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NAPFA

Planning Perspectives

Financial Planning Reform Underway

Lost amid all the attention about healthcare reform is a crucial and complex debate about how to improve regulation of financial advisors. This issue has been a major concern of NAPFA, other financial trade groups, and consumer advocates for many years, but it took the mortgage and investment scandals of 2008-2009 to get Congress to seriously look at financial reform.

NAPFA and its partners in the Financial Planning Coalition are persevering in the uphill battle for financial reform. The Coalition has worked with members of the Senate on legislative language that would clarify who can call himself or herself a “financial planner,” thus bringing greater certainty to consumers about who is providing advice to them. Is that “planner” really working in their best interest, as NAPFA members do, or is that “planner” merely a broker in disguise?

On March 15, U.S. Sen. Chris Dodd (D-CT) introduced a banking reform bill. The bill includes a plan to create a Consumer Financial Protection Agency within the Federal Reserve.

Sen. Dodd’s legislation is potentially a step in the right direction, but it’s not enough. U.S. Sen. Herbert Kohl (D-WI) has suggested that financial reform legislation include stronger consumer protection. Namely, he proposes that the regulation define “financial planner” for the first time, and prohibit financial professionals who do not meet the appropriate standards from calling themselves “financial planners.” The Coalition agrees. Sen. Kohl’s proposal would be a strong and definitive step towards helping consumers distinguish between “financial planners” who work in their fiduciary interests, and “investment brokers” who work in the fiduciary interests of their employers.

As the Coalition noted in a statement to the media last week: “We have all encountered people who call themselves financial planners, but who are neither competent to provide financial planning services nor operating in the best interests of their clients. These imposter ‘planners’ do great disservice to the public and to the legitimate financial planning profession. If the Kohl provision is passed, these imposters would be barred from using the title ‘financial planner,’ and consumers will be better able to distinguish real financial planners.”

Contact your senator and voice your support for an independent oversight board and a bright-line definition of “financial planner.” Your financial health could be riding on it.

NAPFA Consumer Webinars

April 2, 2010
Women and Money

May 7, 2010
Financial Planning and
 Small Business Owners

Please visit our website www.napfa.org to register for any of our Consumer Webinars.

Past Consumer Webinars also can be viewed for free from the same link.



Financial Planning

Planting the Seeds of Your Financial Plan

By Brenda Knox, CFP® www.financialelementsinc.com

It's springtime, and my thoughts are turning to tending my garden. But because I'm a financial planner, I can't help but see parallels between my gardening life and my clients' financial lives.

I love gardening, and my husband and I have made efforts over the years to beautify our yard. However, we found that the yard was disorganized and lacked a cohesive plan.

Over the years, we had taken down trees in an attempt to find some sun, reseeded our lawn, moved plants around, and diligently planted annuals and a few vegetables each year. But the yard just never took shape.

Somewhere along the line, I realized that it was a planning problem. Quite simply, we didn't know what we were doing. Our efforts were inconsistent, and even counterproductive, at times.

Somewhat exasperated, we decided last year to hire a landscape architect to design our yard. When the landscape architect came to consult with us initially, I felt a huge sense

of relief; here was someone who listened to what I wanted (my goals) and would create a design (the plan) that utilized many of my existing plants (my available resources), combined with new plants and features in the future (my savings/growth).

I'm very pleased with the plan, and it incorporates several ideas that would not have occurred to my husband or me. We are not gardening experts, and we do not know all of the issues to consider about plants, soil, sun, and so on.

It will take us several years to implement the design. But we now have a plan. With patience, I know it will become a yard we will enjoy for many years to come. Even though it won't be done as quickly as I'd like, I take comfort in knowing that we will finally have a clear direction and that I am more in control of the end result.

Making the decision to consult with a Fee-Only financial planner is the first step towards taking control and creating your own master plan for your financial life journey.



