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NAPFA

Planning Perspectives

Careful Planning is Crucial

Careful planning for retirement is important, but it's become even more crucial in the difficult economic environment of the last two years. Retirees and people in the middle of their working lives must spend carefully and save intelligently. In this issue of "NAPFA Planning Perspectives," we explore several important ideas about how to develop a good financial plan and keep it on track.

We begin with articles about two issues that are in the news these days: fees and cash investments. Using any financial service or product incurs a fee, but some fees are harder to identify than others. Being a smart investor means understanding the fees you are paying. With interest rates at historic lows, many people are resistant to keeping money in cash investments that offer very small returns. However, cash reserves are essential to financial security.

Next, "Planning Perspectives" follows with articles that look at commonsense approaches to investing, selecting a financial advisor, and saving money. NAPFA members explain why it's important to remain focused on a long-term approach and to weed-out your emotional response to the market's volatility.

We conclude with quick looks ahead at issues that could have an effect on your future: higher tax rates and a U.S. Supreme Court decision in 2009 that clarified inheritance rules.



Congress recently passed the broadest financial reform legislation in decades, and the impact of this legislation will be felt by all consumers of financial products. For more than two years, NAPFA and the Financial Planning Coalition worked hard to promote new protections for investors and borrowers, as well as to raise the standards by which financial advisors operate. NAPFA is pleased with some parts of the new legislation, and it will provide information as the Securities and Exchange Commission and the Government Accountability Office conduct further studies.

NAPFA will continue to work with the Financial Planning Association, Certified Financial Planner Board of Standards, Consumer Federation of America, North American Securities Administrators Association, Investment Advisers Association, and Fund Democracy to press for more reforms. Our goal remains to raise the standards for financial advisors and push for greater transparency of fees and conflicts of interest on the part of all professionals who give financial advice.

To learn more about how financial services reform will affect you, visit www.financialplanningcoalition.com.



Savvy Investors are Cost-Conscious

By Charles B. Flowers

www.abacusplanninggroup.com

If you're investing money, it is very important to know how much money you are paying in fees. Unfortunately, many times in the financial universe, the bill is not the first item presented, so savvy consumers need to do some homework.

All mutual funds and exchange traded funds (ETFs) have a fee component. The fee pays for the operational cost of running a fund, which covers employee salaries, rent, computer equipment, marketing, and so on. In other words, they are necessary costs of doing business. However, the fees should be reasonable. Fees, like fund investment strategies, also vary greatly depending on what type of product and or strategy is being purchased.

One excellent resource to verify fees for your current holdings is Morningstar's Instant X-Ray tool, which can be found online at Morningstar.com. If you're actively searching for lower-cost funds, Morningstar's Fund Screener (also at Morningstar.com) is a quick and handy reference.

While Morningstar is a great reference tool, nothing can replace the fund prospectus. A prospectus is written by the mutual fund company and provides important information on fees, investment strategies, risks, and much more. When you purchase a mutual fund, the fund must provide you with a prospectus, but it is better if you review the prospectus before you purchase the fund. The majority of the time you can find the prospectus on the mutual fund company's website. For a great explanation of the different types of mutual fund fees go to sec.gov/answers/mffees.htm.

Custodial fees. Other fees you may pay include brokerage commissions, service charges, and advisory fees. Brokerage commissions are fees that a custodian such as Charles Schwab and Company, E-Trade, Fidelity,

charge you to buy and sell stocks, bonds, and (sometimes) mutual funds. Brokerage commissions are typically a flat fee that ranges from \$10 to \$25, but if a company is trying to get your business, it might waive the brokerage commission on the first few trades.

Before you choose a custodian, you should research all the fees associated with buying and selling different types of investments, as well as any service charges that can be levied on your account. A pricing guide can typically be found online at the custodian's home page. The pricing guide is a great place to start—but don't be afraid to contact a firm representative with specific questions.

Power of Compounding

Every dollar not earmarked for expenses stays in your portfolio, compounding over time. So, the sooner you understand costs, and work to keep them low, the more time your money has to grow. Sometimes you may have to dig for answers, but in the long run, staying on top of fees is time well spent.

