



December 2008 Newsletter

After a Turbulent 2008, Make Some New Year's Resolutions for a Financially Healthy 2009

By the Financial Planning Association

Money worries are the most common cause of holiday stress, according to Mental Health America. The 2006 study showed that parents are more stressed than all other demographic groups by finances and females are more likely than men to feel stressed by finances. Money isn't everyone's number one worry, but if it's yours, why not consider the following New Year's resolutions to improve your financial life?

1. Write down your goals: Have you ever written down the big things you want in life? Granted, all great dreams don't cost money, but many of them do. Money buys freedom – to travel, to retire early, to start a business, to change careers. Putting goals in writing gives them a formality and a starting point for the planning you must do.

2. Evaluate your risk tolerance: One of the most beneficial things financial advisors do is help you articulate your financial goals and establish (or re-establish) your tolerance for risk. With the market turbulence that's marked 2008, many individuals would benefit from an analysis of how much risk they want – or need – to take given what they want to achieve with their money.

3. Track spending: If you haven't purchased financial accounting software or set up a reliable accounting method of your own, this is the year to do it. Diligent expense tracking is the first critical step to getting personal finances in order.

4. Consider advice on taxes and retirement planning: Maybe you've always winged it with your taxes and considered your company 401(k) the ticket to your financial future. Chances are your planning is inadequate. Start getting references on good tax professionals (we have references if needed) and consider meeting with your Capital Advantage financial advisor to discuss your current retirement savings picture and what you can do to improve it.

5. Reduce or eliminate your credit card debt: If you can't ever seem to get yourself completely out of credit card debt, make this the year to do it. Take inventory of your balances, figure out if you can consolidate them under your lowest-rate card, and resolve to pay off an amount that exceeds the minimum – on time, every month. Oh, and pay cash from now on.

6. Save: If you haven't signed up for your employer's 401(k) plan or begun a savings plan tailored for the self-employed, this is the year. And resolve to save at least 5-10 percent of your gross pay based on your cash flow, and place the maximum in whatever retirement savings plans you qualify for. Ask your Capital Advantage financial advisor for assistance if needed.

7. Get ahead on your mortgage: This advice isn't for everybody, but if you've paid off your credit cards by paying more than the minimum, you can apply the same principle to your mortgage payment. Every dollar you prepay will potentially save thousands in interest over the life of the loan if you plan to stay in your home long-term. In fact, if you make one extra payment a year, either at once or in equal monthly shares over the course of a year, you can cut at least five years of payments on a 30-year loan. Just don't short your retirement investment plans to accomplish this.

8. Invest in yourself: If going back to college or taking specific coursework will help you advance in your career, plan to do it. If investing in a health club membership that you actually use makes sense for your health as well as your insurance costs, do it.

9. Redefine the way you shop: If you're an impulse shopper, break the habit in '09. As a suggestion, get a legal pad and make that your centralized shopping list – use a single page for groceries, stock-up goods (it's wise to start buying essentials in bulk if you can measure the savings), essential clothing or big expenditures you'll need to make at specific times. Taking that pad with you wherever you spend money is a good way to keep a grip on your wallet as long as you don't stray from the list.

10. Attack that miscellaneous column: Do you really need deluxe cable? How much are you paying for your Internet service? Can you wear a sweater around the house and lower the thermostat? In every budget, there are items that can be cut – or at least trimmed. Take a hard look at all your “essentials” to see how essential they really are. Aim for a target of at least 10 percent and start setting that money aside on a regular basis.

This column is produced by the Financial Planning Association, the membership organization for the financial planning community, and is provided and revised by Capital Advantage, Inc., a local member of the FPA. Please call our office at (925) 299-1500 or toll free (888) 299-1500 if you are interested in scheduling a review of your investment strategy and/or financial plan. If you are not a client of Capital Advantage, Inc., we offer free no obligation consultations.

Taking Steps to Safer Investment Decisions in 2009

By the Financial Planning Association

It's tough to tell how much one investor can do alone to preserve their assets in 2009, particularly with unprecedented government intervention in world markets. But there are some general ideas to employ as markets and economies hopefully stabilize in the New Year:

Start with a plan – or review an old one: If you work with a good financial advisor, you should be able to articulate your long-term investment goals. If you can't discuss such goals in detail, or you just need help constructing an investment plan of your own, it might be time to meet with your Financial Advisor at Capital Advantage. Much of the riskiest investing, overbuying and panic selling during the late 1990s and early 2000s could have been avoided if individual investors had sought advice for achieving *long-term* specific goals such as retirement or a college education.

