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Socially Responsible Funds Gain Popularity

There's nothing particularly new about the notion of investing without compromising principles. Nineteenth century American Quakers, opposed to war and slavery, chose not to include weapons manufacturers and slavery supporters in their portfolios. Investors who objected to South Africa's apartheid policies during the 1980s refused to put money into companies that supported those policies. But until fairly recently, socially responsible investing, or SRI, existed at the fringe of the investing community. Now it has entered the mainstream, with investors pouring assets into funds representing a diverse range of political, social, and even spiritual values.

By a recent count, there were 130 SRI funds, with combined assets of almost $50 billion, according to fund-tracker Morningstar*. Those numbers represent a quantum leap from 10 years ago, when Morningstar found just 39 SRI funds holding a combined $5.4 billion of assets.

One fast-growing SRI subgroup consists of religious funds that run the gamut from socially progressive to conservative. At the left-leaning end of the spectrum are funds that, like many non-religious SRI funds, shun corporations that have what fund managers consider questionable environmental, ethical, or human rights policies. Among the more conservative religious funds are those that restrict investments to only those companies that embody fundamental or traditional religious values. Some of these designate their approach as morally responsible investing, or MRI. The Ave Maria Catholic Values Fund, for example, may invest in companies that deal in defense systems, tobacco, or alcohol—anathema to many SRI funds—but excludes any firm that provides benefits to unmarried or same-sex life partners, sells or manufacture birth control products, or provides or covers abortion services.

But not all religious funds focus on Christian values. For example, the Amana Trust Income fund invests based on principles of Islam. That means the fund must avoid putting money into banks or other firms that profit from charging interest, excessive trading, or that carry large amounts of debt. Those criteria have proved decidedly advantageous for investors recently, helping the fund avoid much of the fallout from the subprime mortgage crisis. In 2007, the Amana income fund returned 14.1%, according to Morningstar, putting it in the top percentile for its large-cap value category.

Of course, using non-financial criteria to choose an investment doesn't always have such fortuitous results. According to David Kathman, a mutual fund analyst at Morningstar, SRI funds haven't shown any clear performance trends, but the social screens used in portfolio selection do have an impact. "A lot of funds avoid companies that deal in alcohol, tobacco, or gambling," Kathman says. "Others target companies with a strong environmental track record, which can mean an emphasis on technology rather than on industrial manufacturing. Many of those funds were punished when the technology sector fell

(Continued on page 4)

If You're Not Getting To A Gym Regularly, Then You Understand

Have you ever hired a personal trainer? Well, if you are like a lot of people, paying someone $50 or $75 a session to train you makes you go to the gym and work out harder. You want to get your money's worth. Even though you could spend less money and work out on your own, having a coach makes you better.

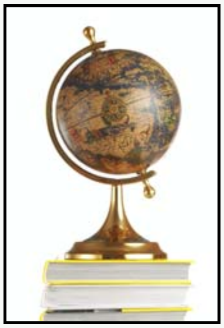
Working your fiscal conditioning is similar. Discount brokerages, personal finance magazines, and seminars about how you can manage your money on your own all encourage you to do your own financial work. The price is low because you have to do it yourself. But personal finance is not as simple as push-ups and pumping iron. If you are not well-informed, you could make mistakes that can cost you a lot more than missing a work out or lifting too little weight.

We exist to be your personal coach on issues surrounding your money. We assess your financial strength, find out what your goals are and then help you strategically direct your assets toward achieving what you want in life. Sure you can do it on your own, but for the same reasons you don't fix your own car, treat yourself medically, and make it to the gym regularly, letting us be your financial coach makes sense.

Colleen & Rob

Azerbaijan, Andorra, Top CIA Factbook Lists

Emerging markets are hot, and if you had to guess which is the hottest, you might choose one of the so-called BRIC countries—Brazil, Russia, India, or China. But those didn't rank among the world's five fastest growing economies in 2006: Azerbaijan (34.5% growth), Equatorial Guinea (18.6%), Maldives (18%), Angola (15%), and Mauritania (14.1%). Of course, money—or a surging economy—doesn't buy happiness or long life, and to find the country with the longest life expectancy you'd have to look in the Pyrenees Mountains between France and Spain. In tiny Andorra, the average life lasts 83.5 years. The United States, with a life expectancy of 78 years, ranks 45th.



