the cycle ended in March 2000 with the market crash. Today, the market is supported by a broader base of economic fundamentals, including low interest rates, enduring corporate profits, a strong job market and relatively low inflation.

Despite the more favorable conditions, remember that there is no free lunch in the investment world. Stocks have historically offered higher average returns because they carry higher risks, as described by price volatility.

High volatility is common in all stock markets—and it will likely reappear at some point. Investors who have discounted long-term history may have to relive it. ■



# Q2 2007

# ECONOMY & MARKETS

## Goldilocks Economy Continues Defying Gloomy Predictions

**M**ANY OF THE THEMES dominating the first quarter continued to worry investors in Q2, with the housing slump, subprime mortgage problems, high energy prices, stock volatility and hedge fund troubles capturing headlines. Nevertheless, the economy demonstrated unexpected vigor, with the labor force enjoying strong employment, rising wages and slowing inflation.

INDEX*	Q2
Dow Industrials	7.6%
S&P 500	6.0%
S&P Midcap 400	11.3%
Russell 2000	5.8%
Nasdaq Comp.	7.8%
DJ Wilshire 5000	6.7%
MSCI EAFE	9.1%
DJ World (ex U.S.)	11.0%
DJ Stoxx Euro. 600	7.8%

Significant economic news included the following:

- Headline inflation, as measured by the Consumer Price Index, logged 2.7% (year-over-year) in May, while core inflation (excluding food and energy) registered 2.2%.
- Long-term interest rates climbed as a Treasury sell-off in June pushed up the yield on the 10-year Treasury note to 5.03% by quarter's end—up from 4.86% a month earlier. Lower demand for U.S. government debt among emerging econo-

mies and expectations of rising interest rates in Europe and Asia sent yields higher.

- Oil futures closed at \$70.68 per barrel at the end of June—an increase of 7.3% from the \$65.87 registered by the end of the first quarter of 2007.

- May unemployment was 4.5%—in line with the three previous months. Job growth averaged 145,000 monthly in the first half of the year—slower than last year's pace but well above Fed expectations.

- The Conference Board's consumer confidence measure fell to 103.9 in June, down from 108.5 in May and the lowest since August 2006.

- Home builder confidence slid in June to the lowest mark in over 16 years as tighter lending practices and rising mortgage rates slowed home borrowing and purchases.

- New home sales fell 1.6% from April to May. While the dip was less severe than anticipated, home sales were 16% lower than a year ago.

- Durable goods orders dropped 2.8% in May, reaching a four-month low. This was led by a 22% plunge in commercial aircraft orders. Orders for non-defense capital goods fell 3%, the biggest drop since January.

- The Federal Reserve decided to leave rates unchanged at 5.25% during the quarter, a continued policy that has kept rates stable for more than a year.

- The economy grew 0.7% during the first quarter of 2007, declining sharply from the 2.5% rate achieved in the last quarter of 2006. Growth in the first quarter was also well below the forecasted growth rate of 2.4%.

## Looking Ahead

Strong consumer spending has helped buoy the economy. Despite a slowing trend, the labor market is strong, wages have risen steadily and inflation has moderated. An abundant flow of global capital—a by product of financial innovation and globalization—continues to underpin the market.

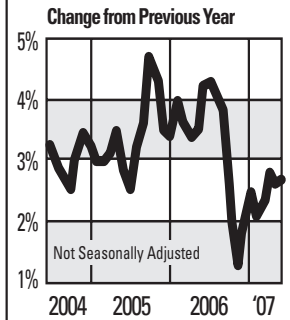
Although high oil prices, the housing slowdown, rising interest rates and a weakened subprime mortgage industry have troubled the market, the U.S. economy seems to be enjoying a Goldilocks moment—not too hot, not too cold. Certain forecasters expect revised GDP growth in Q2 to reach 3%.

The Fed still regards the labor market as tight and expects supply pressures to drive up prices and wages. A growth slowdown may create slack in the economy and keep inflation in check by containing wage and price gains. But higher growth could fuel wage inflation and raise the general price level.

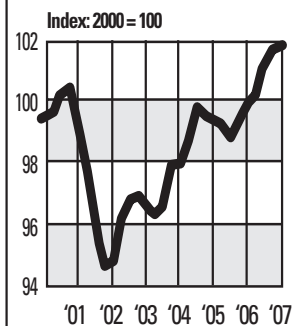
A Wall Street Journal survey of forecasters placed economic growth at 2.5% in Q3 and 2.8% in Q4. Some even expect a 3% average rate for the second half of 2007. Analysts are watching the U.S. and global interest rates to see whether risk aversion will persist. Barring an inflationary bump or profit slowdown, most predict further gains for global markets through the year.

