

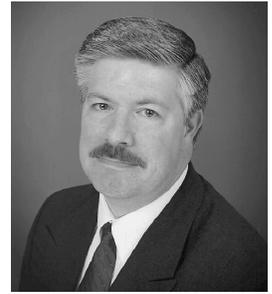
In This Issue...

Where Are All the Jobs Going?
How Much Will Social Security Replace?
A Look at the Trade Deficit
What's Your Inflation Rate?
Business Data
News and Announcements



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Financial Briefs

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Where Are All the Jobs Going?

Almost daily, it seems like there is another news item indicating that service jobs in the United States are being outsourced to other parts of the world. When manufacturing jobs were lost to overseas markets, it was painful for those who lost their jobs, but viewed as positive overall for the economy. The end result was lower prices for consumers, a more efficient economy, and a higher overall standard of living.

Of course, that did not take into account how painful that transition was for the workers who were displaced. One study over a 21-year period found that 17 million workers lost jobs in the manufacturing sector — 6.4 million due to high import competition. Approximately 21% of those workers were high school dropouts. About 70% of those workers found other jobs, but with approximately 13% lower wages. Almost 25% of those workers experienced earnings losses of 30% or more. Those who had the highest earnings losses were the older, less-educated, and lower-skilled production workers with the longest tenure at their jobs (Source: Federal Reserve Bank of Cleveland, January 15, 2005). While the overall economy benefited, many individuals found themselves worse off.

While imports were partially responsible for that shift, it was also seen as part of a broader shift from a manufacturing to a service economy. In fact, service occupations account

for almost 90% of employment now (Source: Federal Reserve Bank of Cleveland, January 15, 2005). It was generally thought that service jobs could not be outsourced to other countries. But with increasing reports of call centers, customer service areas, programmers, and other jobs going overseas, all jobs suddenly seem vulnerable.

How much risk are service jobs exposed to? Many of these jobs could not have been transplanted

without the advent of computers, the Internet, and global telecommunications networks, which integrated the United States more completely with other parts of the world. Computers have also made it easier to disseminate information needed to perform a job. For instance, customer service representatives in any country can find answers to common questions about a company's products, or telemarketers in any

Continued on page 3

How Much Will Social Security Replace?

When determining how much income you'll need after retirement, it is typically expressed as a percentage of your preretirement income. Thus, if you earn \$75,000 per year and estimate you'll need \$70,000 after retirement, you need 93% of your preretirement income. Rules of thumb estimating how much is needed range from 70% to over 100% of preretirement income. Since the amount needed is dependent on your lifestyle after retirement, you should thoroughly analyze your situation to decide how much you'll need.

Once you've calculated this amount, you should determine where that income will come from. Traditionally, there are four sources of retirement income — Social Security benefits, pension benefits, savings, and work income.

How much can you expect

Social Security benefits to contribute? One study found that the median replacement rate is 37% for men and 52% for women. Since men have higher earnings levels than women and the system is progressive, their replacement rates are lower. The overall replacement rate is 42%, but that number varies significantly depending on income level. Individuals with the lowest fifth of earnings had a 72% replacement rate, while those with the highest fifth of earnings had a 31% replacement rate. When couples are considered, the median replacement rate is 56% when one spouse did not work and 42% when both spouses worked (Source: Center for Retirement Research, November 2005).

To find your personal replacement rate, check your estimated benefits in your annual Social Security statement.

Continued on page 2

Social Security

Continued from page 1

Security Statement, which details three different benefit amounts — those at age 62, at full retirement age for Social Security purposes, and at age 70. Your annual benefits divided by your annual income equals your replacement rate. You might want to calculate the replacement rate for each of the three different benefit amounts. Then consider other sources of retirement income, including pension benefits and savings, to find out how close you are to the amount you'll need for retirement.