Advisory fees. Advisory fees are charged by individuals to assist you in the process of managing your financial affairs. Advisory fees can be a one-time fee, which is most common if you are going for a one-time checkup. For people who are seeking ongoing financial care, fees are often linked to assets under management

or are charged as an ongoing flat yearly fee. Some advisors have combined fees, which can be adjusted to reflect the complexity of the clients they are serving.

When you meet with someone who may assist or is already assisting you with the management of your financial affairs, it is important to ask them how they get paid and who pays them. It is always good idea to ask to see this information in writing.

It is also a good idea to have anything that pertains to regulatory structure and conflicts of interest in writing. Since there is so much variability in the types of advisory fees, it is very important that you do your homework and know what you are paying and what you are getting.



Cash and Your Portfolio

By Jeff Kostis, CFP®, CPA/PFS www.jkfinancialplanning.com

If you have looked at your bank statement or have seen advertisements for CD rates recently, you know that interest rates are extremely low. The natural question people ask is whether they should hold cash (and cash equivalents) in their portfolios when interest rates are so low

The answer is yes, because cash plays a vital role in your overall portfolio. Even in current conditions, the benefits of security are important and should be factored in to decisions on how much cash to hold.

Having cash is all about safety and availability. The goal is to have immediate access to a known amount of money with no risk of loss. In exchange for this protection, we give up the potential for higher returns.

We hold cash in our portfolios for several reasons, including:

1. Cash forms the base of an emergency fund that can be tapped when something unexpected happens.
2. Cash has a stable value and has no short-term risk, regardless of what the stock market does. (This is not true in the long term, but that is a discussion for another day.)
3. Holding cash allows us to rebalance investments in taxable accounts while

minimizing the tax impacts of those transactions.

4. Cash acts as a holding place for money waiting to be invested in the stock market as part of a dollar-cost-averaging strategy.
5. Maintaining accessible funds for new investments is part of an active management investment strategy, if the individual wishes to pursue active management.

Typical places to hold cash are:

1. Money market, savings, and checking accounts insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Association (NCUA);
2. Certificates of deposit insured by the FDIC or NCUA; and
3. Short-term Treasury bills (90 days or less to maturity).

You should not expect interest rates on these types of investments to be more than the current inflation rate. As of July 15, 2010, Morningstar.com reported money market and six-month CD rates at about 0.8 percent and 90-day Treasury yields at about .15 percent.





Investing

Simple Ideas for Your Financial Well-Being

By Devang Shah, CFP®, MBA

www.rightreturns.com

If you want serious advice, pay for it.

You will find plenty of financial advisors who will be willing to offer financial advice for “free.” Such advisors are compensated by commissions paid by product sellers like mutual funds and insurance companies. While it may not always be the case, advice compensated by commissions can be biased by sales talk.

Transparency is important. If your advisor is compensated by commissions and is transparent about his or her compensation from product sellers, that’s a positive sign. Remember to ask about an advisor’s cash compensation (commissions) and in-kind compensation (gifts, holidays, equipment discounts, and conferences). You will need to judge your advisor’s level of transparency if you opt to compensate him with commissions.

Sharing profits on your investments with your advisor does not guarantee an alignment of your goals. It may motivate the advisor to increase the risk of your investments in order to increase your returns. If the advisor is successful, that’s great. But if the risk materializes, you will be left with losses. Are you comfortable with that situation? Your advisor isn’t sharing the losses, right?

A well-performing investment and a well-performing investor are not the same thing. The investor is seeking to make money from an investment, but he also wants that investment to be significant enough to make some difference in his overall situation, and he wants the results to be repeatable. When stock markets are doing well, many investments well. The right questions to ask are: In the last 10 years, how many times has the investment

returned above average? How much money was invested by that person in that investment in those years? In other words, what matters to you are investments that can predictably and consistently add to your wealth. Anything else is a directionless gamble.

Doing what everybody is doing does not insulate you from the consequences of your decision. If everybody is wrong, everybody will suffer. Multiplicity of errors does not make a wrong thing right.

Your common sense is your best advisor. Small children often ask the best questions, and taking a child’s commonsense approach to investing can pay dividends. Ask yourself these questions: Where do I want to go? What are the various ways to get there? How will I choose the best way? What should I look for in your advisor? How is my advisor paid for his or her service to me?

