

# financial LIFE Planning®

## A SEA OF CHANGE

As we review life in the 21st century, we realize that demographic, economic, workforce, and societal trends are driving a fundamental shift in the way that individuals view and prepare for retirement. Five factors in particular are shaping the realities of the “new retirement”:

### 1. Increasing longevity

Life expectancy has increased dramatically since the early 1900's. Not only are pre-retirees questioning how they will fund a period of retirement that could span one-third of their lives, they are also wondering how they will spend their time.

### 2. Accelerating need for self-reliance

The slogan for everyone preparing for retirement should be, “If it is to be, it's up to me.” Building financial security for the future has become more and more the responsibility of the individual.

### 3. Growing interest in active lifestyles

Increasingly, those looking ahead to retirement expect this stage of life to be a time for new endeavors. The results of several studies indicate that individuals anticipating retirement are more likely than previous generations to view retirement as an opportunity to start a new career and pursue meaningful activities.

### 4. Expanding interest in post-retirement work

The concept of retirement can no longer be equated with a permanent exit from the workforce. The vast majority of Baby Boomers plan to stretch out their working lives, moving in and out of new and varied careers. Their top reasons for working include a need for additional income, desire to keep active, and the need to fill time and feel productive.

**Five factors in particular are shaping the realities of the “new retirement.”**

### 5. Broadening view of retirement planning that looks beyond financial issues

Individuals and retirement planning professionals are increasingly recognizing that a successful and satisfying retirement experience depends on more than a healthy nest egg. Instead, retirement should be thought of as a major life transition that deserves planning and preparation in all areas of life.

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## ALBERT BANDURA & SELF-EFFICACY

Albert Bandura, Ph.D. is regarded as one of the most eminent psychologists of our time. Bandura started his career in 1953 and still maintains an active schedule of teaching and research at Stanford University. On the occasion of his 80th birthday, he wrote:

*"As I reflect on my journey to this octogenarian milepost, I am reminded of the saying that it is not the miles traveled but the amount of tread remaining that is important. When I last checked, I still have too much tread left to gear down or to conclude this engaging Odyssey."*

### Role of Self-Efficacy

One of Bandura's greatest contributions to the field of psychology has been his study of **self-efficacy**, "people's beliefs about their capabilities to produce designated levels of performance that exercise influence over events that affect their lives." In fact, Bandura's research demonstrated that self-efficacy is the most powerful determinant of an individual's thoughts, feelings, behaviors, and accomplishments.

For example, Bandura found that people with a strong sense of their capabilities 1) view difficult tasks as challenges to be mastered; 2) develop a deep interest in their activities; 3) set challenging goals and maintain a strong commitment to them, and 4) recover quickly from setbacks and disappointments.

In contrast, individuals with a weak sense of self-efficacy 1) view difficult tasks as threats to be avoided; 2) quickly lose confidence and dwell on personal deficiencies and other obstacles to achieving desired

results; 3) have low aspirations and weak commitment to goals, and 4) are slow to recover from setbacks and disappointments.

**In fact, Bandura's research demonstrated that self-efficacy is the most powerful determinant of an individual's thoughts, feelings, behaviors, and accomplishments.**

### Sources of Self-Efficacy

Because Bandura's research has proven that self-efficacy is a key ingredient to personal success and well-being, it is

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**William T. Morrissey, CFP®**  
wtmorrissey@soundfinancialplanning.net

**Tammera L. Prouty, CFP®**  
tammy@soundfinancialplanning.net  
www.soundfinancialplanning.net

321 W. Washington St., Suite 329  
Mt. Vernon, WA 98273  
Phone: 360-336-6527

P.O. Box 1610  
650 Mullis St., Suite 101  
Friday Harbor, WA 98250  
Phone: 360-378-3022

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## SELF-EFFICACY

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extremely important to understand how self-efficacy is developed. According to Bandura, there are four major sources of self-efficacy:

### 1. Experiencing Success

The most effective way of creating a strong sense of efficacy is through performing a task successfully. Bandura wrote, "Successes build a robust belief in one's personal efficacy."

### 2. Choosing Role Models

Witnessing other people successfully completing a task is another important source of self-efficacy. According to Bandura, "Through their behavior and expressed ways of thinking, competent models transmit knowledge and teach observers effective skills and strategies for managing environmental demands."

