The
FINANCIAL UPDATE

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FEE-ONLY FINANCIAL PLANNING

First Quarter 2009 NAPFA - Registered Financial Advisor (478) 474-7480

Five Smart IRA Ideas For Pre-Retirees

Nobody has to tell you how crucial it is to save for retirement. You may have a healthy balance in your 401(k) or other plan at work, and likely have money in one or more individual retirement accounts. But that doesn't mean you're set up for a comfortable retirement.

There's still plenty you can and should do now to help feather your nest egg, and your IRAs, in particular, may need attention. Here are five good ideas to consider well before you retire.

1. Figure out how far your IRAs will have to go. If you'll need your IRAs to cover only a small percentage of your retirement needs, you may handle the assets differently than if they'll play a major role. Start by determining what you'll likely spend during retirement, and try not to depend on rules of thumb, such as the notion that you'll need about 70% to 80% of pre-retirement income. Instead, add up what your actual expenses are likely to be, and be certain to include a generous allowance for health care costs. Then, total up your other sources of income, from a company pension, an inheritance, Social Security, and the like. Subtract that number from your total requirement to see what you'll need your IRA to contribute. Keep in mind that IRA dollars differ from Roth IRAs and nonretirement accounts because your distributions will be taxed as regular income.

2. Review your asset allocation. Asset allocation within IRAs should be reviewed in conjunction with all your other accounts to ensure a tax-efficient portfolio is constructed and maintained. Broad diversification helps provide steadier returns, with winning investment classes making up for others that may be lagging. But beyond holding several kinds of assets—a variety of domestic and international stocks, several kinds of bonds, and cash—you need to consider what allocation fits your goals and tolerance for investment risk. Recent markets have been turbulent, and that may help you understand how much risk you're willing to take. If you view the recent downturn as part of a normal market cycle, you may feel comfortable holding mostly stocks in your portfolio, particularly if retirement is still a decade or more away and you need maximum returns to meet your goal. In any case, you'll likely want to move to a mix that's less aggressive as your retirement date approaches.

3. Consider a Roth IRA conversion. A Roth IRA has two big advantages over a traditional IRA. Distributions from a Roth during retirement aren't taxed, and if you don't need the money and prefer to leave it to your heirs, the government won't force you to make withdrawals. To gain those benefits, though, you have to pay

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Market Trend Allocation™

We have developed a process of allocating portfolio investments which we call Market Trend Allocation™. We use it to allocate portfolio investments based on their risk relative to changing market conditions.

By using selected market trend indicators, we can identify the beginning or end of major market cycles according to asset class. We are looking for trends that last several months or years, not short-term daily or weekly trends. When it benefits our clients, we can use this knowledge to adjust the percentage weighting in our asset allocation.

These adjustments will not be frequent, as we are not responding to daily or weekly trends. For example, using this methodology, there would have been only four allocation shifts in the real estate asset class over the last 10 years. In the US large cap asset class, there were three shifts in the same time period. This process can also be used for the other equity asset classes.

Market Trend Allocation™ offers our clients a means of risk management that is more proactive than a buy, hold and rebalance strategy. We welcome any questions you may have about the process.

John R Day Bill Ennis

Trust A Fiduciary To Act In Your Best Interest

You may have heard of the term "fiduciary," but do you understand what it means for your finances? Is there really a difference between a fiduciary and a non-fiduciary advisor? You betcha. And that difference is you.

A fiduciary has a legal obligation to act in your best interests, above his own and those of his firm. While many industry associations have certain fiduciary recommendations or oaths that they require of their members, all fiduciaries must adhere to these principles of the advisor-client relationship:

1. Be competent and exercise due care
2. Loyalty to the client
3. Full and adequate disclosure

Today, Registered Investment Advisors (RIAs) commit to a fiduciary responsibility and have to state it in writing. Commission-only reps, on the other hand, are merely in the business of making financial transactions—like helping you to buy mutual funds or annuities. They have no obligation to choose the investments that work best for you, and, naturally, may steer you towards suitable, but not the most ideal, investments that give them greater commissions.

Hybrid advisors—those who work on both commissions and fees—have a more opaque situation. They can charge you rates for providing advice, but then can also receive commissions for selling you certain investments. By receiving commissions, the objectivity of their recommendations becomes uncertain.

With a fiduciary advisor, the clients' needs must come first. If there are any conflicts of interest, they must be fully disclosed. A fiduciary advisor carefully assesses your financial situation and recommends a diversified portfolio that serves your financial goals. The fiduciary advisor will start with what you want to achieve—from paying your children's college costs or buying a second home to funding your retirement—and considers how long you have to get there. They probe your comfort level with investment risk then design a mix of investments most likely to move you toward your objectives. They also analyze your need for insurance and assesses the impact of taxes.

