Financial Update

Ideas and Action Steps for Achievers

Four Money Mistakes You Might Be Making

Three years after the economic crisis led many Americans to re-evaluate their financial picture, economic uncertainty is still the norm. While there's little you can do about the shaky economy, you can help stabilize your own finances over the long term by evaluating what you're doing right ... and wrong. There's no guarantee, but avoiding these four money mistakes may help you survive and ultimately thrive in any turbulent economy.

Mistake 1: Jumping on the bandwagon

Are you letting economic news--good or bad--control your financial decisions? For example, are you selling gold because you've heard that prices are at record highs or buying real estate because you've heard that prices are at record lows? Have you decided to pull most of your money out of the stock market because you've seen headlines warning of a possible financial crisis?

Unless you're basing your decisions on your own needs and circumstances rather than on the opinions or actions of others, you can't be sure you're doing what's right for you. Instead of jumping on the bandwagon, take a proactive, rather than reactive, approach to your finances, no matter what economic news you're hearing or what other investors are doing. Revisit your tolerance for risk and your own financial goals, and try to prepare yourself for a variety of scenarios. Avoid basing money decisions on emotion, or you may find yourself facing unanticipated consequences down the road.

Mistake 2: Only saving what's left over

Do you continue to worry that you're not saving enough? Do you routinely rely on credit rather than cash to pay for the things you want or need? Rather than blame your financial inertia on your income, look a bit deeper, because the real culprit may be the lack of financial priorities. If you don't know exactly how you're spending your money and you haven't set financial goals, it's unlikely that you'll see much financial progress.

Go back to basics by preparing (or reviewing) your budget. If you tend to save only what you have left over every month, you can put yourself on a more disciplined course by having a fixed amount taken out of your paycheck automatically for retirement. Or, you can set up automatic transfers from your checking account to a savings or investment account.

Mistake 3: Not having an emergency fund

One lesson that you may have learned over the past few years is that the job market isn't stable. That's a major reason why one of your savings priorities should be an emergency fund. While it isn't glamorous, this underappreciated workhorse really pulls its weight during hard times. Having cash on hand that you can use for an unexpected expense, or to pay bills if you lose your job, is vital because it can help you avoid having to rely on credit or tap your retirement savings. If you don't have emergency savings to fall back on, a minor money shortfall can quickly turn into a major cash crisis.

Mistake 4: Not asking for help

Even if your finances are in good shape right now, you may be overdue for a checkup. Reviewing your finances is especially important during periods of volatility because it can help reveal potential strengths and weaknesses, and identify changes you might need to make to adjust to the current economic climate. And if you're already in financial trouble, don't let fear or shame prevent you from asking for help. Facing financial problems early may help you make a full recovery. Many creditors are willing to work with you, but this may be much easier while your credit is still good, and while you still have time to turn things around.

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You can contribute to an IRA, Roth IRA, SEP-IRA, Simple IRA, etc for 2011 if you take action now. As long as you contact us by April 17th, we can process your IRA for the tax year 2011.

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Non-Equity Alternatives to Rock-Bottom Yields

__Foreign bonds__

Yields overseas can be attractive, and they don't necessarily involve investing in countries whose economies or governments are in flux. For example, as of late December, AAA-rated Australian sovereign bonds were paying 3.7%. However, remember that in addition to the risks involved with all bonds, such as interest rate risk, inflation risk, and credit risk, investing overseas involves currency risk; a change in the value of the U.S. dollar relative to its Australian counterpart could eliminate any yield advantage. Also, just as government-sponsored enterprise bonds are not necessarily backed by the full faith and credit of the U.S. Treasury, all foreign bonds are not necessarily backed by their sovereign governments.

Before investing in an MLP or mutual fund, make sure to carefully consider the objectives, risks, charges, and expenses contained in its prospectus, which is available from the fund or partnership. Read it carefully before investing.

As interest rates have fallen to record lows and stayed there in recent years, the yield on your savings may be stuck in neutral. If you've focused on capital preservation and kept your assets in U.S. Treasuries, a money market account, or certificates of deposit, you may have minimized the chance of the financial equivalent of a car crash. However, you also may not be happy letting your portfolio's engine idle forever.

Dividend-paying stocks are one solution, but last year's volatility has made many investors wary of committing more money to equities. Though past performance is no guarantee of future results, for those who need something more than 2% 10-year Treasury yields and who can handle the additional risks involved, there are other alternatives that could potentially boost overall yield.