These facts come from a surprising source: the U.S. Central Intelligence Agency. In 1943, the CIA's predecessor, the Office of Strategic Services, began publishing Joint Army Navy Intelligence Studies (JANIS), and by 1947, the reports covered 34 countries. The CIA produced its first comprehensive "factbook" in 1962 and its first unclassified edition in 1971. In 1997, the CIA began offering the World Factbook online. The Factbook provides data about the government, military, geography, people, economy, communications, and transportation of each listed country.

It often includes surprising details about many little-known corners of the world. Who would guess, for example, that North Korea has a literacy rate of 99%? Other facts are more in line with the country's reputation for isolation, economic stagnation, and political totalitarianism. Life expectancy at birth is only 72, and the infant mortality rate is 22.6 per 1,000 live births. Meanwhile, Nauru, Liberia, and Zimbabwe have the worst unemployment, with rates of 90%, 85%, and 80%, respectively.

While Azerbaijan has the fastest growing economy, the U.S. has the largest, with a gross domestic product of approximately $13.13 trillion, followed by China at $10.17 trillion. Luxembourg has the highest GDP per capita ($71,400), joined in wealth by Bermuda ($69,900), Jersey ($57,000), and Equatorial Guinea ($50,200). The United States is ninth on that list, with a per capita GDP of $44,000.

The wealthiest nations tend to be some of the world's smallest, using favorable tax laws to attract businesses from around the world. Monaco, Andorra, and Luxembourg, for example, all have high GDP rates per capita and long life expectancies, as do Lichtenstein and the Cayman Islands. Monaco and Andorra have, essentially, zero unemployment while Lichtenstein has only 1.3%.

To explore the CIA World Factbook go to https://www.cia.gov/library/publications/the-world-factbook/ index.html. ●

BRIC And Company

A few facts on the world's 10 largest economies.

Country	GDP (in trillions)	Per Capita GDP	Unemployment Rate	Life Expectancy at Birth
United States	$13.13	$44,000	4.8%	78.0
China	$10.17	$7,700	4.2%	72.9
Japan	$4.22	$33,100	4.1%	82.0
India	$4.16	$3,800	7.8%	68.6
Germany	$2.63	$31,900	7.1%	79.0
United Kingdom	$1.93	$31,800	2.9%	78.7
France	$1.90	$31,100	8.7%	80.6
Italy	$1.76	$30,200	7.0%	79.9
Russia	$1.75	$12,200	6.6%	65.9
Brazil	$1.66	$8,800	9.6%	72.2

Source: The CIA World Factbook

How To Tap College Savings Vehicles

Saving for your children's education is essential, of course. But even if you've done a great job, you still face crucial decisions about how and when to tap various savings vehicles. The wrong move could cost you a chance at financial aid or a tax credit or deduction.

If your family may qualify for financial aid (check out www.finaid.com to gauge your chances), spend money in your child's name first. Financial aid formulas expect students to contribute 35% of their net worth annually toward college costs, while parents must spend just 5.6% of assets each year. The more money in your child's name, the less you can expect in financial aid. So raid the Coverdell Education Savings Account (formerly the Education IRA) and any custodial accounts first, because they're held in the student's name, while Section 529 college savings plans are considered parental assets.

Also think about the timing of withdrawals from college savings. For example, qualified 529 distributions are considered income to the student, even though they're not taxed, and could reduce the amount of future financial aid. "If you didn't qualify for aid in your child's first year but think you could qualify in the second because of an employment change, say, or because another child is entering college, you might not want to take a 529 distribution in the freshman year," suggests Raymond Lowe of College Money (www.collegemoney.com). "Instead, you could do your best to qualify now, then use 529 distributions later."

Finally, you need to determine how to use the federal government's education tax credits and deduction. That depends on college expenses and your income tax situation.

For 2008, the Hope Scholarship credit is worth up to $1,800 per student

The Pros And Cons Of Retiring In Mexico

If you're thinking about retiring overseas, Mexico offers the most bang for your buck.