A 2007 federal court ruling helped clarify the distinction between financial planners and advisors and non-fiduciary fee-based advisors affiliated with broker/dealers. The court ruling ended an exemption from the Investment Advisors Act of 1940 that had allowed broker/dealer-affiliated advisors to charge fees and call themselves financial planners and investment advisors while not being held to a fiduciary standard of conduct.

When dealing with our firm, you don't have to worry about conflicts of interest related to selling products. We have a legal obligation and a professional oath to put your interests first, and you can trust that we will strive to go above and beyond that obligation. ●

Creating A Comfortable Financial Independence Plan

Everyone needs a financial blueprint for life after work. Operating without one is a little like closing your eyes as you barrel down the freeway. It's essential to know where you're going and how you expect to get there. But a financial independence plan will help you achieve your goals only if you incorporate it into your financial life, and that won't happen unless the plan feels comfortable. And that comes from understanding its component parts and how they're connected. Consider these elements:

Cash flow analysis. Your plan needs to project where your money will come from and where it will go during the rest of your life (and your spouse's life, too, if you're married). What will come in during retirement, from Social Security, a company pension, annuities, and from drawing down your savings? And how will that match the needs of the lifestyle you want? Several unpredictable variables complicate these calculations. Inflation affects how far your money goes, and investment returns, based in turn on economic and market cycles and your choices, determine how much you have to spend. Taxes will also play a role.

Investment choices. Three factors affect what should be in your investment portfolio. Your goals: What kind of return do you need, both while you're working and during retirement, to support your lifestyle? Your risk tolerance: How much volatility in portfolio returns are you willing to accept to meet your goals? And your time horizon: How long do you have to save for retirement, what is your tax bracket, and how many years do you need your savings to last?

Contingency plans. Job losses, expensive illnesses, or the

Ruling Cites Business Owner Responsibility To 401(k) Plan

Memo from the U.S. Supreme Court to business owners: Be sure your 401(k) plan operates efficiently and in participants' best interests, or suffer the consequences. In LaRue v. DeWolff, Boberg & Associates, the court ruled that plan participant James LaRue could sue the plan administrator for breach of fiduciary duty after he lost about $150,000 when the plan didn't carry out investment instructions for his account in the 401(k) plan.

Before this case, a plan couldn't be held liable unless losses affected a large number of plan participants. Now, even though the ruling requires LaRue to show misconduct on the part of the plan administrator—and does not specifically involve investment advice or results—an individual can sue, and this ruling could lead to an explosion in lawsuits from disappointed employees.

To protect your business, the first step is to accept responsibility for your retirement plan. That doesn't mean you must handle all aspects of the plan yourself. You can still hire a plan administrator, and you may need a consultant to oversee the administrator. But as the owner of the business, it's ultimately your job to make sure the plan operates as it should for your employees. And that means educating yourself about 401(k) plans and investments, and about arrangements with outside businesses to help run your plan.

Here are several of your most important responsibilities:

Don't dawdle. You must submit employee and employer plan contributions within seven business days of deducting the contributions from your employees' salaries. Holding 401(k) funds too long could hurt the performance of employees' investments and increases the potential for fraud in the eyes of the U.S. Department of Labor. To safely manage your fiduciary responsibility, it is good practice to submit employee 401(k) contributions simultaneously with your withheld payroll taxes.

Have a clear policy. Your investment advisor for the plan needs to create an investment policy statement that fits the demographics of your work force. In other words, the investments in your plan should make sense for the people working for you.

Enforce transparency. Require your plan's investment advisors to reveal all revenue they receive for making plan recommendations. This may include revenue-sharing arrangements and 12b-1 fees.

Be compliant. Section 404(c) of the Employee Retirement Income Security Act of 1974 (ERISA) spells out requirements for compliance (and some immunity from employee lawsuits): offer at least three diversified investment options with different risk and return characteristics; let participants transfer assets among the options; provide enough information to help participants make educated investment decisions; and produce statements no less frequently than quarterly. Going beyond these minimum requirements will further protect you. Rather than offering three investment options, try to offer 10 or more, diversified by both investment category and fund company.

Ensure insurance. Make sure your plan advisor and other consultants have the proper type and amount of insurance to handle potential losses.

Keep an eye on results. Monitor how the investments in your 401(k) are performing compared to an appropriate benchmark. Sit down with an outside advisor to review, and make this information available to plan participants.

Help your workers. Hire an expert to advise your employees upon setup of the plan and at least once a year to minimize potential investment mistakes.

Remain at the wheel. Don't allow your 401(k) plan to run on automatic pilot. Keep checking to make sure all consultants are doing their jobs.

Administration. Every two or three years, review the services provided by the plan administrator to insure they are keeping up with changes in the industry. ●

Creating an Investment Policy Statement

An investment policy statement establishes clear guidelines for your plan and can provide protection against liability if followed consistently. These tips can help.