If your replacement rate is less than what you'll need, consider delaying your Social Security benefits. Most people start benefits before age 65, with 74% of men and 78% of women starting benefits before age 65 in 2003 (Source: Social Security Administration, 2005). Approximately 59% of women and 53% of men started benefits at age 62, even though delaying benefits permanently increases Social Security benefits.

Married couples should consider this option carefully. Since women are often younger and live longer than their husbands, they will receive benefits for a longer period of time, with the amount of those benefits often dependent on the age their husbands start benefits. When the husband is alive, the wife is entitled to the larger of 100% of her benefit based on her earnings or 50% of the husband's benefit at full retirement age. However, if the husband elects benefits before full retirement age, the wife's benefit will be reduced by a higher percentage than the husband's benefits were reduced. After the husband's death, the wife receives 100% of his benefit if she is over full retirement age. If not, the wife receives between 71.5% and 100% of the husband's benefit. Thus, the larger the husband's benefit, the larger the wife's benefit will be after his death.

Another study conducted by the Center for Retirement Research (Oc-

A Look at the Trade Deficit

A trade deficit occurs when a country imports more than it exports. Before 1980, the United States was a net exporter. The situation changed after that, with the United States incurring significant trade deficits in recent years. As of the end of 2005, the trade deficit was \$725.8 billion, up 17.5% from 2004 (Source: Associated Press Online, February 10, 2006). The trade deficit with China rose to \$201.6 billion, the highest deficit ever recorded with one country.

There is no consensus regarding the significance of this trend or whether it is helpful or harmful to the U.S. economy. On the plus side, cheaper foreign imports have helped keep prices, and thus inflation, lower. Our purchases of foreign goods may also have helped other nations avoid downturns in their economies.

On the negative side, imports are often considered a significant reason for the loss of nearly three million manufacturing jobs in this country. That loss has contributed to the wage inequality and depressed wages in this nation. It is also thought to have contributed to declining U.S. competitiveness in world markets.

One of the chief causes of the trade deficit is our low rate of savings, which has declined from over 8% of gross domestic product to less than 2% (Source: *Policy Review*, December 2004). Germany, which has a much higher saving rate as well as higher labor rates than the United States, consistently has trade surpluses.

Another factor is that U.S. companies have not historically emphasized exports as part of their

business. With a huge local market and most other countries an ocean away, companies didn't bother to develop export relationships. For instance, in 2004, foreign trade equaled 20% of U.S. GDP, compared to 50% in Europe and 300% in Singapore (Source: *Policy Review*, December 2004).

How is the trade deficit financed? Typically, foreigners are paid in U.S. dollars, which they use to purchase U.S. Treasury securities, stocks, or other assets. In fact, approximately half of all U.S. Treasury securities are owned by foreigners, with 43% of that amount owned by Japan and China. Because U.S. markets are so important to Japan and China, they have continued to support our currency to protect their export market. This may have prevented substantial exchange rate adjustments, keeping our exports more expensive in other countries and imports cheaper in our country.

Increasing trade deficits typically lead to increased investment in the United States, which in turn leads to a stronger economy. As long as foreigners continue to view the United States as a good place to invest, many feel the trade deficit is sustainable and is a sign of a healthy, growing economy. The danger is that those foreigners will get nervous about the increasing amount of debt owed to outsiders and will start to cash in those investments. That could lead to an increase in interest rates and a fall in the value of the dollar. At this point, that is not seen as an immediate threat, although it is considered a possibility longer term if these trends continue. ■■■

tober 2005) recommends that the husband delay Social Security benefits until at least age 66. For most couples, it was recommended that the husband start benefits at age 69, and the wife start benefits at age 62. When the couple is close in age and

earnings, benefits for the husband should start between ages 66 and 68.

Please call if you'd like help evaluating when you should start taking Social Security benefits. ■■■

Jobs Going?

Continued from page 1

country can read call scripts.

