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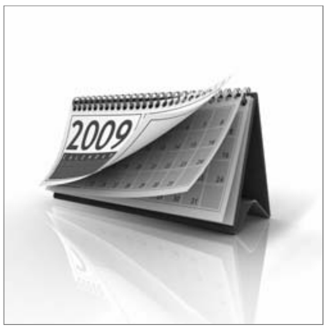
Now's A Good Time To Reassess Your Finances

With so much going on in our lives, it's easy to put things off for another day. But getting your finances in order isn't something you should delay, especially given the recent turmoil in the economy.

If this goal seems daunting, it may help to break it down into smaller, more manageable tasks. The important thing is to get started on it now.



Organize your finances. Most people lose control of their finances because they don't have a clear system for managing them. You'll feel much better and save time and money if you resolve to sort and file paperwork quickly and set reminders so important deadlines don't sneak up on you. Online banking and bill-paying may also help.

Pay off high-interest and variable-rate debt. With real investment returns on the low side, it hardly makes sense to pay double-digit interest on credit cards or other debt. Look for ways to consolidate any outstanding debt at still-low fixed rates.

Max out tax-sheltered savings. Contribution ceilings for 401(k)s, IRAs, profit sharing, and other tax-deferred retirement savings plans have risen. Meanwhile, catch-up provisions if you're 50 or older may let you save more. Push your savings up to the new levels allowed. Meanwhile, if you have retirement savings sitting in a former employer's plan, consider rolling them into an IRA, especially if you'll give yourself better investment options.

Sort out college savings strategies. In particular, focus on the benefits of state-sponsored 529 college savings plans. Generally, 529s are a good deal, offering tax-free savings and distributions for educational expenses. And that first tuition bill is coming sooner than you could ever imagine.

Review your retirement plan. Make this an annual ritual. Be sure your plan reflects your latest goals and can handle unwelcome surprises. What if the pension you're counting on fails to materialize? What if Social Security goes away? What if you skip a year's saving to pay for your daughter's wedding? You get the idea.

Check your portfolio. In both up and down markets, maintaining a diversified investment mix can help keep you moving toward your goals. Schedule an annual check-up with your advisor to make sure your investment plan still fits your objectives, and don't forget regular rebalancing so allocations don't stray from their targets.

Consider global investing opportunities. Profitable investments may lay beyond our shores. And there are many low-cost options for entering these markets. Foreign investing does involve special risks, including currency and political risk, but it will allow you to broaden your holdings beyond the U.S.

Update your will. It's your most

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Don't Be Confused By Wall Street's Advertising Blitz

Independent firms like ours don't spend money on TV advertising. And that's a shame because consumers deserve to know the difference between those giant Wall Street firms and our business.

The Wall Street giants, stung by scandals for giving advice that was tainted by self interest, have in the last couple of years launched ad campaigns selling their advice and saying they work on a fee-basis free of conflicts of interest. They are doing this because small firms like ours have had growing success in recent years by offering investment advice on a fee basis and acting as fiduciaries.

Whether or not the titanic Wall Street companies that were prosecuted just a few years ago for giving conflicted advice have completely changed their ways is a dubious proposition.

Our firm is a Registered Investment Advisor. By law, we must disclose all conflicts of interest and act in your best interest. Because we are a small firm, we can offer you personal advice and a personal relationship. We can tailor solutions to your needs. We have no hidden agenda, no gimmicks, and no TV ads.

So don't be confused by Wall Street's advertising blitz as firms try to repair their bad reputations. When it comes to personal financial planning, an independent fiduciary is the real gold standard.

Colleen & Rob

College Savings Help Admission Chances

If you need a little extra motivation to set aside college savings each month, consider this: With a volatile stock market taking a bite out of college endowments, financial aid budgets are shrinking and assistance will be harder to come by. Worse, many colleges are choosing not to admit students who need aid.

Today, relatively few schools have the financial wherewithal to disregard a student's ability to pay when making admissions decisions. According to Donald E. Heller, an associate professor and senior research associate at Pennsylvania State University, only about three dozen colleges and universities now commit themselves to meet every admitted student's need. "So it's safe to conclude that all other institutions, to one extent or another, take financial need into account when deciding which students to admit," says Heller.