- **Avoid boilerplate.** A fill-in-the-blanks investment policy statement will never be as good as a document customized for your business and employees.
- **Define roles.** Identify everyone who will make decisions affecting the plan and clarify what each party will do.
- **Establish investment goals and criteria.** Set out plan goals and specify detailed guidelines for choosing investment managers.
- **Choose appropriate investments.** Factors such as the average age, education, years on the job, and financial sophistication of plan participants all may affect the investment options that the policy statement specifies.

unexpected death of you or your spouse could put your plan off track. There could also be unforeseen expenses involving your children or parents, and the need for nursing home care during retirement could quickly drain your savings. Having a cash cushion along with life, disability, and long-term care insurance can prepare you to handle potential setbacks. Not planning for lifestyle changes is a major mistake and will put your financial future in jeopardy.

Estate planning. This is crucial even if estate taxes aren't likely to be an issue. You need a will, periodically updated, and a letter of instruction that tells heirs where to find information about financial accounts, life insurance, safe deposit boxes, and the like. It's also important to designate beneficiaries for 401(k)s, IRAs, and other financial accounts that reflect your wishes and take into account potential tax liability.

It can be complicated to weave together all of these elements. But we have the tools, expertise, and experience to help you create a financial plan that feels comfortable. ●

To Consolidate Your IRAs Or Not To Consolidate

Although this dilemma isn't as life altering as Hamlet's, it could still have a significant impact on your financial affairs. Here are several reasons to consider one path or the other.

When not to consolidate. While it's generally possible to consolidate multiple traditional or Roth IRAs—that is, merging traditional IRAs with other traditional IRAs, or Roths with other Roths—you can't put a traditional IRA with a Roth, and you can't join an IRA with employer retirement plans such as 401(k)s or 403(b)s.

One reason not to consolidate accounts is that it may mean forfeiting favorable tax treatment. For example, although the law was recently revised to permit a non-spouse to roll over inherited retirement plan assets, those funds must remain in a separate inherited IRA. (You can, however, merge an IRA left by your spouse into your own account.) Or you may have assets in a "conduit IRA," a special kind of account that holds money from a previous employer's retirement plan until you can move it to a plan at your new job. To preserve the advantages of a 401(k) or 403(b)—for example, being able to tap the account at age 55 if you retire early, or getting better tax treatment for company stock—you must avoid mixing a conduit IRA with other accounts.

You may also not want to consolidate if the IRAs have been separated to accomplish specific planning goals involving beneficiary designations or to set up specific streams of income.

When to consolidate. If none of those reasons apply, bringing together two or more accounts may provide several benefits. Almost all of the advantages involve the fact that it's much easier to manage one account than to keep track of several. Consider the following:

- Making changes in your investment strategy—say, moving to a more conservative mix of assets as you approach retirement—is significantly more complex and time-consuming if it involves several accounts.
- If you have many accounts, you may tend to ignore those that are small or aren't performing well.
- If your IRAs are at several institutions, each one may charge you an annual maintenance fee. You'll also have more paperwork, with multiple monthly statements and end-of-year tax forms.
- When it's time to begin distributions from a traditional IRA—the year after you turn 70½—the amount of the required withdrawal is based on the total value of all IRAs. Neglect to include one in your calculations and you'll face punishing tax penalties. (Exemption: The rule for taking required distributions is temporarily waived for the 2009 tax year.)
- Before consolidating IRAs, consider rolling over your 401(k) plan to an IRA so that you can "stretch" the IRA over a beneficiary's life expectancy. If a 401(k) participant dies before doing this, beneficiaries are generally required to take a full distribution and pay income taxes on it within five years.

We can help you decide if you should consolidate your IRAs and consider how those assets fit into your overall financial plan. ●

Five Smart IRA Ideas

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income tax on the money going into the plan. But if your account balance is reeling from recent losses, you have an opportunity to convert your holdings at a depressed rate and later recover those losses on a tax-free basis within a Roth IRA. Through 2009, a conversion is possible only if your adjusted gross income is $100,000 or less. But starting the following year, anyone will be eligible to convert to a Roth IRA, and if you make a conversion in 2010, you can spread out your tax liability over two years.

4. Check your beneficiary designations. This may seem like a minor issue, but it couldn't be more crucial. Even if you have an up-to-date will reflecting how you'd like your possessions distributed after your death, it won't trump the designations on your retirement accounts. So if an old IRA calls for your ex-spouse to inherit it, for example, that's what will happen. If you have several accounts, it's easy to lose track of all the provisions you've made, and you could have made mistakes in the paperwork. A careful review to assure that the designations for each individual account correspond to your overall beneficiary goals can help avoid problems when you're no longer around to fix them.

5. Get help with the whole process. When you were young, with much smaller account balances and decades until retirement, it may have made sense to call the investment shots for your IRAs. But now there's much more at stake. With the clock ticking, you need to be confident that you're making all the right moves, saving an adequate amount, and investing your assets in a way that gives you the best chance of meeting your goals. Working with a professional can give you confidence that you're on track to a satisfying life after work. Please give us a call if you'd like to discuss where you stand and what you'd like to achieve. ●

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