Estimates of the number of service jobs at risk for outsourcing to other countries vary. One widely quoted figure estimates that 3.3 million jobs will locate overseas (Source: *Economic Perspectives*, Second Quarter 2005). Another estimate indicates that up to 14 million jobs are vulnerable to offshoring, but that leaves 96 million jobs with a low risk of offshoring (Source: *Economic Review*, Third Quarter 2004). Actual loss of service jobs in the early 2000s is estimated at approximately 100,000 jobs a year, or less than .1% of total employment (Source: *Economic Review*, Third Quarter 2004).

The main reason that service jobs are being sent overseas is the lower labor costs in other countries, including lower costs for benefits such as health insurance and retirement benefits. Yet, U.S. workers tend to be more productive than their overseas counterparts, due to more advanced technology and large amounts of capital per worker.

Some service jobs will probably never be sent overseas, because the work must be performed near the customer. Examples would include a hair stylist or doctor. But not all jobs in a sector will be secure. For instance, doctors typically need to be close to their patients, but x-rays are now routinely screened by radiologists in India. The following job characteristics are more likely to result in offshoring a job:

- **Labor-intensive** — Because labor costs are much higher in the United States, jobs where labor is a high percentage of production costs are more susceptible to being sent overseas.
- **Information-based** — Jobs such as customer service or billing and accounting, where information can be centralized and made

What's Your Inflation Rate?

For the past 10 years, inflation, as measured by the consumer price index (CPI), rose an average of 2.5% annually (Source: Bureau of Labor Statistics, 2006). However, the CPI rose 3.4% in 2005 and 3.3% in 2004. And for the year ended May 2006, the CPI rose 4.3%. While the difference between 2.5% and 4.3% inflation may not seem like much, it can have a substantial impact on your purchasing power over long time periods.

It's also important to understand that the CPI measures the average change in prices paid by urban consumers for a fixed basket of goods and services. The weights assigned to the various categories in that basket are based on estimates of how much the average family spends on each category. Thus, your personal inflation rate may be

substantially higher or lower than the national average.

For example, the CPI increased 4.3% for the year ended May 2006, while gasoline increased 33.2%. Thus, if you drove more than the average family, gasoline's 33.2% inflation rate could have made your personal inflation rate substantially higher than the national average.

You may also be impacted by regional differences. The CPI measures average price changes across the country. Different parts of the country may experience higher or lower inflation for certain categories of expenditures.

The table below shows how the national average is calculated for the year ended May 2006 and can be used to estimate your personal inflation rate. ■■■

| Category | National Weighting A | Inflation for that category B | National average A*B | Personal weighting C | Personal inflation rate B*C |
|-----------------------------|-------------------------|----------------------------------|-------------------------|-------------------------|--------------------------------|
| Food and beverages | 16.5 | 1.8 | .3 | _____ | _____ |
| Housing | 40.2 | 4.1 | 1.6 | _____ | _____ |
| Apparel | 4.1 | 0.0 | .0 | _____ | _____ |
| Transportation | 19.7 | 9.8 | 1.9 | _____ | _____ |
| Medical care | 5.2 | 4.1 | .2 | _____ | _____ |
| Recreation | 5.1 | 1.4 | .1 | _____ | _____ |
| Education and communication | 5.6 | 2.2 | .1 | _____ | _____ |
| Other goods and services | 3.6 | 2.6 | .1 | _____ | _____ |
| Total | 100.0 | | 4.3 | _____ | _____ |

available to all workers, are easier to send overseas.

- **Codifiable** — Jobs that can be reduced to a set of rules or guidelines are easier to send overseas.

Once a job goes overseas, the displaced worker is unlikely to be called back to the company to perform a similar job. Typically, displaced workers must then find work in a different occupation or different location. This can lead to longer un-

employment periods and long-term income losses.