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Personal Finance

Personal Financial Synergy

By Troy Von Haefen www.vhfinancialmanagement.com

Synergy has become popular vernacular across boardrooms and at conferences, and it's certainly touted by motivational speakers in the business community. There are books available on synergy related to food, clothing, fitness, and physical and mental health, to name a few.

I believe in the concept of synergy, and I am a firm believer in applying the theory of synergy to personal finance. As a holistic (one who sees the entire picture) financial advisor, I see the benefits in my clients' progress because of synergic effects.

How can you create personal financial synergy?

Financial synergy can only be achieved through connectivity. Think in terms of Sir Isaac Newton's Third Law: Every action has an equal and opposite reaction. Personal finance is similar in that every financial move or decision creates a reaction in another area of your financial life. The key is to create positive, not negative, reactions.

For example, buying a home that is too expensive will create negative synergy in your cash flow. It will create a scenario that will produce a negative snowball of reactions that can lead to a deep financial hole and, possibly, irreparable financial damage.

While negative synergy can create a downward spiral, positive financial synergy can spur tremendous financial growth. A fine example we can all relate to is saving for retirement. Money contributed into a 401(k)

reduces your current tax bill. This is positive synergy, and it gets even better. The excess funds created by the tax reduction from the initial 401(k) contribution can be contributed into the 401(k). The more money contributed, the greater the tax reduction (up to the annual limits, of course). The greater the tax reduction, the more cash is freed up. This is just one example of financial synergy between two key areas of personal finance: taxes and retirement.

Imagine the traction that can be generated by constructing a financial plan that integrates all of the pieces in the same manner. The benefits become exponential when estate planning, retirement, taxes, insurance, cash flow, goal-setting, investments, college planning, retirement planning, etc., are coordinated.

Often, families employ different professionals to handle various aspects of their personal finances. A CPA does their taxes, a broker handles their investments, and an attorney creates their estate plan. Unless these professionals communicate effectively, the power of financial synergy is lost. The right hand must know what the left hand is doing!

Financial planners who focus on the whole picture can increase efficiencies across all financial areas. In other words, they can create synergy. But whether a family uses a financial planner, navigates the financial landscape solo, or works with several professionals, continuity, connectivity, and efficient synergic decisions are a must for financial success.

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Financial Planning

Student Loan Relief

By Joe Hebert, CFP® www.truenorth-fn.com

With the cost of getting a college education outpacing inflation over the past 20 years and the underperformance of the stock market over the last decade, students are borrowing more money to help fund their college dreams. In 2008, *BusinessWeek* reported that the average college student started his or her work life in the hole about \$20,000. This level of indebtedness, in combination with a tough employment environment, has put a real squeeze on recent college graduates.

If your children, grandchildren, or friends find themselves in this situation, the Income-Based Repayment (IBR) program might provide some relief. This new federal program seeks to limit a graduate's required monthly payment to an affordable amount, based on his or her income and family size. The IBR program applies to federal student loans, including Stafford, Grad PLUS, or consolidation loans made under either the Direct Loan or FFEL program.

The chart below illustrates how income and family size determine IBR monthly payments.

Of course, the IBR program is not a magic solution to college indebtedness; it only serves

to provide additional time to service debt and scales payments proportionally to income in an attempt to make debt manageable. Under IBR, a monthly payment will be less than the amount that would be required under a standard 10-year repayment plan. Therefore, making reduced IBR payments could result in a longer repayment period and more cumulative interest.

The IBR program also offers two even more generous programs for people meeting very specific criteria. The first is the 10-Year Public Service Loan Forgiveness. Graduates who work in public service after graduating and have reduced loan payments through IBR can have their remaining balance canceled after 10 years in a public-service job, if they made loan payments for each month. The for 25-Year Cancellation program allows for cancellation of remaining balances for graduates who have made IBR payments 25 years and meet certain other requirements.

The Federal Student Aid website at www.studentaid.ed.gov has information about these and other excellent programs.