A portfolio manager and a personal financial advisor are not one and the same. What’s the difference? To draw an analogy, it’s the difference between a furniture maker and an architect, the difference between a pharmaceutical company and a doctor, the difference between a software programmer and a systems analyst and—to stretch the line a bit—the difference between a cook and your mother. A portfolio manager or mutual fund manager is an expert in an asset class, such as equity, debt, commodities, art, property, etc. A personal financial planner or advisor creates solutions specific to your financial situation, which will probably include selecting investments or portfolio managers that he believes will perform well.

WWW.NAPFA.ORG



The Role of Human Emotion in Financial Advice and Planning

By Michael Thompson, Ph.D., CEC, CEIC

Kevin C. Paulsen, CFP®, RPA

Sidney A. Blum, CFP®, CPA/PFS, ChFC

www.gfboa.com

How does emotion influence your financial goals and behaviors? What role should emotion play in financial advice?

Financial advisors know that one of the most important components of providing financial advice is discussing the client's goals. Your goals are tied to how you see yourself and the ways that you see your money and net worth as a reflection of yourself. These aspects of your financial life are usually tied to emotions that arise from perceived positive or negative experiences in your life.

As with other aspects in your life, emotional reactions can distract you from well-reasoned actions that would be beneficial for you in the long run. One reason to engage a financial professional is to have an objective person who will guide you through your financial life with advice driven by goals rather than by emotions.

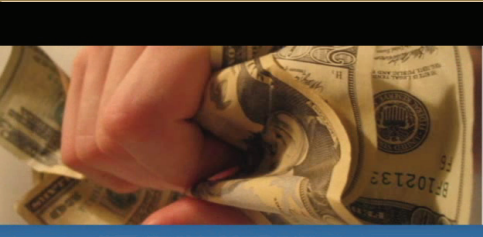
There are four basic emotions: glad, sad, mad, and scared. (These four basic emotions are neither good nor bad—they just “are.”) These emotions help determine just how risk-adverse you are. People react emotionally to market downturns. First, they are scared; and then later, they will be mad and sad as the market changes. When the market is falling, especially if it's been a deep fall, they might think that the market will always be down. At those times, they will lose sight of their goals and strategy. The same can happen during the euphoria of a market frenzy, when people will buy shares that are overpriced.

Pulling out of the market to protect temporary downside losses means an investor will not participate in the upside, which eventually occurs. This isn't just a theoretical statement—we saw it happen last year. From the major downturn in the spring of 2009 to the end of 2009, the market recovered better than 65 percent, but many people missed that opportunity because they had pulled their assets out of stocks.

Another difficulty is that people lose sight of the fact that a mutual fund investment is an investment in actual companies—some of which survive, and some of which don't. There are no guarantees. A certain amount of volatility is normal. It is the price you pay for the opportunity of garnering a higher return than with “safe” investments, such as certificates of deposit.

And how safe are “safe” investments? If your “safe” investments are earning 1 percent annually while inflation is running at 3 percent, you are losing purchasing power every year. If the bucket is leaking slowly, it can still end up empty. So when you feel “glad” about a safe investment, what may be a good feeling may turn out to be a bad investment.

All of us have emotions, but they should rarely come into play in an investment decision. A financial advisor can keep you focused on the positive steps that you can take to meet your goals, instead of reacting solely to current market conditions.



In Brief...

Higher Taxes Are Coming

by Mary Dean, CFP®, CPA/PFS

Your taxes are going up. The 3.8-percent surtax on investment income, when combined with the expirations of the Bush-era tax cuts in December 2010, will move the highest marginal federal tax rate from 35 percent to 43.4 percent. The 3.8-percent surtax does not start until 2013, and it only applies to those with modified adjusted gross incomes starting at \$250,000 (married), \$125,000 (married filing separately), and \$200,000 (single). Meanwhile, lower brackets are only affected by the expirations of the Bush-era tax cuts.

The resulting federal income tax brackets are shown below. The table does not reflect the 0.9 percent hospital insurance FICA tax on wages.