But if the experience of displaced manufacturing workers is any indication, it will be the displaced service workers with the highest levels of education and skills who will more readily adapt to these changes. If education is important in our economy now, it is bound to become even more important in the future. ■■■

Business Data

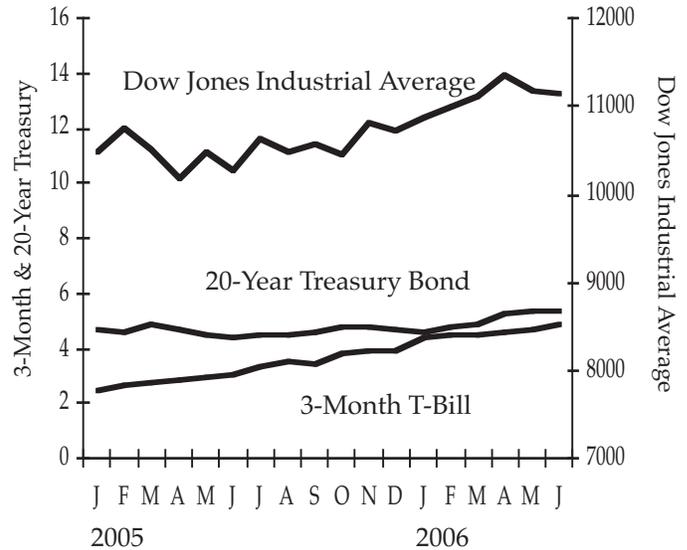


| Indicator | Month-end | | | | |
|-------------------------|-----------|--------|--------|--------|--------|
| | Apr-06 | May-06 | Jun-06 | Dec-05 | Jun-05 |
| Prime rate | 7.75 | 8.00 | 8.25 | 7.25 | 6.25 |
| 3-month T-bill yield | 4.64 | 4.72 | 4.91 | 3.91 | 3.08 |
| 10-year T-note yield | 5.02 | 5.11 | 5.18 | 4.45 | 4.10 |
| 20-year T-bond yield | 5.26 | 5.36 | 5.35 | 4.71 | 4.46 |
| Dow Jones Corp. | 5.95 | 6.03 | 6.27 | 5.30 | 4.92 |
| GDP (adj. annual rate)# | +4.10 | +1.70 | +5.60 | +1.70 | +3.80 |

| Indicator | Month-end | | | % Change | |
|-------------------------|-----------|----------|----------|----------|--------|
| | Apr-06 | May-06 | Jun-06 | YTD | 12-Mon |
| Dow Jones Industrials | 11367.14 | 11168.31 | 11150.22 | 4.0% | 8.5% |
| Standard & Poor's 500 | 1310.61 | 1270.09 | 1270.20 | 1.8% | 6.6% |
| Nasdaq Composite | 2322.57 | 2178.88 | 2172.09 | -1.5% | 5.6% |
| Gold | 644.00 | 653.00 | 613.50 | 18.9% | 40.4% |
| Money supply M2 (bil.)@ | 6778.50 | 6799.00 | 6796.60 | 1.7% | 4.5% |
| Consumer price index@ | 199.80 | 201.50 | 202.50 | 2.9% | 4.1% |
| Index of leading ind.@ | 138.40 | 138.90 | 137.90 | -0.4% | 0.1% |

— 3rd, 4th, 1st quarter @ — Mar, Apr, May
Sources: Barron's, Wall Street Journal

18-Month Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield January 2005 to June 2006



News and Announcements

Help Your Friends

We have worked together to create a financial strategy and investment portfolio that has put you on the path toward your investment goals and objectives. During this time, I am sure you realize the importance of professional financial advice when it comes to understanding different types of investments, asset allocation, and how the economic and political environment relates to your financial situation.

I enjoy helping to guide you through this complicated maze of financial information, and I value the faith and trust you place in me. My goal is to ensure you are pleased with the

work I do for you.

I also hope you will be so satisfied with my work that you will want your friends and relatives to benefit from my services as you have. So, if you have friends or relatives who you think could benefit from my services, please tell me about them. Please be assured that I will treat your referrals with the same degree of confidentiality and respect that you are accustomed to. I value you as a client and thank you for giving me the opportunity to help others to achieve their financial goals.

Rick