IBR Monthly Payment Amount

Annual Income	Family Size						
	1	2	3	4	5	6	7
\$10,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$15,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$20,000	\$47	\$0	\$0	\$0	\$0	\$0	\$0
\$25,000	\$109	\$39	\$0	\$0	\$0	\$0	\$0
\$30,000	\$172	\$102	\$32	\$0	\$0	\$0	\$0
\$35,000	\$234	\$164	\$94	\$24	\$0	\$0	\$0
\$40,000	\$297	\$227	\$157	\$87	\$16	\$0	\$0
\$45,000	\$359	\$289	\$219	\$149	\$79	\$9	\$0
\$50,000	\$422	\$352	\$282	\$212	\$141	\$71	\$1
\$55,000	\$484	\$414	\$344	\$274	\$204	\$134	\$64
\$60,000	\$587	\$477	\$407	\$337	\$266	\$196	\$126
\$65,000	\$609	\$539	\$469	\$399	\$329	\$259	\$189
\$70,000	\$672	\$602	\$532	\$462	\$391	\$321	\$251

Source: www.studentaid.ed.gov

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How About That Track Record?

By Barrett Porter, CFP® www.abacuswealthpartners.com

Thanks to the Internet, reading reviews about a product before buying it no longer requires one to subscribe to *Consumer Reports*. From movies and books to electronic gadgets, one must look no further than a search engine to get a general consensus about almost any product. If it did well for others in the recent past, the odds are high that it won't fail you now.

But what about investment products? Can an investor rely on a track record when selecting a money manager or mutual fund?

The answer is a resounding NO. Investing solely based on a money manager's track record would be a bit like choosing a craps table because it has "good energy." The dice don't care who's rolling them or what happened on the last roll. The guy who takes 30 seconds to blow on the dice three times before neatly stacking and then rolling them has the same chance of success as the quick, no-nonsense roller.

Surprising as it may sound, money managers and mutual funds that attempt to time the markets and hand-pick stocks have about the same chances at repeating a successful run as the hot roller at the craps table.

Skill or Luck

Until 2006, all eyes in the investment world were on Bill Miller and the Legg Mason Value Trust mutual fund that, under his management, beat the S&P 500 for 15 straight years through 2005. Then suddenly, as of June 2006, his 10-year performance was under that of the S&P 500. Even Bill himself went on record as crediting much of his winning streak as "an accident of the calendar and 95-percent luck."

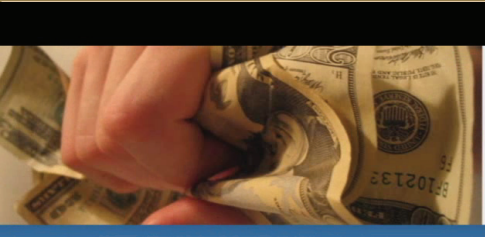
Was Bill merely being humble or realistic? The answer is: both.

Investors have a tendency to pick their mutual funds and money managers based on the past performance. The most popular website for rating mutual funds, Morningstar, enables this bad habit by offering a 1-5 star rating based on past performance. This means that performance-chasing investors start dumping their cash into 4- and 5-star rated funds. On average, that's the wrong thing to do. A study by Dimensional Fund Advisors ("Subsequent Performance of Top 30 Funds") found that a high percentage of mutual funds with a solid recent track record underperform in the years that follow. Many other studies have come to the same conclusion.

Death, Taxes, and Other Certainties

Death and taxes aren't the only certainties in life. Here are two more. First, the odds of any money manager beating the market in general, net of all costs and taxes, over a time period that matters (say, 10 years) are extremely low. Second, if you're fortunate enough to select a manager who does beat the market, the excess return is probably due to a significant level of pure luck. While you may not care how it happened, you should think twice before "doubling down."