Economies in Asia, Europe and emerging regions of the world have shown vibrant growth and may continue to expand and deliver strong corporate earnings and stock market gains through the year. ■

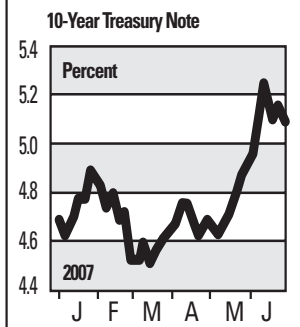
## HEADLINE INFLATION



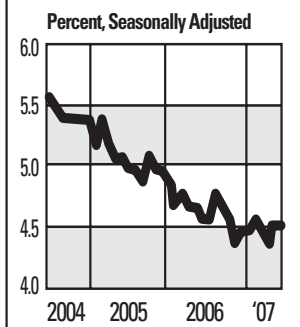
## GLOBAL MANUFACTURING



## TREASURY YIELD



## UNEMPLOYMENT RATE



The data and illustrations featured above do not offer a comprehensive review of recent economic and market performance.

## LIFE PLANNING QUOTES



“Whichever kind of planning you do, stay aware and adjust your path to your feelings as you go. Just use desire as your North Star and you’ll be putting a powerful plan into action.”

—Barbara Sher  
*I Could Do Anything if  
I Only Knew What it Was*

“Responsible freedom is when you choose to change for the best of reasons, regardless of what you were conditioned to do, what you feel compelled to do, or what is most immediately gratifying to do. Our fullest freedom emerges when we have the opportunity to choose that which would enhance our life, our sense of self, and our society.”

—James O. Prochaska  
John C. Norcross,  
& Carlo C. Diclemente  
*Changing for Good*

“When you have a dream and a plan working together in the construction of a life chapter, you have a ‘mission,’ a circumscribed purpose that defines your use of time and space for the duration of this particular life chapter. People with a mission know where they want to go.”

—Frederic Hudson  
*Mastering the Art of Self Renewal*

“...there are some things in life that are well worth an investment of our time, energy, and assets, and some that just aren’t. Taking the time to clarify your priorities is a great investment.”

—Marc Eisenson, Gerri Detweiler,  
& Nancy Castleman  
*Invest in Yourself:  
Six Secrets to a Rich Life*

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## In My Opinion . . .

Robert J. Cole, Jr., CLU, ChFC, CASL, CFP®

### It’s not about counting the beans, but making the beans count....

Those of you who attended this year’s Client Appreciation dinner heard the title of this column from our speaker Greg Smith. Greg has been a financial planner for over thirty years and is also a personal friend. His comments focused on how we should use our financial resources to support living a meaningful life. He mentioned that it is all too easy to get caught up in the process of “counting our beans” and forget that the beans contain the “seeds” of our future, which is where the real value lies (making the beans count). In my dealings with clients, I find this to be common. Many of us have been taught that “more is better” and set out to accumulate as many beans as we can. In the process we ignore many other sources of wealth in our lives. We sacrifice relationships, health, and fulfillment. In short, we lose balance.

No matter how much material wealth you have, there is always someone who has more. To compare your situation to another’s is not a very meaningful activity. Some people have great contentment with their modest amounts and others fret over the inadequacy of their large portfolios. Much study has been done over the past twenty years on why people build such emotional levels around financial issues. It seems that the abstract of money is reflected in the personality of an individual.

The question of how to use one’s resources (time, energy, money, etc) is probably the most difficult one an adult makes. Those who are fortunate enough to have an abundance of these means have many options. Others, in some cases by their own doing, are not so propitious. The truth is that we *all* have options, they just might not be the ones we want. Still, even the smallest choice to focus your resource management will yield a sense of confidence and progress.

Of primary importance in taking this step is the act of goal setting. A simple concept, but a very difficult exercise. In fact, I am convinced that it is not possible for anyone to complete this process alone. Much of what we do in financial planning is coaching clients to distill their abstract objectives into concrete goals and aspirations that they are willing to modify their behavior patterns to meet. Each year we ask our clients to grade themselves in a broad sense on how they are doing with that process. The results are often surprising. They find that they are not making their beans count, that the tug and pull of daily living has taken them off course and they are wasting resources. It’s the old “forest from the trees” problem.

Every ninety days, I take a full day out to evaluate how I am doing in this area. These retreats have produced remarkable results. Each time someone comments on how I seem to have my act together, I explain this is because I take the time to define my “act” and then live it. Obviously, the process is ongoing, since rarely do we hold static goals forever. As we evolve, so do our dreams. The next time you find yourself counting your beans, my hope is you will include some reflection as to whether you are making your beans count as well.

Until next time, that’s my opinion.

Robert J. Cole, Jr. CLU, ChFC, CASL, CFP®  
President