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NAPFA Planning Perspectives

NAPFA
The National Association of Personal Financial Advisors

Finding Your Future in Tough Times

As the U.S. economy pulls out of a recession, all of us have learned lessons about risk and uncertainty.

In this issue of *Planning Perspectives*, members of NAPFA look back at the lessons of 2009 and share their insights about how to save, invest, and plan for the years ahead.

In many ways, the lesson of 2009 is that the old truths remain true. Diversify your investments. Live within your means. Plan for the long term. With the advice from the authors in this newsletter, you can avoid making mistakes that perhaps you made in the recent past, and you can solidify your financial foundation for the future.

But taking time out of your busy life to manage your finances isn't easy.

A financial advisor can help. The job of a Fee-Only, comprehensive financial advisor is to help you align your personal finances with your goals. Just as importantly, your advisor works with you to help implement that plan and to update it as your life—and your priorities—change.

As you read this issue of *Planning Perspectives*, think about how you can take control of your future, as well as whether an advisor can help you stay on the path you desire.

NAPFA Offers Free Financial Webinars

Responding to nationwide interest in financial matters, NAPFA will offer twelve free Consumer Webinars in 2010. "We have a tremendous lineup of webinars this year. The webinars are free, and they are relevant for a wide range of people. Whether you're a parent with a young family, or you're a pre-retiree or retiree, there's a lot you can learn," said Robin Gemeinhardt, NAPFA Education Manager.

The next webinar will be held on Friday, February 5, at 3 p.m. Eastern time. It is titled, "Managing Your 401(k)," and it will cover how to maximize the benefits of an employer's 401(k) offering and how to select investments from the plan's menu of options. On Friday, March 5, also at 3 p.m. Eastern, NAPFA will offer a webinar about estate planning and leaving a financial and personal legacy.

Programs are held monthly, and they last for one hour. Registration is free. Go to http://www.napfa.org/consumer/ConsumerWebinarSeries.asp for a complete schedule. Archived recordings of past Consumer Webinars also can be viewed for free from the same link.

Ten Lessons Learned in 2009

By Ron Kelemen, CFP® *www.PlanningVisionProcess.com*

The year 2009 and the last part of 2008 were probably the most challenging and stressful for investors in decades. What can we learn from them?

1. Leverage is a double-edged sword. Leverage is great when things are going well, but it's terrible when they are not. Now that the bubble has burst, it will take time to absorb the U.S.'s and the world's excess economic capacity, especially as governments and individuals try to return to sustainable debt levels.

2. The financial markets are complex, inter-connected, and global. We are all in this together. This time, unlike the aftermath of the 1929 stock market crash, world leaders recognized their interdependency. They coordinated their efforts and avoided a complete economic collapse. Looking ahead, we need to beware of simple solutions and sound bites.

3. Nothing goes up—or down—forever. Remember the roller-coaster performance in 2009 when the next bull and bear cycle occurs.

4. Appropriate diversification helps minimize losses. In 2008 and early 2009, we faced an economic tsunami that affected nearly all asset classes. But people with reasonably well-constructed portfolios didn't see their accounts drop nearly as much as those with less-diversified holdings and those who had chased performance. Moreover, diversified investors enjoyed the early stages of the market recovery.

5. Some people aren't as risk-tolerant as they had previously believed. This is a good time to assess both your need to assume some risk and your tolerance for it. Remember to distinguish between your financial capacity to handle risk and your actual reaction to it.

6. Focus on what you can control. All of us felt helpless at times during the financial crisis and recession, but there were always things over which we did have control. The most important of those was our reaction to events. In the end, that is all that any of us really have.

7. Advice matters. When times are good, every investor is a self-confident genius. But when times are difficult, we realize the importance of sound financial advice.

8. The future is uncertain, but plan for one anyway. If anything, this crisis has underscored the importance of financial planning. You cannot depend upon gains in your home's value or fabulous returns in your existing stock portfolio to help you easily achieve your financial goals. Your retirement needs to be funded by your contributions, your children need education funds, your business needs a succession plan, you need an estate plan, and you need to manage your various risks. The future belongs to those who plan for it.

9. Expect the unexpected. Bad—and good—surprises happen. Many of the bad events of the financial crisis were unexpected events, the so-called "black swans." But a number of good surprises were drowned out in a cacophony of doom-and-gloom media coverage and internet rumors. Certainly, the market turnaround since March 9, 2009, is one of them. We'll no doubt have more bad surprises in a very choppy recovery. But be open to the possibility of some good things along the way.

10. The importance of family, friends, and community. When things are good, it is too easy to get seduced by money and possessions. This crisis grounded people by helping them to realize that time spent on simple pleasures with loved ones and time spent helping others is fulfilling.