Despite the low costs and competitive returns that have come from index funds, many investors just don't find them thrilling enough. If that's you, don't let track record alone guide your decision in selecting your money manager or mutual funds. Investors can instead measure the historical returns of asset classes (real estate, large-cap stocks, small-cap stocks, etc.) over many decades, and build a portfolio around that information. If you're going to use traditional mutual funds, find those with the lowest expense ratios. You're still going against the odds, but you should at least outperform all those 5-star fund chasers.



Quick Hits...

What Does It Mean If Your Mutual Fund Closes?

Many mutual funds have minimum investments, but some are much pickier than that—they don't want big investments, either. Outstanding performance often attracts a flood of new cash, which may be more than the managers want to take on. Sometimes, the solution is to close the fund to new investors, and sometimes, the fund even limits existing shareholders who want to add to their holdings.

A fund closing is good news if you already own the fund, even if you can't buy more shares. That's because, at least in theory, a closed fund is easier to manage, which should enhance performance. A tidal flow of money coming in requires many more investment ideas to put the money to work. The end result is that a smaller percentage of the money is invested in a manager's top picks, so the best picks have less impact on the performance of the fund overall. Closing the fund allows managers to concentrate on their best ideas.

Typically, the funds aren't completely closed; some money still comes in through reinvested dividends and purchases in retirement plans such as 401(k)s. Also, closed funds don't always stay closed. Funds that have closed and then reopened include Vanguard's Explorer, International Explorer, Health Care, and Precious Metals funds and Fidelity's Contrafund and Low-Priced Stock Fund.

The good news is that there is no shortage of funds in which to invest. If your top choice isn't available, you should be able to find another option that fits your investment objectives and risk tolerance.

-- By Helen Huntley, www.holifieldhuntley.com

Before Writing a Check to a Charity

Have you ever wondered whether the charity you support uses your donations wisely? Have you noticed that the cause that is important to you now has a multitude of charities vying for your check, when years ago there were fewer charities to choose from? Are you deluged with requests for donations, but aren't sure which charity to select?

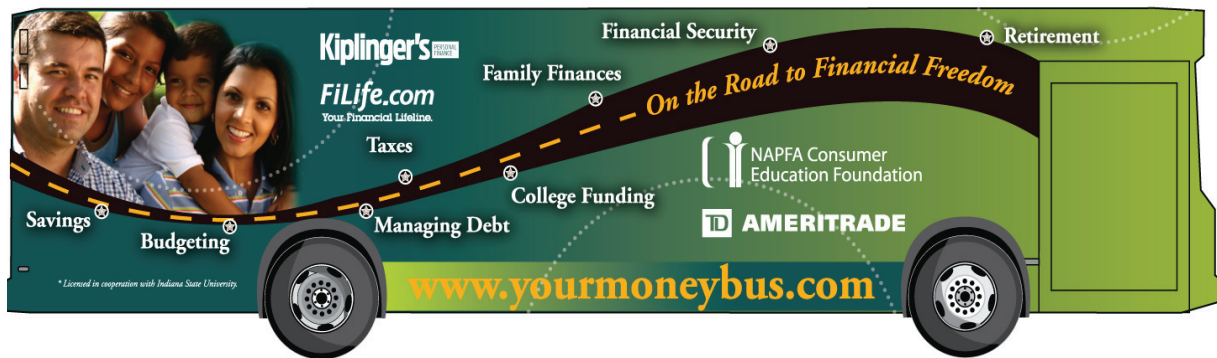
Several websites provide excellent information about how charities use each dollar that you contribute. For example, www.charitynavigator.org developed an efficiency rating to compare different charities. The site looks at program expenses, administrative expenses, fundraising expenses, and fundraising efficiency to develop an Organizational Efficiency rating.

Other websites that have their own systems are: www.give.org (affiliated with the Council of Better Business Bureaus); and www.guidestar.org (the most extensive charity website, with information about 1.5 million nonprofits).

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

Consumer Education

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

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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