Corporate bonds

Many corporations have taken the opportunity presented by low rates to refinance their corporate debt and lower borrowing costs. Though any company could still default on its obligations, of course, and all bonds face market risk, stronger balance sheets have helped lower the overall risk of corporates as a whole. The spread between the yield on Moody's Aaa-rated industrial bonds and 10-year Treasuries at the end of 2011 was roughly 2 percentage points. For a Baa bond (one notch above noninvestment-grade), the difference was over 3 percentage points. Yields on noninvestment-grade bonds (so-called high-yield or "junk" bonds) were higher still, roughly 5% above 10-year Treasuries.

Bank loans

Floating-rate bank loans (also known as senior loans, leveraged loans, or senior secured loans) are a form of short-term financing for companies that usually do not rate an investment-grade credit rating. The rate is typically tied to the London Interbank Offered Rate (LIBOR) and adjusts with it, generally quarterly. As with high-yield bonds, the lack of an investment-grade credit rating means bank loans must offer a higher yield.

As with all debt, investors still run the risk of default. However, bank loans also have benefitted from the favorable corporate finance picture noted above. And because bank loans typically are a company's most senior debt obligation and are secured by some form of collateral, investors have typically recovered a higher percentage of their investment in the event of default than with high-yield bonds secured only by a company's promise to pay.

Finally, as with all bonds, as bond yields rise, the price falls, which could cut overall return enough to offset any yield advantage. For the majority of investors, the most accessible way to invest in floating-rate bank loans is through a mutual fund or exchange-traded fund.

Master limited partnerships

Master limited partnerships (MLPs) can not only offer an income stream in the form of quarterly cash distributions; they also may offer tax benefits. An MLP that receives 90% of its income from qualified passive sources such as oil, natural gas, real estate, or commodities may qualify for tax treatment as a partnership rather than a corporation. If it does so, the MLP is not taxed at the partnership level, and may pass on a greater share of its earnings to the limited partners (i.e., individual investors), who also receive a proportionate share of any depreciation, depletion allowances, tax credits, and other tax deductions.

Many MLPs are managed so as to ensure that those tax benefits offset or eliminate any current tax liability on the cash distributions, which are considered a return of capital and used to adjust the individual partner's cost basis upon sale of the MLP units. An MLP that pursues this strategy successfully can in effect provide a tax-deferred ongoing income stream, which can be particularly appealing to investors in a high income tax bracket. Yields on MLPs vary greatly, depending on the particular MLP's assets and the way in which the general partner manages the business.

MLPs have risks. Because they can be relatively illiquid, an investor should plan to stay invested for a number of years, and individual investors' collective share of cash distributions may decrease over time. Also, the tax issues involved can be complex; for example, MLPs can create problems if held in a tax-deferred retirement account. Finally, commissions and other front-end costs can reduce the amount available for investment.

Data sources: *Corporate bond spreads: Federal Reserve System report on selected interest rates (H.15) as of December 29, 2011. Rates quoted are for Moody's Aaa- and Baa-rated bonds. High-yield bond spread: calculated based on Merrill Lynch High-Yield 100 as quoted on Wall Street Journal Market Data Center as of December 29, 2011.*

Women and Estate Planning

Statistically, women live longer than men, and women earn less money over their lifetimes than men.

They say men are from Mars and women are from Venus, but is this true when it comes to estate planning? Absolutely. And because women often find themselves in such different circumstances than men, it is even more crucial for them to educate themselves about estate planning, and consult an experienced estate planning professional.

Women tend to live longer than men

Women live an average of 4.9 years longer than men (Source: National Vital Statistics Report, Volume 59, Number 4, March 2011). That means women need their assets to last longer than men do. It also means that wives are probably going to outlive their husbands, so they will likely inherit their husbands' estates, and they will probably have the last word about the final disposition of assets going to the couple's heirs.

Women tend to earn less during their lives than men

Full-time working women earned only 81.2 cents for each dollar a man earned in 2010 (Source: Bureau of Labor Statistics, Women at Work report, March 2011). Further, women work fewer years than men in order to care for home and family, further reducing their ability to save (Source: GAO-04-35, October 31, 2003). Simply put, women earn less money over their lifetimes than men. This means that women must plan to make fewer dollars last longer. It's important that women get sound retirement planning advice.

Most custodial parents are women

Approximately 84% of custodial parents are women (Source: U.S. Census Bureau, Custodial Mothers and Fathers and Their Child Support report, November 2009). Women who are parents of young children need to plan for the continued care of those children if something unforseen should happen. They also need to determine who will handle the children's property until they are older.

Women are business owners

Women owned 7.8 million nonfarm U.S. businesses operating in the 50 states and the District of Columbia in 2007, an increase of 20.1% from 2002 (most recent statistic available) (Source: U.S. Census Bureau, Facts for Features article, January 26, 2011). Women who are business owners need to protect their assets, and plan for the succession of their businesses.