Net investment income, which is used to calculate annual income, does not include:

Federal Tax Rates:			
Married Filing Jointly & Surviving Spouses			
Taxable Income	2010	2011	with surtax 2013
\$0-16,750	10%	15%	15%
\$16,750-68,000	15%	15%	15%
\$68,000-137,300	25%	28%	28%
\$137,300-209,250	28%	31%	34.8%
\$209,250-373,650	33%	36%	39.8%
Over \$373,650	35%	39.6%	43.4%
Source: Baker Tilly Virchow Krause LLP			

tax-exempt bond interest; excluded gain (\$250,000 individual; \$500,000 joint) from the sale of a primary residence, Veteran's benefits, distributions from IRAs/Roths and qualified retirement plans; self-employment income; active trade or business income; any income derived from an active business; and gain on the sale of an active interest in partnership or S Corporation.

Who Receives the Inheritance? You May Be Surprised!

By Rob Lemmons CFP®, CPA, AIF www.fmgonline.com

Many people may be surprised, if not shocked, to learn that an individual named as the beneficiary on a beneficiary form is entitled to the money regardless of what an individual's will, trust document, or divorce decree states.

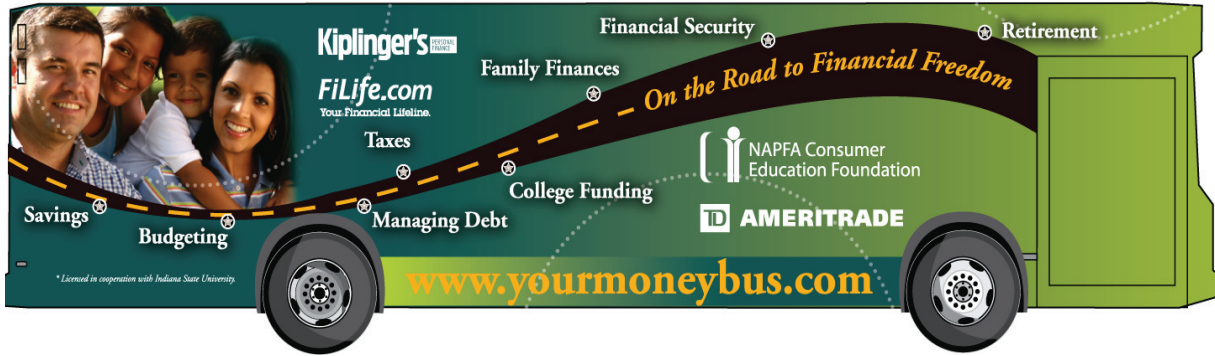
In January, 2009 the U.S. Supreme Court unanimously ruled that beneficiary forms trump all other documents. In *Kennedy v. Plan Administrator for DuPont Savings and Investment Plan*, the Court ruled that an ex-spouse should receive the retirement plan benefit because she was named on the beneficiary form—even though she waived her right to any of her ex-husband's retirement plan benefits under the divorce decree. The Court ruled that the plan must pay the beneficiary named on the beneficiary form, even though there were contradictory signed agreements between husband and ex-spouse.

The deceased intended to leave his retirement plan balance to his daughter, but he never updated the beneficiary form. The Supreme Court said that plan administrators have to look at the terms of the plan and pay the death distribution to the person named on the beneficiary form.

The Lesson. If your marital status has changed or you have made updates or any other changes to your will, divorce decree, or other documents, then make sure that your beneficiary forms carry out your wishes in accordance with your estate planning documents. It is not enough to just check your IRA or 401(k) beneficiary forms. Double-check all of your retirement plans, pension plans, life insurance policies, and annuities.

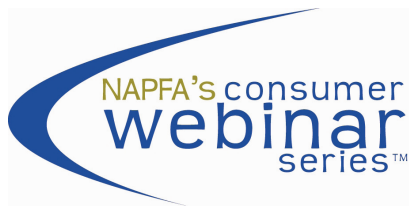
Consumer Education

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



YourMoneyBus Tour will be making 6 more stops across the country this summer and fall. 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

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



The "Off to College" Checklist
August 6, 2010 - Noon - 1:00 pm CT

Instructors: Samantha Macchia, CFP
NAPFA-Registered Financial Advisor
Treasurer, NAPFA National Board of Directors

William Whitaker, CFP
NAPFA Corporate Professional

Seeing your child go off to college can be an emotional time. Numerous financial, legal, and health care considerations will arise, too.

Knowing what you must address BEFORE your baby leaves the nest will smooth the path along the way. This session will cover a wide-ranging checklist of tasks to tackle to ensure you are protecting your child when he or she is no longer home.

Visit our website www.napfa.org to register.

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