In September, International Living magazine named Mexico the best place in the world to retire in its 15th annual Global Retirement Index. Citing its "affordable combination of modern features and old-world charm," the magazine stressed the ability of retirees to make their money go a long way south of the border.

"Goods and services cost less, so you can afford the kinds of luxuries only the very wealthy enjoy up north: a maid, a cook, and a gardener for example," the article said.

Mexico also boasts cheap housing, a great climate, first-rate health care, and widespread use of the English language. The people are friendly, and Americans can shop at Wal-Mart and watch CNN. More than 1 million Americans already live there.

But before you don a sombrero and head for the Big Siesta, there are other factors to consider.

"You can't leave your brains at the border. You really have to do your homework, socially, economically, and politically," said Bruce D. Greenberg, a Tucson, Ariz.-based real estate consultant.

If you retire to Mexico, you'll need a U.S. attorney, accountant, and financial advisor as part of your team. That's because buying a house, paying taxes, receiving pension payments, and keeping your retirement plan on track all take on new aspects.

Patricia Kilpatrick, co-founder of Choosing Mexico, an educational company based in Bellevue, Wash., said the first step is to make several visits to Mexico at different times of the year. "We recommend renting in various places and not making any financial commitment until you really are sure that you're going to be comfortable there," said Kilpatrick.

According to Kilpatrick, a single person can have the same lifestyle in Mexico for $2,200 a month (including two trips to the United States each year) compared to $5,700 a month in a typical American city such as Seattle. Mexico's rapid real estate appreciation rate, currently averaging 20 percent annually, is another attraction for expats.

However, it is important to note several cultural factors that would-be retirees must take into account, including a much slower pace of daily life. Small towns in particular are not always as clean and tidy as most U.S. towns, and many have high noise levels from church bells ringing every hour to barking dogs to cars without mufflers.

Also, certain areas have become quite expensive in recent years. For instance, home values in Guadalajara have soared due to a massive influx of—you guessed it—American retirees.

Here are some financial considerations we can help you with:

- Currency counts. When you retire abroad, you must do more than simply convert living expenses into the local currency. You need to factor in currency fluctuations, which can alter spending power by 10 percent to 20 percent.
- Direct deposit. You may have your Social Security benefits deposited directly to a Mexican bank in pesos, with no conversion fee, a service not available in all countries.
- Security blanket. In 1994, the Mexican government devalued the peso and its value plunged. To protect against these types of shocks, retirees should keep only a few months worth of living expenses in pesos and keep the rest of their funds in dollars.
- Seeing double. Every U.S. citizen must pay taxes on income, regardless of where the money is earned or where the person lives. If you live in Mexico for at least 183 days of the year, you must also pay Mexican taxes. However, some U.S. taxpayers may exclude up to $85,700 of foreign earnings (as of 2007) and take a credit or a deduction for taxes paid to the Mexican government.
- Tax break. Property taxes in Mexico are far lower than the U.S. average. A $300,000 house may have an annual tax bill as low as $200 to $300.
- Protect your estate. Wherever you live, Uncle Sam will track your assets and tax your estate. That's because when you die you will be taxed on your entire estate, regardless of where the assets are located. So acquiring assets abroad requires you to amend your estate plan.
- Insuring coverage. Most insurance policies do not cover assets acquired abroad, so a move to Mexico should trigger a reevaluation of your policies. ●

for qualified tuition and fees. You can claim this twice, but only in a student's first two years of post-secondary education.

The lifetime learning credit is worth up to $2,000 per year, refunding 20% of the first $10,000 you spend. You can take the credit for every year your dependent is in school except when you use the Hope credit for the same student.

Currently, if you take neither the Hope nor lifetime learning credits, you get an "above-the-line" deduction on your 1040 for up to $4,000 of post-secondary expenses.

For couples filing jointly, the Hope and lifetime learning credits begin phasing out when modified adjusted gross income (MAGI) hits $96,000 for 2008, disappearing when MAGI reaches $116,000. Cut those figures in half if you're single. For the tuition and fees deduction, the MAGI ceiling is $130,000 for couples, $65,000 for singles. A $2,000 deduction is available for a MAGI up to $160,000 for joint filers; $70,000 for singles.