### 3. Responding to Encouragement

Bandura also asserted that people can be persuaded to believe that they have the skills and capabilities to succeed. Hearing and accepting verbal encouragement from others helps individuals overcome self-doubt and to focus instead on giving their best effort to overcoming challenges and achieving their goals.

### 4. Managing Physical & Emotional Responses

Moods, emotional states, physical reactions, and stress levels can all impact how a person feels about their personal abilities in a particular situation. By learning how to minimize stress and elevate mood when facing difficult or challenging tasks, people can improve their sense of self-efficacy.

**Sources:** Bandura, Albert (1994). "Self Efficacy" in *Encyclopedia of Human Behavior*, New York: Academic Press; Pajares, F. (2004). *Albert Bandura: Biographical Sketch*. Retrieved February 11, 2008 from <http://des.emory.edu/mfp/bandurabio.html>.

## ALBERT BANDURA NOTABLE QUOTES

*"The content of most textbooks is perishable, but the tools of self-directedness serve one well over time."*

*"People who believe they have the power to exercise some measure of control over their lives are healthier, more effective and more successful than those who lack faith in their ability to effect changes in their lives."*

*"We are more heavily invested in the theories of failure than we are in the theories of success."*

*"Even the self-assured will raise their perceived self-efficacy if models teach them better ways of doing things."*

*"People not only gain understanding through reflection, they evaluate and alter their own thinking."*

*"The growth of self-efficacy does not end during youth, but continues to evolve throughout life as people acquire new skills, experiences, and understanding."*



## YOUR JOURNEY TO FINANCIAL FREEDOM

Your journey to financial freedom can seem daunting. But remember, you don't need to be a financial expert. All you need is a solid foundation of basic financial education in order to make wise financial decisions and work effectively with your financial advisors. To steady your course, here are eight basic principles of investing that you should know:

### **1. There is no single perfect investment**

When investing, it is necessary to weigh the advantages and disadvantages of each investment type and to select the investment options that most closely fit your circumstances and personal goals.

### **2. Risk and reward are proportional**

It is important for investors to understand the risk/reward ratio of the investments they currently own and considering to purchase. Generally, the greater the potential reward of an investment, the higher the risk associated with it. Different investment vehicles carry different levels of risk.

### **3. Minimize risk and maximize reward**

Diversification is based on the knowledge that different categories of investments respond differently to the same economic conditions. A strategy for managing risk and boosting returns is to diversify investments across industry and investment types. Asset allocation is an important component of diversification. It involves deciding what percent of your total investment portfolio should be allocated in each of the investment categories.

### **4. Compounding interest is powerful**

Compound interest is growth through multiplication. Interest or earnings deposited back into an investment on a regular basis will increase the size of the asset and its ability to generate still more earnings in the future. According to Jane Bryant Quinn, nationally syndicated financial columnist, "Compounding is a true perpetual money machine."

### **5. Pay yourself first**

One technique to help individuals spend less and save more is the "pay yourself first" method. That means that with every paycheck and before any expenditures are made, a predetermined amount or percentage is transferred to personal savings. This assures that saving takes priority and occurs on a regular basis.

### **6. Practice dollar cost averaging**

Dollar cost averaging is investing a fixed amount of money at regular intervals (usually monthly). With this method you will sometimes be buying when prices are high and sometimes you will be buying when prices are low. Over the long-term, your average cost will likely be lower and your return higher than if you tried to time individual purchases to market swings.

### **7. Avoid market timing**

Market timing is an investment strategy that involves trying to outguess market movements. Essentially it means buying before the market goes up and selling before the market goes down. This strategy rarely outperforms the investor who buys and holds.

### **8. Maximize tax favored retirement plans**

Your best investment "bargains" are tax favored retirement plans. They offer two types of tax advantage: tax deferral and tax deductible. Tax deferral means that taxes are not paid on investment earnings until withdrawal of funds. Tax deductible means that contributions made to a tax favored retirement plan are excluded from your reported income and are thus free from federal and state income taxes. Keep in mind that eligibility requirements vary for these plans and the "tax breaks" they offer.

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