Five Things To Do Differently in 2010

By Eve Kaplan, CFP®   www.KaplanFinancialAdvisors.com

It's a few weeks after New Years, but there's still time to commit to your resolutions for 2010. Here are five easy steps towards building a more solid financial future:

Consolidate where you invest. Do you have multiple brokerage accounts, IRAs, or other investments at different financial institutions? Do you receive numerous statements every month? It might feel like you're "diversified," but the truth is that you merely have your holdings scattered across so many positions and locations that you can't see the forest for the trees.

Consolidate your holdings (after you've consolidated where you invest). It's very common to have multiple holdings of the same or very similar asset class. How do you know if your holdings overlap and/or are redundant? Begin by listing all of your mutual funds, and then identify the asset class that each represents by reviewing the "benchmark" used to measure the fund's relative performance. Ask your advisor for assistance or consult the mutual fund company if you're not sure about a fund's asset class. If you have many mutual funds using the same benchmark, you may have significant overlap problems.

Consolidate your advice. Sometimes, I meet people who tell me they like to give one-third of their investments to Advisor #1, another one-third to Advisor #2, and another one-third to Advisor #3 "to compare advice." Typically, one advisor is handling bonds, another works with index funds and exchange-traded funds, and another has a combination of bonds and actively managed mutual funds and individual stocks. This creates an apples-vs.-oranges comparison that insures that "the left hand doesn't know what the right hand is doing."

Know how your professionals get paid. This is a big issue. Too many people fail to ask a prospective advisor, "What does it cost?" and "How do you get paid?" If you work with a broker, do you know what he or she earns by putting you into A, B, or C shares? Do you know there are no-load alternatives that don't charge upfront (A shares), "surrender" (B shares), or ongoing (C shares) fees? Do you know why you were advised to buy an annuity? Is the annuity truly in your best interest, or is it just a very attractive product for your broker, since it can generate up to 8 percent in commissions? In contrast, Fee-Only advisors don't earn commissions for recommending investment products. Accordingly, clients know they're investing in something that truly is in their best interest.

Know what your professional advisors can (and can't) do. Your financial life consists of a number of moving parts. If you don't work with an objective financial planner, the only person coordinating these moving parts is…you. And you have a lot of things to handle in your life. As a result, your long-term financial security can take a back seat to more immediate concerns, and the impact can be severe. For example, you might be intending to set up a trust, but it remains unfunded because communication broke down between attorneys, brokers, insurance agents, and you. Brokers might manage your investments or your insurance, but they aren't charged with seeing the big picture. Only a financial planner can do that—preferably a Fee-Only planner who offers objective advice because he or she isn't compensated by commissions.

Investing

GDP and Equity Market Returns

By Giles Almond CPA/PFS, CFP®, CIMA®   www.matrixwealth.com

We all know that the economy and the stock market are joined at the hip, right? Good economic performance increases company earnings, which leads to higher stock prices. However, a closer examination of the historical data indicates otherwise.

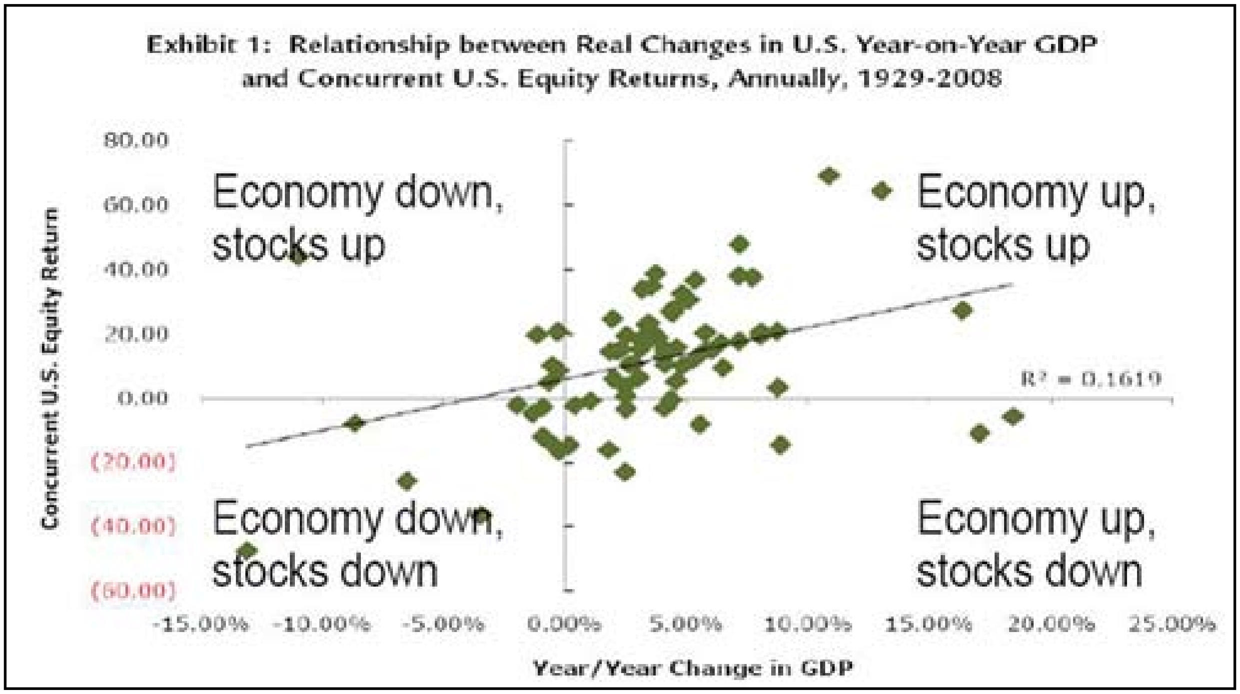
In a recent study by the Brandes Institute, annual U.S. stock market returns and annual U.S. gross domestic product (GDP) were analyzed for the period 1929-2008. As the graph shows, one can easily see a wide dispersion of combinations of market returns and GDP growth.