You can claim the Hope or lifetime learning credits in the same year you take tax-free distributions from a 529 or Coverdell account, but only if those withdrawals don't go to pay the expenses for which credits are claimed. The deduction can be taken for expenses paid with contributions, but not earnings, withdrawn from a 529 plan. ●

Don't Bet Farm On Financial Calculators

Financial calculators, found everywhere on the Web, can be helpful planning tools. But different calculators may produce markedly different results, depending on the assumptions and defaults built into them. While these online calculators are okay to use as a guide, it's a little scary to think that some people actually rely on these tools to plan anything as important as their retirement finances.

For example, suppose a 45-year-old husband and wife want to determine how much they'll save by retirement at age 65. They have a combined annual income of $130,000 and savings of $350,000 in their employee retirement plans, with half the assets in stocks, 35% in bonds, and 15% in cash equivalents. Both plan to continue making 10% annual 401(k) contributions.

Enter these assumptions into one popular online calculator and you get a projection of $1.45 million in retirement assets. But type the same numbers into another calculator, and the couple's nest egg grows dramatically, to $1.925 million. Because they assume different rates of return, inflation, taxes, and other variables, the two calculators project drastically different outcomes. For instance, the calculator with the higher result anticipates 3% annual pay raises, whereas the other doesn't factor in salary increases. The calculator providing the lower estimate assumes a 31% combined federal and state tax rate, whereas the other calculator takes into account only a 25% federal rate.

And the differences matter. Assuming a withdrawal rate of 4% during retirement, that $1.925 million would provide $77,000 annually, whereas the $1.45 million would mean yearly income of only $58,000.

Which brings us to the problem of making realistic assumptions. Economists are hard-pressed to predict inflation and interest rates a year in advance, so how can you know what will happen in 10, 20, or 30 years? To calculate investment returns, you can use historical averages, but those are only educated guesses—and a miss by a few percentage points either way could compound into a mammoth error.

Still, the ballpark estimates you get from most online calculators could be useful as a first step when planning how to pay off debt, save for your children's education, or invest for other long-range goals. You may be able to change some of a calculator's assumptions, substituting other, perhaps more realistic numbers for return projections, inflation, and other variables. And to get a better idea of likely outcomes, you could rerun calculations several times with different variables. For example, if a calculator lets you assume different inflation rates, you might test the impact of rates varying from 2% to 6%, keeping in mind that the very low inflation of the past few years is well below historical averages.

Monte Carlo analysis software takes exactly that approach, instantly considering a multitude of assumptions and scenarios and providing a percentage probability of success rather than a specific outcome. But there are few online Monte Carlo calculators, and in any case, planning your retirement and the rest of your financial future is much too important to entrust to simple Web tools. ●

Responsible Funds Gain

(Continued from page 1)

apart, and now they're largely missing out on a bull market in industrial stocks, fueled by economic growth in India and China."

That points to a major caveat for investors. When performance lags, it's usually not because the funds lack stock picking prowess. Though highly specialized SRI funds tend to have small asset bases, they typically delegate the actual selection of their portfolios to a sub advisor with a strong track record in retail or institutional investing. But often those sub advisors' hands are tied because many firms with a strong potential for earnings simply can't pass a fund's tough requirements.

Nicholas Kaiser, portfolio manager of the Amana Trust Income fund, notes that only 45% of the 5,000 stocks he follows are halal, or permissible under Islamic law. The Ave Maria Catholic Values Fund turns down a broad range of solid blue-chip companies and divests from its holdings any company that doesn't toe the line. According to David Kathman, that fund's performance has been mediocre; it ended 2007 down 4%, in the 92nd percentile of mid-cap blend funds. But he points to another fund for conservative Christian investors, the Timothy Plan Large/Mid Cap Value, that has done comparatively well since its 1999 inception, and now has more than $100 million in assets.

If you are eager to put your money where your values are, please give us a call. We can help explain the benefits and limitations of socially responsible investing and can work with you to take your social or religious tenets into account when selecting investments that fit both your conscience and your long-term financial objectives. ●