Women are professionals

Women make up 57.5% of professional and related occupations (Source: Bureau of Labor Statistics, Current Population Survey, Table 11, "Employed persons by detailed occupation, sex, race, and Hispanic or Latino ethnicity," 2010). Women in professions with high litigation risks, like medicine, law, and real estate, can benefit from asset protection planning.

Women are wealthy

Women control $14 trillion in assets (Source: Center for Women's Business Research, 2005) and three-fourths of the financial wealth in the United States (Source: womensvoicesforchange.org, July 21, 2011). It's important for women to get sound investment, charitable giving, and tax planning advice.

Creating an estate plan

Regardless of marital status or net worth, women should make important decisions and arrangements today in order to protect themselves, their husbands or partners, and other loved ones in case of incapacity or death.

To create an estate plan, women need to have at least a working knowledge of the estate planning tools that are available, which typically include:

- Will -- A will is a written directive that includes instructions about who is to settle the estate (the executor), how property is to be distributed to the heirs, and perhaps most importantly, who will raise the children. Dying without a will means that a probate court will distribute the estate, which might result in family problems and lawsuits. Wills should be reviewed at least every two years, and updated after significant life events such as a birth, death, divorce, or remarriage.
- Trust -- A trust is a legal entity where someone, known as the grantor, arranges with another person, known as the trustee, to hold property for the benefit of a third party, known as the beneficiary. The grantor names the beneficiary and trustee, and establishes the rules the trustee must follow in a document called a trust agreement.
- Durable Power of Attorney -- A durable power of attorney (DPOA) names family members or other trusted individuals to make financial decisions or transact business on behalf of the person executing the DPOA.
- Health-Care Directives -- Health-care directives are instructions about the medical care that would be wanted if conditions were such that the patient couldn't express his or her own wishes.

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Can reducing my credit card debt actually lower my credit score?

Most lenders use an automated credit scoring system to help determine your creditworthiness. The higher your credit score, the more creditworthy you appear.

One of the factors built into credit scoring systems is your credit card balance-to-limit ratio (the amount of debt you owe compared to your total credit limit for all cards). Lenders like to see ratios indicating you're indebted for balances approximating no more than 30% of your total limit. Generally, if your balance-to-limit ratio is higher than that, then reducing your debt will improve your credit score. But how you reduce your debt can make a difference.

You may have heard that you should consolidate several credit card balances on one card with a low interest rate, then close the paid (usually higher-rate) accounts. Doing so, the claim goes, not only minimizes the risk that you'll "dig the hole" of indebtedness even deeper, it also reduces your exposure to identity theft through the fraudulent use of inactive open lines of credit.

But if you do this, you could:

- Lower your total credit limit available without lowering your total debt, thus raising your balance-to-limit ratio--and potentially lowering your credit score in the process
- Make your credit history appear shorter by canceling accounts you have had open longest--and a shorter credit history also may lower your credit score

While it makes sense to transfer balances subject to high interest rates to accounts with lower rates (and then concentrate on paying down what you owe), consider waiting to close the paid accounts. Keeping them open may actually improve your credit score by lowering your balance-to-limit ratio (since you'll have the same amount of debt, but a higher total credit limit) while maintaining the longevity of your credit history.

How can I tell if I have too much debt?

It may sound like a bad joke to say that you have too much debt when you find you're unable to borrow more, but there is more truth than humor in the flippancy.

In determining your ability to repay debt, lenders will examine your debt-to-income ratio. Calculating this ratio can involve a couple of different variations. Your "debt service ratio" compares your total monthly debt payments (including your mortgage payment) to your gross monthly income. Your "debt safety ratio" compares your monthly consumer debt payments (not including your mortgage) to your take-home income.

You will generally qualify for a conventional mortgage if your debt-to-income ratio (including the potential mortgage payment) is 36% or less. Federally guaranteed mortgage programs may allow debt-to-income ratios of up to 41%. And unsecured lenders (like credit card companies) allow even higher debt-to-income ratios--and then charge you higher interest rates to compensate themselves for the potential risk you represent to them.

To be on the safe side, however, your debt service ratio should ideally be 25% or less and should be no greater than 35%, while your debt safety ratio shouldn't exceed 20% and should preferably be 15% or less.

While it can be difficult to live in today's society without incurring debt, it also can be difficult to live with too much debt. Here are some warning signs indicating that you may be too close to the edge:

- You can't maintain an emergency fund to cover 3 to 6 months of normal expenses
- You make only minimum monthly payments on your consumer debt
- You're at or near your credit card limits
- You use credit cards to pay for things you used to buy with cash (this may not be a concern if you're paying off your credit cards every month)
- You take cash advances against your credit cards to pay other bills