From the statistician's perspective, there is a low correlation coefficient between the two sets of data. In fact, the r2 is only .16, where 1.0 is perfect correlation and 0 indicates random, uncorrelated sets of data that apparently have no relationship with each other. That is, only 16 percent of the change in the stock market annually is correlated with the change in GDP.

You might argue that, while the stock market might not react in the current year to economic events, surely the following year the market reflects what happened in the economy. Yet, the data do not support this hypothesis. The correlation coefficient for this scenario was only .02—which is no correlation, for all practical purposes.

While the experts keep looking for a reliable short-term predictive statistic for stock market performance, it seems pretty obvious that it's not GDP. Basing a decision about owning stocks in your portfolio on what the economy did last year or this year has no foundation. That is counterintuitive, but both analyses reveal numerous data points showing poor economic performance and positive stock returns. Likewise, there are many occasions where the economy grew, yet stocks performed poorly.

In other words, don't expect the current economy to give you clues on the market's direction.



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Choosing a Tax Preparer

By David T. Mayes, EA, CRPC®, CFP®   www.mackensen.com

The arrival of the new year means that our mailboxes and inboxes are filling with envelopes and notices emblazoned with the words "Important Tax Document Enclosed." With all of the tax breaks offered as part of the 2009 economic stimulus efforts, the arrival of your W-2s and 1099s may be a cause for celebration in anticipation of a nice tax refund to come. If you decide to hire a tax preparer to help you claim some of the new credits, remember that even if someone else prepares your return, you are responsible for everything on it. As a result, it is important to find a qualified professional.

Before selecting a tax preparer, make sure to research his or her qualifications to ensure that their expertise fits your needs.

While some states have licensing requirements for tax preparers, there are no national educational standards imposed by the Internal Revenue Service. Early this year, the IRS announced its intent to create a program to register, test, and oversee tax preparers, but that program is not in place yet.

For the moment, the best way to be confident with your tax professional is to work with Certified Public Accountants (CPAs), attorneys, and Enrolled Agents, each of whom are required to meet professional educational and practice standards. Enrolled Agents, CPAs, and attorneys are the only tax professionals who are allowed to represent taxpayers before the IRS to resolve audits, collections, appeals, or other tax matters.

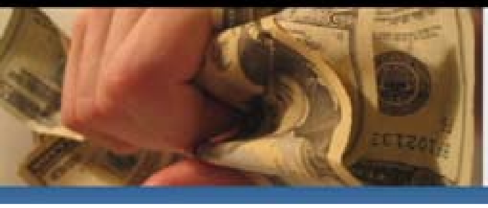
Also, you should ask about how your return will be completed. For example:

- Will there be an interview process that could uncover additional deductions or reportable income, or does the preparer merely collect numbers to place on your return?
- Is the return reviewed by someone other than the preparer to ensure that there are no mathematical errors or mistakes in applying the tax code?
- Is the office open year-round to handle issues that may arise after April 15th?

These questions will help you determine how much value you can expect to receive for your tax-preparation fee. Look for a preparer who will take the time to fully understand your tax situation, find applicable deductions, ensure accuracy, and provide ongoing support in case of an audit.

On the other hand, you should avoid preparers who guarantee refunds or base their fees on how much money you will get back. Because the numbers on your return are ultimately your responsibility, you do not want a preparer who will be overly aggressive in claiming deductions.

Finally, steer clear of refund-anticipation loans. While these products offer the instant gratification of cash in hand, they amount to very high-cost loans, often carrying interest rates of 500 to 700 percent on an annualized basis. Use a little patience: With an electronically filed return and direct deposit, your refund will arrive in two weeks or less.