Will your children be affected? It depends on the strength of their credentials, Heller says. Most top candidates will be accepted regardless of need, and may even be awarded merit scholarships. But other students may be judged in part on the basis of how much they will cost the school. "When admissions staffs get down to those last pools of applicants, very often they will not admit students who need financial aid if they know the school can't meet that need," says Heller. "At that point, candidates who can pay their own way have an advantage."

That's not the way things generally worked during the 1970s and early 1980s, when most colleges at least aspired to need-blind admissions policies. By the mid-'80s, however, most admissions offices had adopted a more pragmatic business model often referred to as enrollment management. The bottom line for the admissions staff was simple: Fill the class but don't exceed the financial aid budget.

Today, enrollment management is firmly entrenched at most schools. Moreover, with economics affecting alumni giving and pressure being put on endowment earnings, a student's financial situation plays an increasingly critical role in the admissions process. As a result, strategies for maximizing a student's apparent need by putting assets in parents' names and taking advantage of aid formulas that require students to spend a larger proportion of their own savings could have undesirable consequences. And not saving for college at all, while counting on financial aid to bear the brunt of school costs, could prevent your children from getting into the colleges of their choice.

The safest approach to college funding is to plan to pay as much as possible yourself. Positioning your assets to qualify for financial aid or counting on the availability of loans could backfire with the admissions office and your kids. ●

When Market Noise Gets Loud, Trust An IPS

The stock market often acts like a roller coaster with highs and lows during the year. When things are looking up, making money looks easy, worries about risk seem remote, and having a written investment policy statement (IPS) may feel like a waste of time and paper. When the market is in the dumps, the natural reaction is to sell, even though we all know the importance of "buying low." In both instances, an IPS will be your ally.

An investment policy statement commits to writing the details of your financial situation—what you want to accomplish, a plan for achieving it, and how much risk you're willing to take to get there. It can save you from your own worst instincts, helping you resist the temptation to reach too far when times are good or panic when the market plunges.

Suppose, hypothetically, that the Nasdaq Composite just had a great run, skyrocketing 15% in the most recent quarter. With your portfolio ahead just 5% during the period, you might feel frustrated, and tempted to grab some of Nasdaq's big gainers to try to catch up. A glance at your IPS, however, would remind you why that's a bad idea. The diversification strategy you've committed to is designed to keep your portfolio on a relatively even keel, with judicious allocations to bonds and dividend-paying blue chip stocks. It has the potential to produce steady gains over the long haul to fund your financial goals. And though it may not take off during a market surge, it's also less likely to go into free fall when the investment climate gets stormy.

While there's no hard-and-fast format for an investment policy statement, most combine the same basic components. First, there's usually an executive summary that lays out where you are now in your

A Little Bond Logic Yields Insights

In recent months the Federal Reserve has been cutting down interest rates to near zero in an attempt to help jump-start the economy. But what goes down must come up, so you can expect this trend will eventually be reversed and interest rates will begin to climb again.

If you're wondering how these developments affect bonds you already own, it's a good question. Even experienced investors can find it a challenge to grasp how bond markets really work. However, there is logic behind the ups and downs.

Bond Basics. Put simply, a bond is an IOU. Governments and businesses issue bonds to raise cash for various purposes. The markets use several descriptors to identify a bond: the issuer's name, the bond's face (or par) value, the rate of interest paid to the bondholder, and the maturity date (on which the issuer repays the principal). Because bonds trade on the open market, their prices fluctuate—and that is where things can get complicated.

How Interest Rates Affect Bond Prices. While many factors may push the price of a bond above or below its face value, perhaps the most direct impact comes from changes in interest rates. As interest rates rise—or threaten to rise—bond prices tend to fall, and vice versa.

Imagine you own a bond that pays 5% interest. After a Federal Reserve rate hike, newly-issued bonds offer a 6% rate. To someone in the market for bonds, the new rate seems much better. Lower demand for the 5% bond translates into lower prices. Conversely, if the prevailing rate falls to 4%, your bond suddenly becomes more attractive, and should command a higher price. (Note, these figures are hypothetical.)

Price vs. Yield. However, markets generally refer to bond values not by price, but by yield—the annual interest divided by the current price. If your 5% bond has a face value of $10,000, you receive $500 a year in interest. If the bond sells "at par"—the face value—the yield would be 5% ($500 divided by $10,000). But if the bond's price dips to $8,000, the yield would be 6.25% ($500 divided by $8,000).