Check all your assets in banks: As a result of federal economic bailout legislation, the Federal Deposit Insurance Corporation (FDIC) temporarily raised the per-deposit account, per bank coverage level from \$100,000 to \$250,000 through Dec. 31, 2009. Certain retirement-related accounts carry \$250,000 of FDIC coverage, but again, check in with your bank to make sure you're covered, and if not, get the right advice for moving funds so you don't incur an unexpected tax liability or fees.

Review your risk tolerance: Having a plan doesn't mean make the plan and leave it on the shelf. You and your Financial Advisor should decide when it's time for a review of your investment goals and risk tolerances. An annual conversation makes sense if nothing's going on, but when circumstances in life change or when the markets take a downturn, periodic phone calls and meeting are always a good idea. We are never too busy to talk with you.

Prepare to stay invested: Stock Market downturns are always filled with panic selling – and buying. If your investment plan is sound, be prepared to stay the course, but work with your advisor to make sure you have your priorities covered. While times are tough, it's wise to examine all your investment options, if the investments make sense, have a process and plan and only invest what you can afford. You'll reap rewards when the market returns.

Check your credit: No one knows how long it might take to unravel the nation's current credit situation. That's why creditworthy individuals might want to delay looking for new lines of credit until things loosen, and it's definitely a good time to schedule review of each of your latest credit reports at staggered intervals throughout the next year. Why? Because in tough economies and times of tight credit, identity theft is on the rise, and you'll need to make sure the information on your credit data is truly your own. Visit www.annualcreditreport.com for your free report or contact each reporting agency separately.

- Equifax: 1-877-576-5734; www.alerts.equifax.com
- Experian: 1-888-397-3742; www.experian.com/fraud
- TransUnion: 1-800-680-7289; www.transunion.com

Pay attention to your cash: You should have an emergency fund of three to six months' worth of living expenses in case your job situation goes south, but the market turbulence we've experienced also highlights the need to be somewhat liquid in your investment positions so you can take advantage of certain opportunities. Not every investment that's lost value is necessarily a bad investment, and with careful study, you should be able to have cash on reserve so you can capitalize on legitimate opportunities.

Budgeting: It's a good time to make a budget or re-assess the one you have. Though the federal government would love for consumers to start spending again to lift the economy, that doesn't mean you have to jump in with both feet. Keep your spending smart, your debt low so it's easier to set savings and investment priorities that will do you the most good when the economy and the market come back.

Check your retirement: How will the activity in the market affect your retirement timetable? You might want to continue working full-time or plan a phased-in approach as you continue to build assets. There is a great danger now that people may become either too risk-averse or assume too much risk in planning for their retirement, and that's why it's wise to get some advice and have a retirement plan. If you don't have a plan, or you need to review your current one, please call us, we can help.

2008 VESTIA Holiday Blanket Drive Proves Successful!

By Aimee Schwartze of Capital Advantage, Inc.

I would like to send a heartfelt thank you to everyone that helped us in our VESTIA donations this year. With all of your support and generosity, we were able to donate over 200 blankets, as well as several cash donations. I delivered all of the donations on Friday, December 12th. Volunteers had tears in their eyes and told me how very happy they were to see so many blankets! There are over 2700 children enrolled in the VESTIA program this year, and with our help, they will now be able to have a much warmer and joyful holiday season. Again, thank you for all of your support and generosity. Happy Holidays! -*Aimee Schwartze*

Did You Know?

By Capital Advantage, Inc.

As the end of the tax year approaches, you may already be thinking about how to spend your upcoming refund - or where to find the extra funds to pay what you will owe. Let's look ahead into the upcoming year of 2009 and some of the new tax changes you will see...

- In 2009 only, the rule that requires those aged 70 ½ and above to withdraw a certain percentage from their tax-deferred retirement accounts annually (commonly known as RMD) will be waived;
- The Federal estate tax exclusion increases from \$2MM to \$3.5MM;
- The IRS annual gift tax exclusion is increasing from \$12,000 to \$13,000;
- Combined contribution to traditional and Roth IRAs remains \$5,000 (\$6,000 aged 50+);
- Elective deferrals to 401(k), TSA, SARSEP & 457 plans increase to \$16,500 (\$22,000 aged 50+); and
- SIMPLE elective deferrals increase to \$11,500 (\$14,000 aged 50+).