Quick Hits…

Optimism is Just a Mouse Click Away

In this time of constantly negative headlines and news reports, it is sometimes hard to be upbeat or optimistic. We often say, “Why can’t we hear or see a little good news?” Here are some Web sites that are dedicated to sharing a more positive point of view:

- Positive News Network: www.positivenews.net
- Ode Magazine: www.odemagazine.com
- Happy News: www.happynews.com
- Optimist World: www.optimistworld.com
- Good News Network: www.goodnewsnetwork.org
- Good News Served Daily: www.gimundo.com

-- By Jill Hollander and Brian Pon, www.FinancialConnections.com

Small Savings Can Quickly Add Up

Do you have problems building up your savings? Do you feel that you’re living paycheck-to-paycheck, even though you have a good income?

A good solution is to have a set dollar amount automatically taken from your paycheck and deposited into a separate account. This account can be a savings account, a money market, or mutual fund account. Start off slowly in January, maybe with as little as $25 per month. Then, in June, you should double the amount of the automatic deposit. If you deposited $25 a month and double it to $50 in June, by this time next year, you will have $475 extra.

If you put away $50 a month and then double it to $100 in June, you will have $950 at the end of the year. For those able to start with $100 a month, a doubling in June will generate $1,900 at the end of the year.

-- By Kimberly J. Howard, CFP®, www.kjhfinancialservices.com

Be Careful About FDIC Insurance If You’re Thinking Long-Term

With interest rates so low, it’s tempting to buy long-term CDs to capture a slightly higher yield. The obvious risk is that you’ll end up stuck with a low-yielding investment if rates go up. The less obvious risk is that you could end up without FDIC insurance.

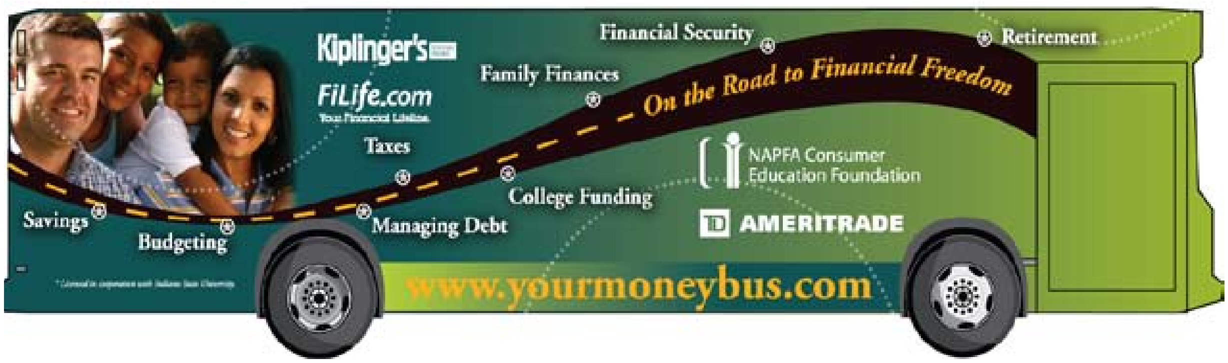
FDIC coverage was increased from $100,000 to $250,000 per person through Dec. 31, 2013. Unless Congress approves an extension, the $100,000 limit will return after that date. For this reason, it is a good idea to stay within the $100,000 limit when buying a CD that will mature in 2014 or beyond. One way to get around the limit is to title accounts in joint ownership or in trust form; see a financial advisor to find out how to do it.

IRAs and certain other retirement accounts will retain the $250,000 coverage limit in 2014.

-- By Helen Huntley, www.holifieldhuntley.com

Now Touring....

Watch for our Your Money Bus in your town...



YourMoneyBus Tour will be making more than 25 stops across the country. Check the schedule below to see when it will be in YOUR TOWN. Check back often for updates of events. Visit us at www.yourmoneybus.com

Ft. Myers, FL	3/4/2010-3/6/2010
Birmingham, AL	3/9/2010-3/11/2010
Cleveland, OH	3/30/2010-4/1/2010
Columbus, OH	4/8/2010-4/10/2010
Chicago, IL	4/22/2010-4/24/2010
Lubbock, TX	4/27/2010
Ft. Worth, TX	5/6/2010-5/8/2010
Austin, TX	5/20/2010-5/22/2010
San Diego, CA	6/2/2010-6/4/2010
Portland, OR	6/17/2010-6/19/2010
Colorado Springs, CO	7/7/2010-7/9/2010
Kansas City, MO	7/22/2010-7/24/2010
Omaha, NE	8/5/2010-8/7/2010
Wausau, WI	8/19/2010-8/21/2010
Milwaukee, WI	9/9/2010-9/11/2010
Indianapolis, IN	9/16/2010-9/18/2010
Detroit, MI	9/23/2010-9/25/2010
Washington, DC	9/30/2010-10/2/2010

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