Therefore, as price falls, yield rises, and vice versa. Think of it this way: if you buy a $10,000 bond at $8,000, your investment will "yield" more, in the form of interest payments that, in percentage terms, reflect a better return on your investment. (That's known as current yield. Another measure, yield to maturity, gauges the total return you would receive by holding the bond to maturity.)

So, once again:

- As interest rates rise—or threaten to rise—bond prices tend to fall, and vice versa.
- As prices fall, yields rise, and vice versa.

That means:

- As interest rates rise—or threaten to rise—bond yields tend to rise, and vice versa.

These movements bring the yields of existing bonds into line with those of new issues.

Exploring the Yield Curve. To understand this concept, start with the fact that long-term bonds tend to have higher yields than short- or intermediate-term bonds. That's because long-term bonds carry more risk—more can happen to affect the price during the longer term of the bond—and investors expect a higher yield for that extra risk.

The yield curve plots the current yields of bonds of various maturities on a graph. A normal curve shows a rise in yields as terms get longer. With a steep curve, long-term yields are substantially higher than short-term yields, while a flat curve shows short- and long-term yields that are more or less equal. An inverted curve happens when short-term yields are higher than long-term yields.

The yield curve is important because it may reflect investor sentiment or expectations. For instance, a steep curve indicates investors are bidding up the price (and therefore driving down the yield) of short-term rates. That could mean they expect interest rates to rise. They want to hold short-term bonds that will mature quickly, so they can reinvest at a higher rate.

What About Inflation? Why does the bond market often fall on good economic news? The fear is that strong economic growth could trigger inflation—which means bond investors would be repaid (both principal and interest) in cheaper dollars. Positive economic news can also lead investors toward stocks and away from bonds, which are often considered "safer" investments to turn to when times are tough.

In reality, of course, all markets are far more complex than this, and unusual market movements can confound even the most sophisticated analysts. Still, a little logic can make *"Inflation fears send bond yields higher"* a little easier to understand. ●

investing life. It describes your current portfolio and may include your target asset allocation, how much new money you'll invest each month or year, and what index benchmarks are used to gauge your progress. The executive summary also considers risk, often in terms of how much of a loss you could tolerate during specified time periods.

Next, your IPS may detail your investment objectives—for example, that you and your spouse plan to retire in 15 years, and you'll need income of $200,000 a year, inflation adjusted, for three decades. Your investment philosophy sets out your investing rules to live by. How do you feel about risk, diversification, frequency of trading, investment costs, and taxes? Answering these questions in a formal IPS provides a philosophical underpinning for specific investment selection criteria that translate your beliefs into action. Finally, the IPS may outline monitoring procedures for gauging your progress.

If you don't already have an investment policy statement, please let us help you create one. Simply going through the process can be invaluable; answering our questions about your goals and risk tolerance may focus your thinking in a new, beneficial way. And with your IPS in hand, we'll know how to serve your needs whatever the market climate. ●

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. She probes your comfort level with investment risk then designs a mix of investments most likely to move you toward your objectives. She also analyzes 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. ●

Reassess Your Finances

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important estate-planning document, and an annual review can help you keep up with changing family circumstances, take advantage of ever-shifting tax laws, and avoid potentially disastrous mistakes such as language that might shortchange your spouse by sending too much of your wealth into a credit shelter trust.

Name a guardian for your children. If you've held off because you hate to think of someone else raising your kids, consider this: If you haven't designated a guardian to take over if you die while your children are minors, the state will pick someone for you. Make sure your choice is up for the job and understands what you want for your pride and joy.

Investigate long-term care insurance. Health costs continue to spiral upward, and the already high price of a nursing home stay could be astronomical by the time you need care, quickly depleting your retirement nest egg. Look into the costs and coverage options of a long-term care policy.

Make sure your insurance matches your needs. The wealthy often have unintended gaps in property and casualty coverage with inadequate insurance for multiple homes, art collections, and special liabilities. Review your coverage with an insurance expert, and consider whether you need an umbrella policy to protect you from punishing court judgments. Also, make sure your jewelry is protected for its replacement value.

Be sure your heirs are properly designated. Life changes. Divorce, death, and family squabbles happen. Sometimes people simply forget to change their beneficiaries on IRAs or the title on real estate and other major assets. It's not uncommon for former spouses to inherit IRAs or for insurance proceeds to go to the wrong people. Review your beneficiaries for all your outstanding IRAs, retirement plans, insurance policies, and other assets. ●